Wellington International Airport Limited

Price Setting Event Disclosure for the Pricing Period

1 April 2019 to 31 March 2024

Prepared in accordance with the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010

1 June 2021

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Provided Under Separate Cover

Commerce Commission Information Disclosure Schedules 18, 19 & 20 (Excel file)

Glossary

AAA	Airport Authorities Act 1966
AFS	Airport Fire Service
Air NZ	Air New Zealand Limited and subsidiary companies
ASQ	Airport Service Quality
ATM	Air Traffic Movements
Avsec	Aviation Security Service
BARNZ	Board of Airline Representatives New Zealand Inc
CAA	Civil Aviation Authority
Beca	Beca Engineering
Boffa Miskell	Boffa Miskell Urban Planners
CAPM	Capital Asset Pricing Model
CPI	Consumer Price Index
CPP	Customised Price Path
DPP	Default Price Path
FPD	Final Pricing Document
GSE	Ground Service Equipment Storage
HBAU	Highest and Best Alternative Use
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
ID	Information Disclosure
IM	Input Methodologies
IPP	Initial Pricing Proposal
IRR	Internal Rate of Return
Ldn	Day-Night Average Sound Level
LUMINS	Land Use Management and Insulation for Airport Noise Study
MAGS	Movement Area Guidance Signs
MCTOW	Maximum Certified Take Off Weight
MTB	Main Terminal Building
MVAU	Market Value Alternative Use
MVEU	Market Value Existing Use
NBS	New Building Standard
NPV	Net Present Value

NZAA	New Zealand Airports Association
Opus	Opus International Consultants Limited
PEL	Property Economics Limited
PSE	Price Setting Event
PSE2	Pricing Setting Period from 1 April 2012 to 31 March 2017
PSE3	Pricing Setting Period from 1 June 2014 to 31 March 2019
PSE Disclosure	Price Setting Event Disclosure Document
PwC	Pricewaterhouse Coopers
Qantas	Qantas group of companies including Jetstar
RAB	Regulated Asset Base
RESA	Runway End Safety Area
SPC	Specific Project Charging
SWP	South West Pier
TAMRP	Tax Adjusted Market Risk Premium
TCSD	Term Credit Spread Difference
TSE	Terminal South Extension
WACC	Weighted Average Cost of Capital
WCC	Wellington City Council
WIAL	Wellington International Airport Limited

1. Executive Summary

1.1. WIAL Context & Consultation

Wellington International Airport Limited (WIAL) is an economic and social engine for central New Zealand, directly supporting the employment of 11,000 people, and enabling the local tourism industry which supports many thousands more. Though Covid-19 has brought many challenges, it has also brought a reminder of the importance of aviation to maintain New Zealand's economy and connections to the rest of the world.

This pricing consultation has been within the context of planning for growth with the development of the 2040 Master Plan and dealing with the disruption caused by Covid-19. As a result this has been a complex price setting event consulted over an almost 2 year period and we are grateful to airline customers for their constructive and collaborative approach to working through the relevant issues.

WIAL is working hard alongside its airline customers to recover from the pandemic and enable the resumption of aviation services. We consider that relationships with airline customers have never been stronger as we have addressed the shared challenges of Covid-19. We have worked to achieve agreement and compromise wherever possible, which we believe is evident in the consultation documents and constructive feedback from airlines. Supporting airline customers through Covid-19 has been at the forefront of this pricing consultation, with several concessions, revenue reductions and deferrals incorporated into final prices.

Due to the complexity of this pricing consultation, we recommend that this document is read with the following documents, in order:

- The Heads of Agreement in 2018 to defer pricing consultation;
- Agreement to a further deferral in April 2019;
- Initial Pricing Proposal (IPP) issued in September 2019;
- Revised Pricing Proposal (RPP) of December 2019;
- Proposed pricing reset process and airline feedback in March 2020;
- Final Pricing Document (FPD) of April 2020;
- Pricing Readjustment of December 2020;
- Further proposals issued in response to airline feedback in February 2021;
- Final prices for FY22-24 issued in April 2021.

These documents have been released to the Commerce Commission alongside the regulatory disclosures.

1.2. PSE Disclosure

WIAL has prepared this PSE Disclosure in respect of charges for specified airport services for the period 1 April 2019 to 31 March 2024. The PSE Disclosure is required by Clause 2.5 of the Airport Information Disclosure Determination (the Determination) issued by the Commission pursuant to Part 4 of the Commerce Act consolidating all amendments as of 1 March 2012.

This PSE Disclosure has been prepared to provide the information required by Clause 2.5 of the Determination and is ordered in accordance with the specific clauses in the Determination.

The contact person for this disclosure is:

Jenna Raeburn
General Manager Corporate Affairs
P O Box 14175
Wellington 6241
DDI: 04-385-5105
Mobile: 021 625 284
Email: jenna.raeburn@wellingtonairport.co.nz

2. Pricing Consultation Background

2.1. Regulatory background

The Information Disclosure (ID) regime is now embedded and more consistently understood than in the previous price setting periods. WIAL has adhered to the ID regime as much as possible despite the delays in consultation and the need to address Covid-19 challenges. At times the ID regime could have been more flexible to our unique circumstances but has provided a foundation to work from. We consider that a key challenge has been the inadequacy of the model's allowance and compensation for risk. WIAL will continue to engage with the Commission on this matter and specifically as part of its upcoming Input Methodologies (IMs) review scheduled to commence in 2022. We expect other airports will face similar challenges in future price setting periods as they will likely reset prices off a relatively low passenger base following Covid-19. WIAL has been in the unique position of grappling with these issues in the midst of pricing consultation; however, this has enabled us to work collaboratively with airline customers to agree on unique solutions.

WIAL has consulted with its substantial customers in accordance with section 4A and 4B of the Airport Authorities Act (AAA) to determine the pricing set out in this PSE Disclosure. This has continued to be a positive and collaborative process despite the current challenges. In particular, WIAL is pleased to have achieved airline agreement to the principles of the 2040 Master Plan and the best way to accommodate future growth. WIAL is also pleased to have received general agreement on the significant capital expenditure deferrals proposed in the April 2021 pricing reset. This is a sign of WIAL's collaborative relationship with airlines and maturing relationship with the regulatory regime. Post- Covid-19 working relationships across the aviation industry, and between the industry and government, are stronger than ever as we have worked together to address shared challenges. WIAL and its airline customers have both expressed a strong desire to carry on this collaborative path as aviation recovers.

2.2. Consultation History

This pricing consultation has been long and complex. WIAL and its airline partners initially agreed on a six-month extension in order to complete consultation on WIAL's 2040 Master Plan before finalising pricing outcomes. This was later extended to 12 months. All parties agreed that the 1 April 2019 – 30 March 2024 PSE4 period would be adhered to, and prices would be set as at 1 April 2019 with a wash up to correct any over/under outcome in the first year of the pricing period. The conceptual five-year pricing period and use of 1 April 2019 inputs has remained uncontroversial throughout consultation. These decisions were made early in consultation in order to not favour either party.

WIAL's pricing inputs were mostly finalised in April 2020 following two rounds of full documentation, feedback from airline customers, and subsequent adjustments. However, due to the emerging challenges and uncertainties created by Covid-19, WIAL agreed with its airline partners to hold charges at FY19 rates for a second year rather than immediately proceeding with a price increase that would otherwise have occurred. This gave price certainty at a very uncertain time for our customers. It was also an opportunity to explicitly address the volume forecasting risk we all faced in

April 2020. Rather than run with forecasts in an environment that was unforecastable, we proposed to price whatever volumes eventuated in FY21 at the holding price, and then finalise FY22-24 prices in April 2021 having regard to the PSE4 period as a whole (which for passenger volumes and capital expenditure would be two years of actuals and three years of forecasts). This was accepted by airline partners as a sensible solution and pragmatic sharing of the risks we all faced in that crisis. It also avoided the alternative, which was finalising prices in April 2020 on the basis of very low volume expectations.

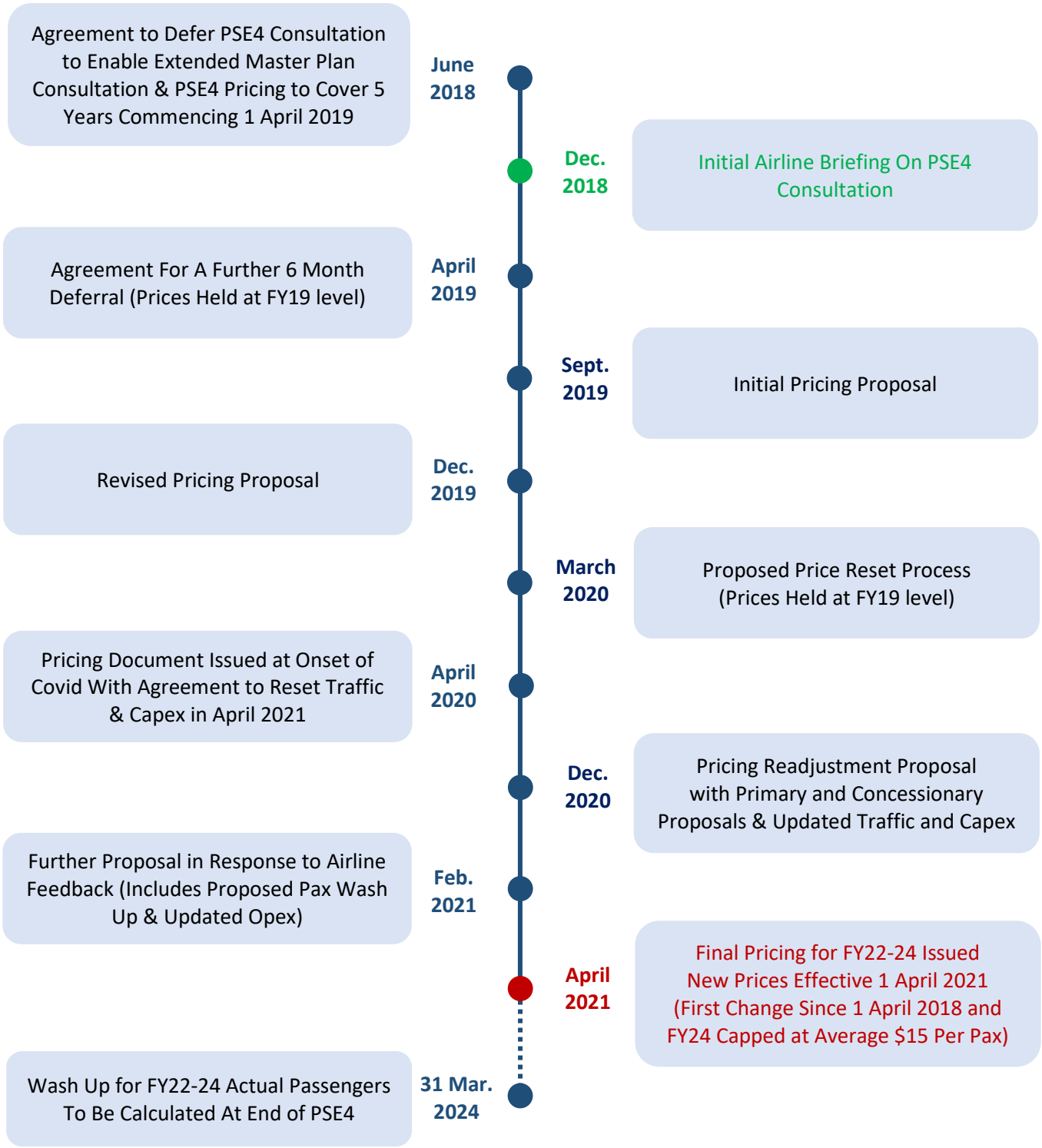
The pricing reset followed the process agreed with airlines, which was to proceed with all PSE4 inputs substantially as per the Revised Pricing Proposal issued in December 2019, as these had been consulted on extensively, with the following exceptions:

- Reduce its target rate of return from 6.08% to 5.93% which reflects a revenue concession and brings the overall WACC close, if not equal, to airlines' WACC estimate for WIAL;
- Agree to hold all charges at the FY19 rates until 1 April 2021;
- Readjust PSE4 capex and passenger volumes on 1 April 2021 after further consultation on these inputs.

The pricing readjustment issued in December 2020 therefore proposed a capital expenditure and passenger forecast reset. Airlines provided feedback largely supporting WIAL's capital expenditure reductions. Due to the remaining uncertainty on passenger forecasting, Air New Zealand proposed a wash up mechanism to account for any difference to passenger forecasts. This was supported by BARNZ and Qantas did not provide feedback on the proposal. Though WIAL supports airports bearing the risk of ordinary fluctuations in passenger numbers, WIAL considers the wash up is a sensible proposal to address ongoing uncertainty in these unique circumstances, and has adopted it.

A summary of the consultation timeline is provided on the following page. Note that a full history of consultation, airline responses and how feedback was taken into account are set out in the disclosures and Final Pricing Document. As noted above, the key documents on each of these points have been released to the Commerce Commission alongside these disclosures.

PSE4 Consultation Timeline



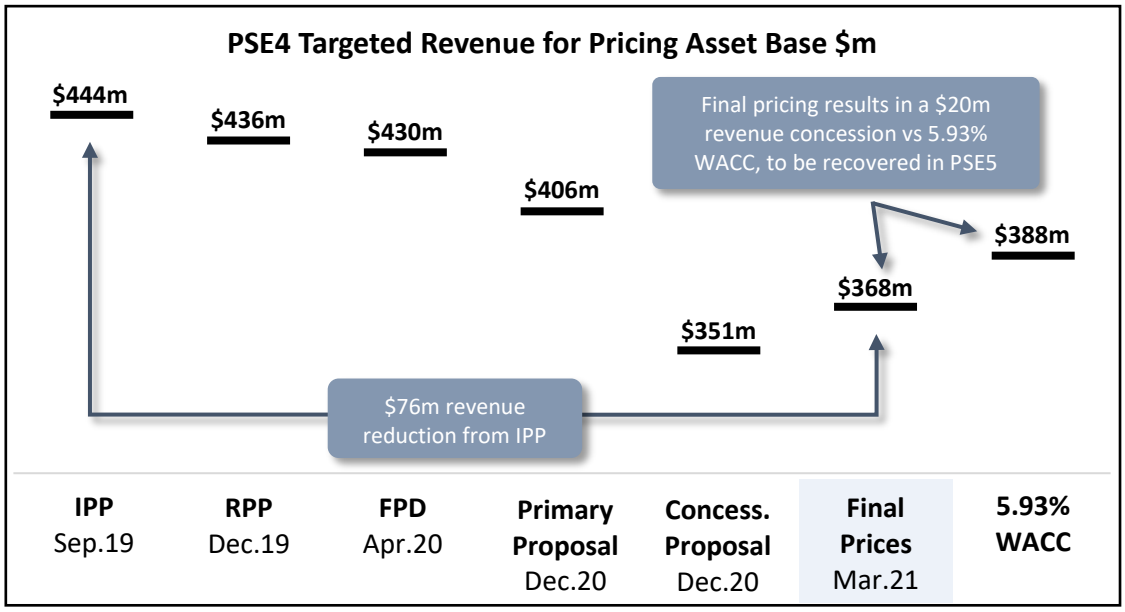
2.3. Supporting Airlines through Covid-19

WIAL has worked closely with its airline customers to minimise price disruption in the midst of Covid-19, find solutions to shared challenges, and reduce the impact of pricing on airlines at this challenging time.

Steps taken by WIAL and its airlines include:

- Holding prices at FY19 rates throughout FY20 to enable extended consultation on WIAL's capital expenditure 2040 Master Plan;
- Holding prices at FY19 rates throughout FY21 to avoid a possible price increase during the height of the Covid pandemic. This comprises an ex ante allocation of passenger and capex risk for FY21 to airlines. This was achieved by holding prices for a further year, and then making an adjustment to the FY22-FY24 prices to reflect passengers and capex for PSE4;
- Targeting a WACC for pricing assets for PSE4 of 5.93% post tax, which is below WIAL's own cost of capital estimated at 6.08%;
- Agreeing a pricing readjustment process so that passenger volumes and capital expenditure could be resized with better information after the onset of Covid;
- Capital expenditure for PSE4 was resized and significantly reduced for the pricing readjustment process and reduced from $541.6m to $298.5m primarily in response to lower passenger forecasts;
- Operating and capital expenditure aligned with actual spend for FY20;
- Operating and capital expenditure aligned with forecast reductions for FY21, including a reduction in operating expenditure of $6.1m (25%) for FY21;
- Forecast operating expenditure for PSE4 was reduced by $18.6m (13%) as a result of the restructure and business resizing in FY21;
- CPI forecast at 1.5%, meaning that targeted cash returns are 4.17% for pricing assets. This was a compromise between WIAL's preference of setting CPI based on market inputs, compared to the airlines' preferred method of relying on RBNZ forecasts. The higher CPI input results in lower cash returns to WIAL;
- Proposing and agreeing a concessionary price path targeting an average $15 per passenger charge at the end of PSE4 to minimize a price increase and defer $20m revenue to PSE5 ($15.1m post tax). Note that this carry forward amount is in nominal terms and if inflated to FY24 terms is approximately $22m;
- This concessionary price path means an effective WACC for pricing assets for PSE4 of 5.43% post tax;
- Reducing target revenue through the pricing readjustment, by approximately $24m compared to the Final Pricing Document;
- Further reductions of $38m revenue through final pricing including a $20m concession compared with WACC; and
- Agreement to a passenger wash up at the end of PSE4 given the unique environment and uncertainty due to Covid, resulting in a passenger volume risk share arrangement with airlines.

These steps have resulted in significant concessions during the consultation process and are summarised below:



	IPP	RPP	FPD	Primary Proposal	Concession Proposal	Final Prices
Nominal Revenue	$444m	$436m	$430m	$406m	$351m	$368m
PSE4 Target Return	6.08%	6.08%	5.93%	5.93%	4.54%	5.43%

2.4. Summary of Issues

WIAL considers that almost every aspect of pricing has been determined with the agreement of its substantial airline customers. On the remaining issues, WIAL has either achieved compromise with its customers or the agreement of the majority of customers.

The following matters were determined in March 2020 and, with the agreement of airlines, have remained unchanged:

- Building Block methodology used to determine target revenue for PSE4;
- Asset valuation, including updated MVAU land valuation;
- Valuation of assets transferred from aeronautical to commercial use;
- Historical revaluation shortfall;
- Allocation of net carry forward adjustment over two pricing periods;
- Asset allocations;
- Treatment of the wash up period and application of a 1 April 2019 risk-free rate and 1 April 2019 CPI forecast;
- Wash up of FY20 prices over the remaining years of PSE4, rather than as a lump sum;
- Commitment to a five year price path commencing 1 April 2019;
- Rate of return of 5.93% and CPI forecast of 1.5%;
- Simplified passenger volume related price structure;

- Reduced salary growth rate for WIAL staff;
- Commitment to seek rates reductions from Wellington City Council

With the exception of rate of return and CPI forecast, these issues have all been uncontentious throughout consultation. On rate of return and CPI, WIAL has worked hard to achieve compromise which has brought its position close to that advocated by airline customers.

The pricing readjustment finalised the following matters:

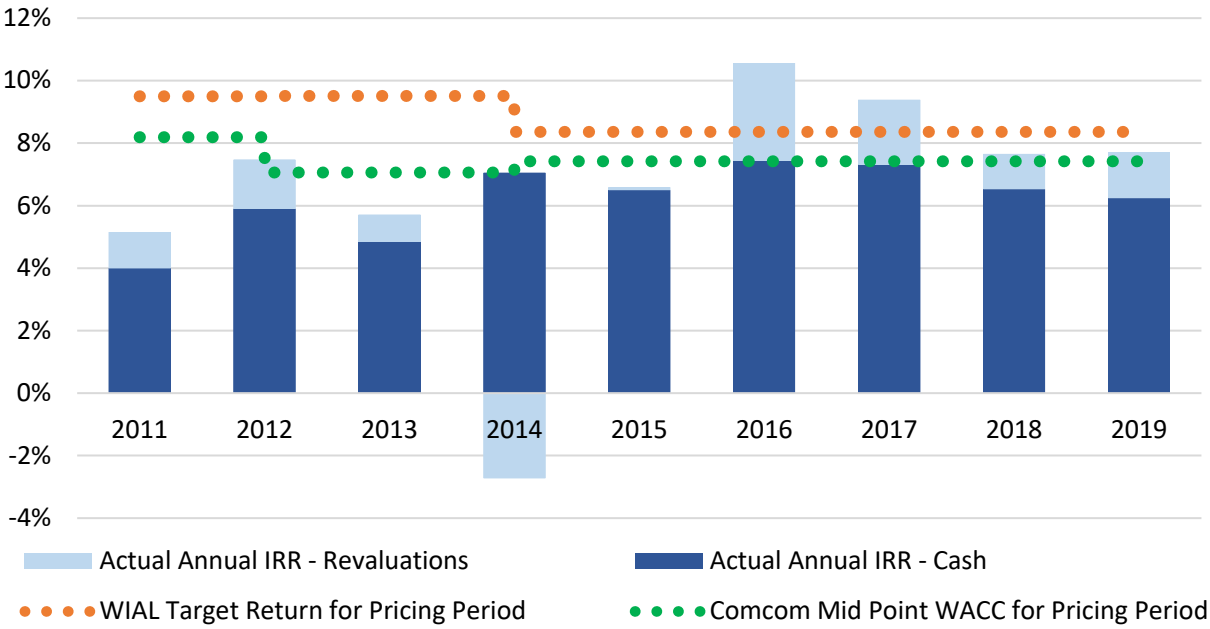
- Capital expenditure;
- Operating expenditure;
- Passenger forecasts and passenger wash up;
- Deferral of revenue into PSE5, subject to passenger outturns.

The capital expenditure and operating expenditure adjustments have been broadly welcomed by airline customers. WIAL is grateful to airlines for their constructive approach to capital expenditure throughout consultation, and for Air New Zealand's suggestion of a passenger wash up which will provide a fair and more certain outcome in the unique circumstances generated by Covid-19.

Though Air New Zealand, WIAL's largest customer by far, has supported the approach taken to the pricing readjustment, feedback has been received from BARNZ and Qantas resisting the price changes proposed for FY22-24. Following this feedback, WIAL further reduced forecast revenue through operating expenditure adjustments. On the pricing readjustment, WIAL considers it has followed the process notified to airlines and agreed by them, and that the steps taken have minimised the impact on airlines of a substantial shock to passenger numbers.

2.5. WIAL's Historic Regulatory Returns

The chart on the following page shows WIAL's actual IRR from specified airport activities prior to PSE4, compared with key benchmarks since the start of the Annual Disclosure regime in 2011.



WIAL notes that following the 2016 IMs review, the Commission concluded that from 2018 onwards it would only publish a midpoint WACC for airports. However, certain WIAL's prices were set prior to this decision and are based on the airport's 75th %ile WACC at the time (PSE1: 9.50%, PSE2: 9.51%, and PSE3: 8.36%).

WIAL's actual IRR for 2011-2019 was 6.99%, equating to a $12.8m NPV cumulative deficit compared with the Commission's midpoint WACC. WIAL considers that, under the ID Regime, it has clearly not earned excessive profits.

The historic variation in annual returns reflects the wide range of risks inherent in an airport business and demonstrates the need to consider cumulative returns over a longer period of time.

2.6. WIAL's Forecast Regulatory Returns

WIAL's WACC for PSE4 is 6.08% (our information on how this WACC was determined is provided in our comments on clause 2.5(1)(c)(ii)), although following consultation WIAL adopted a lower target return of 5.93% for its pricing activities. This brought WIAL's return more in line with that advocated by airlines.

The post-tax return on pricing assets of 5.93% over PSE4 has been applied using the Commission's Internal Rate of Return (IRR) calculation. A portion of revenue has been deferred for collection in PSE5, which reduces WIAL's actual return on pricing assets over PSE4 to 5.43%.

WIAL notes that its overall targeted return on total regulated assets is 5.88% post tax. This is lower than both its WACC and target return on pricing assets, because the returns from its non-pricing activities are below those on its pricing assets.

2.7. Forecast Performance under ID Regime

An important consideration for any party evaluating WIAL's performance are the outcomes achieved by WIAL since commencement of the ID Regime. WIAL has calculated the IRR's, in the same manner used by the Commission for this PSE Disclosure, that represent the actual returns achieved in published information disclosures to date, as well as the forecast returns to be achieved in PSE4. The outcomes shown represent the total achievements for all regulated activities as these are the outcomes reported in annual disclosures.

WIAL's PSE4 forecast outcomes result in an IRR of 6.62%[1] over the period 2011 – 2024 for total regulated assets (i.e. since the commencement of the ID Regime). This equates to a $18.0m[1] NPV cumulative deficit compared with the Commission's midpoint WACC. This clearly shows that WIAL has not achieved, and is not expecting to achieve, excessive returns on its regulated activities and WIAL's long term returns are in fact below the level considered reasonable by the Commission.

[1] IRR and NPV calculations include $15.1m closing carry forward at end of PSE4.

3. Directors Certification

SCHEDULE 21 CERTIFICATION FOR FORECAST TOTAL REVENUE REQUIREMENTS AND PRICING DISCLOSURES

Clause 2.7(2)

We, Tim Brown and Alison Gerry, being directors of Wellington International Airport Limited certify that, having made all reasonable enquiry, to the best of our knowledge, the following attached Report on Forecast Total Revenue Requirements and Report on Demand Forecasts and the following attached information of Wellington International Airport Limited prepared for the purposes of clause 2.5 of the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010, as amended, in all material respects complies with that determination.

Tim Brown
Director

1 June 2021

Alison Gerry
Director

1 June 2021

1. Price Setting Event Disclosures

Determination Reference	WIAL Comment
Introduction	Explanatory comments on several aspects of the schedules are provided below. ***1. Building Block Approach*** WIAL has traditionally applied the building block model to determine required revenue and has continued this approach for PSE4. The historical model applied by WIAL determined required revenue as follows: *Revenue Required = Return on Capital* *+ Operating Costs* *+ Depreciation on Assets* *+ Taxation* *+/– Expected Revaluation of Assets* *WHERE* *Return on Capital = Assets Employed * WACC* The Commission's review of the IMs completed in 2016 introduced some refinements to the building block approach which are reflected in revised ID requirements, also published in 2016. The key refinements resulting in changes to the model were: • The Commission requires the outcomes from the building block approach to be rearranged and presented as an IRR calculation (illustrated later in this chapter). • The Commission has substituted the assets employed input with Opening Investment Value. This is determined by:

Determination Reference	WIAL Comment
	Opening Investment Value = Opening RAB +/- Opening Carry Forward Adjustment WIAL has amended its application of the building block model to incorporate the changes introduced by the Commission and presents the outcomes from its forecast building block model in the price setting disclosure format, consistent with the ID approach taken by the Commerce Commission. ***2. Activities in the price setting consultation and Building Block Model*** The price setting disclosure changes introduced by the Commission also require WIAL to publish information about two distinct groupings of regulated assets following the completion of consultation, namely its Regulated Asset Base and its Pricing Asset Base. WIAL's forecast model is therefore structured to present the outcomes for the activities included in the regulated asset bases as follows:

Regulatory Asset Base Disclosure	Price Setting Asset Base Disclosure
	Included in Price Setting Consultation
Airfield activities including airfield leases	Airfield activities excluding airfield leases
Specified terminal activities including terminal leases	Specified terminal activities excluding terminal leases
	Not Included in Price Setting Consultation
Noise mitigation activities (WANT Limited) subject to separate pricing approach	Noise mitigation activities (WANT Limited) subject to separate pricing approach
Aircraft & freight activities	-

3. Pricing Period for Consultation

WIAL consulted on prices for the period 1 April 2019 to 31 March 2024, and the building block model outcomes are shown for this period.

Determination Reference	WIAL Comment
	4. Presentation of Outcomes from Model Presentation of the outcomes from the building block model is consistent with, and provides the information required by, the information disclosure schedules. WIAL has taken this approach to make it easier for the Commission, and other interested persons, to evaluate WIAL's results in a consistent manner.
Clause 2.5(1)(a)(i) Report on Total Asset Base Revenue Requirements	This report, Schedule 18, is provided in the accompanying Excel file. The report demonstrates WIAL's forecast return for PSE4, together with further details of the composition of the values included in the IRR calculation. Detailed comments on the various inputs are provided throughout this document. The calculation of WIAL's return for the period is summarised in the table below, with the detailed workings provided in schedule 18. **$000** Opening RAB 521,871 Forecast opening carry forward adjustment 9,224 Opening investment value 512,647 *Average Annual:* Forecast total revenue requirement 80,653 Forecast assets commissioned (64,603) Forecast operational expenditure (26,032) Forecast unlevered tax (11,913) Forecast closing asset base 783,566 Forecast closing carry forward adjustment (10,488) Forecast closing investment value 794,054 **Forecast post-tax IRR for PSE4 5.88%** WIAL's WACC for the period is 6.08% (our information on how this WACC was determined is provided in our comments on clause 2.5(1)(c)(ii)), although following consultation WIAL adopted a lower target return of 5.93% for its pricing activities (refer to the next section for the illustration of this return)). The return on WIAL's total regulated asset base is lower than both its WACC and target pricing return, because the returns from non-pricing activities are also below the target pricing return. These activities are explained below.

Determination Reference	WIAL Comment
	1. Noise mitigation activity

In conjunction with its substantial customers WIAL established a long-term commercial arrangement for airport noise mitigation activities (previously termed Land Use Management and Insulation for Airport Noise Study (LUMINS) activities). These activities relate to the removal of certain noise affected properties close to the airport and the noise insulation of other properties in the surrounding area.

Charges for the noise mitigation activity are established as a stand alone cost recovery activity, with noise mitigation charges shown separately in the Schedule of Charges for PSE4. Inclusion of these charges in the pricing schedule also enables WIAL to recover charges from smaller airline operators that were not party to the consultation discussions with substantial customers.

WIAL utilised a stand-alone building block model to determine the revenue required, and subsequent pricing, for the noise mitigation activities. The stand-alone model allows a discrete charge to be maintained for this activity such that NPV=0 is achieved over the life of the project. The model has been provided to substantial customers for several previous pricing periods, as well as during this consultation for PSE4. The outcomes from the stand-alone model are:

Cash Flow Forecast	Summary PSE1-3	Forecast PSE4	Forecast PSE5	Noise Mitigation TOTAL
Revenue - Pax Charges	$15,049	$8,126	$11,243	$34,418
Insulation Costs	-$4,194	-$8,397	-$5,553	-$18,143
Landscaping Costs	-$521	$0	$0	-$521
Admin Costs	-$1,515	-$863	-$794	-$3,172
Write Off of Acquired Houses	-$6,700	-$1,219	-$1,828	-$9,747
Total Expenses	**-$12,929**	**-$10,479**	**-$8,175**	**-$31,583**
Profit before tax	**$2,120**	**-$2,353**	**$3,068**	**$2,835**
Tax	$93	$731	-$796	$28
Profit after tax	**$2,213**	**-$1,622**	**$2,272**	**$2,863**
Interest & Subvention	-$1,274	-$246	-$225	-$1,746
Net Cashflows	**$939**	**-$1,869**	**$2,047**	**$1,117**
Discounted Net Cash Flows	**$299**	**-$941**	**$642**	**-$0**

As shown above, WIAL is seeking NPV=0 over the expected life of the project.

Determination Reference	WIAL Comment
	2. Other Regulated Activities Other Regulated Activities comprise property leases to WIAL tenants that provide aviation services to airlines or passengers that fall within the definition of Specified Airport Activities. More specifically the regulated property leases comprise: • Aircraft and Freight activities – these are hangars and other buildings within the secure airport boundary that are leased to parties that are aircraft operators in their own right or provide services to aircraft operators. • Terminal leases – to Government agencies to perform security or border control functions, or to airlines to enable them to manage their business operations at WIAL. • Airfield leases – for service providers providing specific services to airlines. This includes the fuel companies, and the facilities they require, to supply aviation fuel at WIAL. The lease terms, including the financial details for rentals and costs, are negotiated directly between WIAL and the property tenants. The leases are negotiated on commercial bases that are consistent with property market conventions, rather than being set using a regulated building block approach. Particular aspects of the pricing process for property leases include: • Leases are negotiated directly between WIAL and the tenants (or prospective tenants). • The parties often engage the services of independent property market valuers to establish rental levels. • Rent levels are typically set following valuer reference to comparative rentals in the wider commercial property market, taking into account property market return expectations at the time leases commence. • Independent mediation or arbitration processes are available for the parties if rent levels cannot initially be agreed. • Rentals will reflect the size of the premises required, but also the level of fit out and/ or services required from WIAL. • The length of lease terms vary and reflect tenants demand, and WIAL's requirement for the lease facilities over time. That is, many leases will not reflect a five-year pricing period. • Leases begin and end at times determined by negotiations or the parties' requirements. Therefore, there are a multitude of lease periods that do not correspond with the regulated pricing period.

Determination Reference	WIAL Comment

	• Leases can differ in the way WIAL recovers its property management and maintenance costs with some rents set on a gross basis, while in other leases tenants meet these costs.
	
	In establishing the financial information for the leased activities to include in the price setting disclosure WIAL has:
	
	• Allowed for average total rentals to increase, from current levels, either:
	  o with allowances for changes in rental changes due to near term rent reviews with clients;
	  o or annually by CPI where no specific rent reviews have yet been commenced.
	• Included estimates for additional rentals where new facilities are included in the capital expenditure forecast for the pricing period.
	• Included costs for leased activities from the cost allocation model utilised to allocate costs for the pricing activities.
	• Rolled forward leased assets from the RAB reported in the most recent annual disclosures at 31 March 2019.
	
	The forecasts for these activities are included in the building block model. The financial returns from these activities are required to be included in the activities reported in the price setting disclosure; Schedule 18.
	
	The summarised outcomes for lease properties (and also including WANT as a non-pricing activity) for inclusion in Schedule 18 are:

Determination Reference	WIAL Comment

	$000
Opening RAB	36,767
Forecast opening carry forward adjustment	–
Opening investment value	36,767
Average Annual:	
Forecast total revenue requirement	7,023
Forecast assets commissioned	(11,788)
Forecast operational expenditure	(2,830)
Forecast unlevered tax	(1,354)
Forecast closing asset base	91,992
Forecast closing carry forward adjustment	–
Forecast closing investment value	91,992
Forecast post-tax IRR for PSE4	**5.18%**

The forecast IRR for these activities is below WIAL's target pricing return, and below WACC, reflecting the outcomes achieved by WIAL from the commercial processes to establish lease rent levels. WIAL notes however that the financial returns achieved for the leased activities are not readily reconcilable to a target return or WACC for a regulated pricing period. This is due in particular to:

- the different points in time at which prices are set;
- varying contract durations for individual leases;
- particular lease terms required by individual tenants which can include extent of fit out, inclusion or exclusion of operating costs and specific tenancy location.
- the conventional property market price setting processes which differ from the building block approach for regulated activities.

The combined IRR across all pricing and non-pricing activity is 5.88%. This is well below WACC, and below the WACC range advocated by airlines. WIAL believes this strongly mitigates the very limited differences of opinion over WACC.

Determination Reference	WIAL Comment
Clause 2.5(1)(a)(ii) Report on Pricing Asset Base Revenue Requirements	Separate disclosure of the outcomes achieved from the pricing asset base, a subset of the total regulated asset base, are disclosed in Schedule 19. The pricing asset base provides the facilities that are used to enable the aviation and passenger services provided by aircraft operators. These are the airfield and specified terminal services defined in the AAA (with some leased assets and revenues excluded as they are not included in the charging regime for passenger or aircraft operations). A summary of the outcomes from schedule 19 is: **$000** Opening RAB 485,104 Forecast opening carry forward adjustment 9,224 Opening investment value 475,880 *Average Annual:* Forecast total revenue requirement 73,630 Forecast assets commissioned (52,816) Forecast operational expenditure (23,202) Forecast unlevered tax (10,559) Forecast closing asset base 691,574 Forecast closing carry forward adjustment (10,488) Forecast closing investment value 702,061 **Forecast post-tax IRR for PSE4 5.93%** Detailed comment on the building block inputs forming the pricing asset base, and the rationale for WIAL's target return, follows in this disclosure document.
Clause 2.5(1)(a)(iii) Disclosure of Report on Demand Forecasts	WIAL agreed with the view expressed by substantial customers that the demand conditions were changeable and therefore it was difficult to accurately predict passenger volumes for the remainder of PSE4. The timing of the re-opening of unrestricted international travel remained uncertain. Pleasingly the rollout of a national vaccination program had commenced, however the timing of the satisfactory vaccination of the population was only estimated to fall within "the second half of the year" by the Government. Additionally, the conditions under which travel restrictions would be reduced were yet to be clarified. The lack of clear conditions under which the border restrictions would

Determination Reference	WIAL Comment
	be reduced added to the uncertainty as to when the travel markets could be expected to return to predictable conditions. While following the completion of consultation trans-Tasman travel was reopened, there remains considerable uncertainty regarding possible suspensions of travel, and demand conditions in the ongoing Covid-19 environment. At the time of finalising pricing consultation, the reopening of trans-Tasman travel was extremely uncertain with airline and market estimates ranging from April 2021 to January 2022. With the accuracy of domestic traffic forecasts likely to be affected by Covid-19 alert level restrictions throughout FY22 and the uncertain timing as to when international restrictions will be lifted, WIAL considered a passenger volume correction to be a pragmatic response to the conditions. This was suggested by Air NZ during pricing consultation and WIAL adopted this suggestion: *"Noting the inherent uncertainty in forecasting, and particularly in the current circumstances, Air NZ considers there would be value in adopting a risk sharing mechanism in respect of passenger forecasts over the remainder of PSE4, where actual passenger revenue - based on actual passenger numbers - is used to calculate the revenue shortfall carry forward adjustment at the end of the period, rather than the forecast shortfall, as per the Proposal. With such a mechanism in place, WIAL would achieve a guaranteed full recovery over PSE4, including for the period impacted directly by COVID-19 (unlike other players in the sector), and the lower charges over PSE4 and PSE5 (assuming the recovery is faster than WIAL is forecasting) would enable Air NZ to maintain lower fares over the period."* Under ordinary circumstances when accurate forecasts can be generated, WIAL and its airline customers are able to assess and share the volume risk over the price setting period. However, the circumstances for PSE4 will have a strong chance of producing a material variance to PSE4 revenue recovery in the absence of a correction to actual passengers flown over the period of uncertainty. WIAL determined to set the PSE4 volume forecast for price setting based on the assumptions as listed below. As suggested by Air NZ, WIAL will calculate the level of revenue shortfall to carry forward into PSE5 based on the revenue generated by the actual number of passengers flown in PSE4 at the time PSE5 prices are set. ***1. Domestic Assumptions*** • FY21 forecast of 3.0Mppa, comprised 2.6M to 28 February 2021 and a forecast 350k in March 2021, with demand impacted by raised Covid alert levels during the first half of the month. Actual traffic in March matched exactly the forecast of 350k.

Determination Reference	WIAL Comment
	• FY22 forecast of 4.4Mppa, was based on a recovery to 80% of FY20 levels at the beginning of the year (April 21) improving to 90% at the end (March 22). While domestic capacity at Wellington airport has recovered more strongly than initially anticipated, passenger numbers continue to improve at a slower rate. For the most recent months unaffected by lockdowns (Nov20-Jan21) domestic capacity recovered to an average 84% of prior year but passengers only recovered to 78% - an assumed recovery to 80% in April reflects an improvement on the prior February/March lockdown situation. The absence of 10% of the pre-Covid domestic market in March 22 reflects the likely constraints that will continue for those travelling medium/long haul (a proportion on domestic sectors via Auckland). • By FY24 5.7Mppa represents a 9% increase on FY20 and a 7% reduction on pre-Covid expectations reflecting an economic recovery to the pre-Covid trajectory partially offset by the longer-term impacts of disrupted travel patterns. ***2. International Assumptions*** • No scheduled international services in FY21. • International services forecast to commence partway through FY22 (October 2021) but initially at a lower frequency than pre-Covid. New requirements for international travel (i.e. proof of vaccination) are expected to be a constraint on some travel in the short-term, offset to an extent by the pent-up demand for reconnecting across borders. We anticipate an average frequency (October 2021-March 2022) with narrow-body aircraft at LF=75% of: o Brisbane/Gold Coast will be served at 14 per week – reflecting desire for leisure travel o Sydney 14 per week – reflecting initial suppression of long-haul connecting traffic o Melbourne 10 per week - no Singapore Airlines return over the pricing period o Pacific 5 per week – desirable holiday market noting October 2021-March 2022 is typically off-peak travel season • FY23-FY24 we expect the international market to rebound as a new normal in international travel is reached. Widespread vaccination and adoption of travel passes combined with pent-up international demand and airline competition for passengers will see international travel recover in FY23 to 83% of FY20 and, in FY24, exceeding pre-Covid levels and returning to BAU growth.

Determination Reference	WIAL Comment
	3. Unscheduled Growth • Despite the impact of Covid at the end of FY20 and through FY21, the number of unscheduled services has remained high, with an increase in GA and charter flights more than offsetting the reduction in international charters. The forecasts assume the number of unscheduled movements will moderate back to FY19 levels by the end of the pricing period.
Clause 2.5(1)(c) Description of Components of Forecast Revenue Requirements	Clause 2.5(1)(c) requires comment on how each of the building block inputs to Schedules 18 and 19 have been determined including an explanation of: *(vii)* the rationale for the basis of preparing these components, and any related assumptions; *(ix)* the extent to which each component is used to determine the forecast total revenue requirement; and *(x)* the differences (if any) between the preparation of each component and the most recent corresponding historical financial information disclosure in accordance with clause 2.3 WIAL provides comment on each of these requirements for the building block inputs in the sections that follow.
Clause 2.5(1)(c)(i) Forecast Asset Base	WIAL's forecast value of assets employed for PSE4 comprised an updated MVAU valuation of land as at 1 April 2019 plus other regulated assets rolled forward from WIAL's annual information disclosure for 2019. ***1. Completion of an updated MVAU land valuation at 1 April 2019*** WIAL engaged independent valuers Savills NZ to undertake an updated land valuation as at 1 April 2019. WIAL commissioned a valuation that was consistent with the requirements for land valuation included in the IMs for ID regulation. In addition, WIAL also engaged: • Boffa Miskell to prepare an alternative land use plan; and • Property Economics Limited to prepare market demand analysis for prospective land uses. The MVAU valuation prepared by Savills, and adopted by WIAL, for PSE4 has taken these reports and their analysis into account. The valuation report[1], including accompanying market and land planning advice, was provided to substantial customers with the IPP. The airlines views on the valuation are provided later in this section. The underlying rationale and assumptions for

[1] The report is available on WIAL's website in conjunction with WIAL's Annual Information Disclosure for the year ended 31 March 2020.

Determination Reference	WIAL Comment
	the valuation are detailed in the valuation report and are not repeated in this document. In the comments below we explain how the valuation has been allocated to WIAL's regulated and pricing asset bases. ***1.1 Land Area*** WIAL maintains a detailed asset register that records land holdings by discrete areas of use. Each land area is directly attributed to a business activity where possible, or to a shared use asset which must then be allocated between regulated and non-regulated activities. The valuation report shows the total WIAL land area, with this total then included in the MVAU valuation as follows:

	Hectares
Total land holding from list of WIAL land titles	112.5645
Less Investment Property and Commercial activity land	(22.3201)
Less Moa Point and residential land not included in valuation	(2.6715)
Land Area Used to Provide Specified Airport Services	**87.5729**
Less allowance for roads	(20.5)
Less allowance for public open space	(10.0)
Net Development Land Area for MVAU valuation	**57.0729**

The airport precinct land is then allocated to the pricing asset base, depending on the business activities, as follows:

Determination Reference	WIAL Comment

Hectares	Unallocated RAB Land	Excluding Allocation of Shared Land for Unregulated	Allocated RAB Land	Less Land included in Leased Properties	Pricing Asset Base
Airfield	76.06		76.06	(2.51)	73.55
Specified Terminal	0.00		0.00		0.00
Aircraft and Freight	3.52		3.52	(3.52)	0.00
Shared Terminal Land	1.58	(0.36)	1.21	0.00	1.21
Other Shared Land	5.65	(1.01)	4.64	(0.20)	4.44
Future Use Land	0.77		0.77		0.77
Aeronautical Land for MVAU +	**87.57**	**(1.37)**	**86.20**	**(6.23)**	**79.98**
WANT Land	0.18		0.18		0.18
Total RAB Land	**87.75**	**(1.37)**	**86.38**	**(6.23)**	**80.15**

Notes:

+: Total unallocated RAB land reconciles to page 18 of Savills 1 April 2019 valuation report

++: Using allocation factors from 2019 annual information disclosure.

1.2 Land Valuation

The value of the pricing asset base land was then calculated as follows:

MVAU recommended by Savills (excluding WANT properties)	$173.9 million
Total land available for MVAU valuation	87.5729ha
Value of Land per Square Metre	$198.58
Total land area in pricing asset base (excluding future use land)	**79.2041 hectares**
MVAU Value of Land to Include in Pricing Asset Base & Calculation of Required Revenue as at 1 April 2019	**$157.28 million**

Note that the impact of the resulting increase in the land valuation is addressed in the comments on asset revaluations, and carry forward adjustments, later in this document.

Determination Reference	WIAL Comment

2. *Valuation of Specialised Assets*

WIAL also valued its non-specialised assets in a manner consistent with the IMs. The asset base for pricing purposes was determined from the RAB reported in WIAL's annual information disclosure for the year ended 31 March 2019. The RAB includes Aircraft and Freight and Leased assets which are then excluded to determine the pricing asset base.

	2019 Information Disclosure $000	Less Assets for Leased Activities $000	Pricing Asset Base $000
Airfield	172,660	(736)	171,924
Specified Terminal	166,557	(14,748)	151,809
Aircraft and Freight	12,151	(12,151)	0
Total Non-Land Assets	**351,368**	**(27,635)**	**323,733**

3. *Airline Views on Asset Valuation*

Airlines agreed early in consultation that all inputs would be set as at 1 April 2019, including asset valuation. Valuations were consulted with airlines in the IPP, and limited feedback was received. This input is uncontroversial and WIAL has maintained the same valuations throughout consultation. ANZ confirmed it was *"comfortable with the approach used by WIAL and the resulting valuations"*.

In the Final Pricing Document of April 2020, WIAL determined in consultation with airlines that a limited number of inputs would be reset in April 2021 due to the uncertainty created by Covid-19. Asset valuation was not one of these and the 2019 valuation has been retained.

4. *Allocation of Assets*

The methodology applied by WIAL to allocate assets between activities, as in the tables above, and for the other asset related items included depreciation and revaluations, is consistent with the approach applied by WIAL in previous pricing periods, and in annual information disclosures.

Determination Reference	WIAL Comment
	Generic Approach The Commission's IM for asset allocation requires WIAL to: • Identify directly allocated assets. • Allocate a share of common assets to specified airport activities by using causal or proxy cost allocators. The approach that WIAL applied, is consistent with the Commission's IMs, and was as follows: • WIAL assigned a business code to each asset to depict the business activity in which that asset is used. The categories used by WIAL were: o Airfield o Terminal aeronautical, terminal non-aeronautical, terminal common o Airfield and freight o Commercial o Shared • Directly attributable assets were identified from the asset coding above. • Shared or common assets were then allocated as follows: o The terminal common assets are those used to provide services to all users of the terminal. These assets were allocated between terminal aeronautical and commercial activities. o Shared assets are those used to provide services to all users of the airport site. A share of these assets was allocated to all airport business activities. • Site and terminal plans illustrating the allocation of asset areas from the allocation approach above were attached to WIAL's IPP. *Allocation of Shared Assets* The bases for the allocation of shared assets to aeronautical activities were as follows:

Determination Reference	WIAL Comment

	Allocation of Terminal Common Assets	
	Basis for Allocation	**Aeronautical %**
Land	Allocated between terminal aeronautical and contestable areas based on floor areas for directly allocated assets	77.1%
Other Assets	Allocated between terminal aeronautical and contestable areas based on asset values for directly allocated assets[+]	90.2%

	Allocation of Shared Assets	
	Basis for Allocation	**Aeronautical %**
Land	Based on share of land area directly allocated to activities.	82.1%
Other Assets	Based on value of assets directly allocated to activities.[+]	57.6%

Note: Based on WIAL's 2019 information disclosure RAB.

5. Calculation of WIAL's forecast asset base

WIAL's forecast asset base for PSE4 was calculated by the following formula:

> *Annual forecast asset base = allocated share of land asset valuation at 1 April 2019 plus rolled forward specialised assets from 2019 annual information disclosure plus capital expenditure less asset disposals less depreciation plus forecast revaluation gains.*

Each of the components of this formula is discussed below:

- ***The addition of forecast capital expenditure***
  A detailed capital expenditure forecast was prepared for the 2020-2029 period. The forecast commenced in the 2020 financial year. Comments on the key capital expenditure projects are provided in Appendix B.
- ***The deduction of forecast depreciation***
  Refer to comments on clause 2.5(1)(c)(iv) below.
- ***The forecast of revaluation gains / (losses)***
  Refer to comments on clause 2.5(1)(c)(vi) below.

Determination Reference	WIAL Comment
	• ***Allocation of assets, depreciation, capital expenditure and revaluations to the asset base*** The allocation of depreciation for commencing assets is undertaken in the same manner as for the commencing asset base, as detailed above. The allocation of capital expenditure is considered for each forecast item or project. Depreciation and revaluation of these assets is calculated for the aeronautical asset values using assumptions in WIAL's pricing model. Further comment is provided in comments on clauses 2.5(1)(c)(iv) and (vi). • ***Forecast Asset Base*** The forecast rolled forward asset bases for the total RAB and for the pricing asset base are shown in Schedules 18 and 19. ***6. Extent to which each Component is used to Determine the Forecast Total Revenue Requirement*** The forecast asset base, and all its components, are included in the calculation of the forecast return on the total RAB. The forecast pricing asset base, and all its components, are key inputs to the building block calculation which is used to determine the total revenue requirement for pricing activities subject to consultation with airlines. Revenues for non-pricing activities are established through commercial processes which are not determined by the building block approach. The commercial processes are explained in other sections of this document. ***7. Differences between the Valuation Approaches Adopted for Pricing Consultation and Information Disclosure for the Year Ended 31 March 2019*** WIAL adopted valuation methodologies for pricing consultation that were consistent with the IMs, and with the 2019 annual information disclosure. As commented above WIAL did commission an updated MVAU land valuation to apply from the commencement of the new pricing period on 1 April 2019. This valuation, and the consequent unforecast asset revaluations, were also undertaken in a manner consistent with the IMs.
Clause 2.5(1)(c)(ii) Forecast Cost of Capital	***1. Methodology Adopted by WIAL*** In establishing its WACC for PSE4 WIAL was guided by the Commerce Commission's estimated mid-point WACC for WIAL, amended to account for WIAL's expected cost of debt and a higher asset beta associated with WIAL's significant capital expenditure programme and risk profile.

Determination Reference	WIAL Comment

In this section WIAL explains the differences between WIAL's forecast cost of capital and the Commission's sector-wide estimate for airports' cost of capital as at 1 April 2019, the beginning of the PSE4 pricing period.

2. *Calculation of WACC for PSE4*

WIAL's starting point for calculating its WACC was to apply the Commission's mid- point parameters, before making two changes to estimate a WIAL-specific WACC. WIAL forecast its actual cost of debt based on existing debt instruments, which is higher than the Commission's estimated cost of debt; and applied an asset beta uplift of 0.03 to account for the risks associated with its capital expenditure profile.

WIAL's estimate of WACC, and as compared to the Commission, was calculated as follows:

Parameter	Commission's WACC (1 April 19)	WIAL WACC (1 April 19)
Risk-free rate	1.77%	1.77%
Debt premium	1.24%	n/a
Leverage	19%	19%
Asset beta	0.60	0.63
Equity beta	0.74	0.78
Tax adjusted market risk premium	7.00%	7.00%
Average investor tax rate	28%	28%
Debt issuance costs	0.20%	0.20%
Cost of debt	3.21%	4.66%
Cost of equity	6.46%	6.72%
Mid-point vanilla WACC	5.84%	6.33%
Mid-point post-tax WACC	**5.67%**	**6.08%**
Commission's vanilla WACC percentile	50%	63%
Commission's post-tax WACC percentile	50%	61%

Determination Reference	WIAL Comment
	WIAL provided comments in the IPP explaining its proposed variations from the Commission's assumptions. ***2.1 Cost of Debt*** As at 1 April 2019, WIAL had a number of characteristics that differed from the Commission's benchmark airport operator, and affected its cost of debt, including that WIAL: • had a credit rating of BBB+/Stable (now BBB/Negative Outlook) rather than the assumed credit rating of A-; • entered the PSE4 period with a number of different existing forms of debt finance, including: ○ fixed rate corporate bonds; ○ floating rate corporate bonds; ○ swaps; ○ drawdowns on bank facilities; and ○ US Private Placement and other debt with an issuance term between seven and 12 years. WIAL looks to optimise its funding in the current low interest environment by issuing longer-term debt instruments (for example, its March 2019 issue of 11-year retail bonds) in accordance with sound treasury practice for businesses with long life assets. This approach is commonly taken by utility companies and infrastructure businesses including airports, in order to match their funding tenor more closely with the life of assets. As a consequence of these factors, the Commission's benchmark cost of debt underestimates WIAL's cost of debt. Instead of applying the Commission's benchmark assumptions, WIAL estimated its expected weighted average cost of debt based on existing debt costs and expected new issues of debt over PSE4. For reference, WIAL issued $100 million of 11-year bonds on 1 April 2019. Whilst these bonds were longer dated than the Commission's 5-year approach, the minimum coupon required by the market at the time was 4%; which was above the cost of debt assumption included in the Commissions WACC (published as at 1 April 2019). WIAL's expected cost of debt was 4.66%, which was higher than the Commission's benchmark of 3.60%. WIAL considers it is only fair to recover its actual cost of debt. WIAL recognises it is possible that in future its actual cost of debt may be lower than the Commission's estimate. WIAL is willing to commit to incorporating actual cost of debt into all future WACC estimates, recognising there will be fluctuations over time and it is possible that cost of debt in future pricing periods may be either above or below the Commission's estimate.

Determination Reference	WIAL Comment
	2.2 Asset Beta (Cost of Equity) WIAL also reviewed the Commerce Commission's approach to cost of equity in its review of Auckland Airport's pricing decisions, including its acceptance in principle of an asset beta uplift based on the Airport's large scale investment plans. WIAL then noted Auckland Airport's decision to reset its prices in February 2019. WIAL calculated that AIAL's eventual prices imply an asset beta of 0.63, an uplift of 0.03. The Commission welcomed this decision, describing it as "a good result for consumers". As the Commission did not publish further analysis of AIAL's prices, WIAL assumes this means an asset beta uplift of 0.03 was acceptable to the Commission in the context of AIAL's capex programme increasing its exposure to systematic risk. WIAL applied an equivalent uplift on the basis of its own calculated operating leverage, and the similarity in scale of our upcoming investments to AIAL's investment programme. This resulted in an uplift in cost of equity of 26 basis points, and a WACC increase of 21 basis points. ***3. Substantial Customer Views on WACC*** WIAL noted in its RPP that airlines disagreed with WIAL's adjustments to the mid-point WACC. Several of the key points made by the airlines, together with WIAL's responses were as follows: • BARNZ, following receipt of a report from TDB Advisory and supported by the airlines, submitted that WIAL was able to use interest rate swaps to broadly match the risk-free rate for the five-year pricing period; and that treasury risk management should be in the hands of the regulated entity "where it belongs". WIAL did not agree and considered that its current approach to optimising funding across the business over the long term was efficient and that it was appropriate that these costs were recovered for the reasons noted above. WIAL therefore retained its forecast cost of debt of 4.66%. • WIAL considered BARNZ feedback that an above-benchmark cost of debt should be based on an uplift for credit rating and a small uplift for term credit spread only. When applying these principles, WIAL is still unable to recover its full actual cost of debt. WIAL also considered the Commission's feedback on Auckland Airport's pricing that AIAL's cost of debt estimate based on its actual costs was "for the most part reasonable". We have endeavoured to take a similar approach. • BARNZ, based on advice from TDB, did not support the methodology used by WIAL to calculate its operating leverage, which resulted in the proposed +0.03 adjustment to asset beta. TDB provided its own analysis which supported an increase of +0.02. WIAL did not agree with TDB, noting that WIAL's approach was consistent with the Commerce

Determination Reference	WIAL Comment
	Commission, and that TDB had not fully recognised WIAL's forecast capital expenditure cash flows. WIAL therefore retained its proposed increase of +0.03 above the Commission's asset beta assumption. • Tax Adjusted Market Risk Premium (TAMRP): WIAL noted the Commerce Commission's 19 November 2019 draft decision on the Fibre input methodologies, which applied a TAMRP of 7.5% based on updated analysis from Dr Martin Lally. As noted by the Commission, the TAMRP is an economy-wide parameter which should not vary by sector, service or company. Therefore the same TAMRP ought to apply to airports, and the Commission has acknowledged its intention to review the TAMRP in its next review of the Airports IMs. WIAL noted that it should apply the most up-to-date information available in pricing. There appeared to be no reason to discount the validity of the Lally analysis. Although the Fibre IMs apply to a three-year price quality path, the same TAMRP is estimated for a five-year regulatory period. Updating the TAMRP in the WACC calculation for WIAL would increase WIAL's WACC from 6.08%, in the IPP, to 6.39%. BARNZ provided feedback that it disagreed with application of the increased TAMRP in any event because it was not known in April 2019 when PSE4 commences. WIAL agreed with this feedback and reversed its position. ***4. WIAL Commercial Compromise*** WIAL advised that in recognition of limited remaining differences of opinion, WIAL would reduce its target rate of return below WACC to 5.93%, a rate within the range advocated by airlines. ***5. Application of April 2019 WACC*** WIAL and airlines agreed early in PSE4 consultation to apply the WACC that would have applied as at 1 April 2019, including the risk-free rate as at that date. In April 2020, WIAL issued its Final Pricing Document, incorporating the April 2019 WACC. It was proposed to airlines at this point that only capital expenditure and passenger forecasts would be reset in April 2021. There was no proposal to reset the WACC and WIAL did not receive any feedback from airlines that this should be the case. Despite this, WIAL has considered whether a WACC adjustment should be applied due to Covid-19 and the further delay in pricing. WIAL does not believe this is the case, given: • The agreement of airlines throughout consultation to apply an April 2019 WACC;

Determination Reference	WIAL Comment
	• The clear decision to reset only limited inputs, i.e. capex and passenger forecasts; • The complexity of updating WACC, including new information on airport risk and asset betas post-Covid, which will be most appropriately debated in the upcoming IM review; • Factors such as increased TAMRP that could operate to increase WACC if WIAL adopted an updated estimate; • Factors such as asset valuation that could significantly increase prices if all pricing inputs were updated in addition to the more limited capex and passenger reset; • The lack of significant airline contention on this point; • The various other reductions and concessions offered to airlines both pre-Covid, throughout, and post-Covid-19. WIAL accepts its asset beta uplift was intrinsically tied to its capital expenditure program, which has now been reduced. WIAL's previous reduction in target return to 5.93% had the equivalent effect of reducing asset beta to the benchmark 0.60. WIAL strongly believes a fair updated asset beta and WACC for airports in the midst of Covid-19 would result in an increased WACC due to the level of market risk, notwithstanding a reduced risk-free rate. WIAL is willing to hold its WACC at the previously consulted level, partly due to airline agreement to the passenger adjustment which mitigates the increased level of risk. ***6. Extent to which each Component is used to Determine the Forecast Total Revenue Requirement*** WIAL's WACC provides a guide to the target return to be earned on regulated activities, but with a target return for a pricing period then established during consultation with airlines. As noted earlier in this section, and demonstrated in Schedules 18 and 19, WIAL adopted a target return below WACC for PSE4. ***7. Differences between Preparation of the WACC Adopted for the Pricing Consultation and Information Disclosure for the Year Ended 31 March 2019*** WIAL establishes a WACC and target return for the price setting process. Forecasts used during the pricing period in annual disclosures are consistent with the pricing forecasts. This is different from the requirement for the 2019 annual disclosure where: • The WACC shown in the annual disclosures is required to be the WACC determined by the Commission for that disclosure year; and

Determination Reference	WIAL Comment
	• Actual returns achieved are different from forecast which is shown in the annual disclosures.
Clause 2.5(1)(c)(iii) Forecast Operating Expenditure	WIAL established a combined operating expenditure forecast for pricing activities plus its leased aeronautical facilities. A separate forecast was established for the noise mitigation activities. The two forecasts are addressed separately in the following sections. ***1. Description of Forecasting Approach/Rationale: Pricing Activities and Leased Aeronautical Facilities*** **Cost Allocation Methodology** In WIAL's financial management system, operating costs are grouped into 'cost centres' to reflect the various operational functions and key assets. WIAL's cost allocation approach first considers whether each cost centre can be allocated across aeronautical and non-aeronautical activities using a direct or causal driver, with remaining cost centres then being allocated using a proxy driver. Appendix A sets out the cost centres identified by WIAL as having either a direct or indirect aeronautical component, explains the nature of the activity and states the allocation driver applied. This methodology is consistent with the Annual Disclosures and forecasts for prior pricing periods. **Initial Forecast Approach** The PSE4 forecasts for consultation, included in the IPP, were initially developed from WIAL's whole of business budget for 2020. Applying the cost allocation methodology described above, the 2020 budget was allocated between aeronautical and non-aeronautical activities to establish a baseline. The 2020 baseline was then rolled forward a further four years to 2024 by applying growth assumptions including inflation, passenger numbers, service levels and real changes in specified costs. **Covid-19 Adjustment** In response to Covid-19, WIAL acted early to resize the business and delivered significant cost savings in the 2021 financial year. This included a 30% reduction in headcount, reduced remuneration and other significant targeted operating cost reductions. Actual expenditure for FY21 was approximately 25% lower than earlier forecasts. WIAL agreed with Airlines that the PSE4 forecasts should be updated to reflect these cost savings. The revised approach applied was to:

Determination Reference	WIAL Comment

- Use actual expenditure for FY20, aligning with the Annual Disclosures for that period
- Update FY21 to reflect WIAL's latest forecast (using the same cost allocations as FY20)
- Update FY22 to align with WIAL's whole of business FY22 budget (using the same cost allocations as FY20)
- Update the key growth assumptions and only apply these from FY23 onwards (see section 2 below)

Impact of Covid-19 Adjustment

Across PSE4, the revised approach resulted in a total operating cost reduction of $18.6 million or 13% compared with the pre-Covid forecasts:

$000	Actual 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Total PSE4
Final PSE4 Forecast	22,828	18,871	22,301	26,125	30,165	120,290
Pre-Covid PSE4 Forecast	22,828	25,025	27,859	30,227	32,902	138,842
Reduction $	-	(6,154)	(5,558)	(4,101)	(2,737)	(18,551)
Reduction %	-	-25%	-20%	-14%	-8%	-13%

2. Key Assumptions: Pricing Activities and Leased Aeronautical Facilities (Applied from FY23 onwards)

Inflation

1.5% annual CPI was assumed. The rationale and justification for this assumption is covered in the Asset Revaluation section of these disclosures.

Salary/Wage Inflation

Annual increases of 2.5% in employee remuneration are assumed. This assumption is based on external advice and reports, as well as WIAL's assessment of a reasonable increase in remuneration that will enable WIAL to retain staff and keep remuneration at market levels.

Determination Reference	WIAL Comment
	Insurance As is widely published, there has been considerable volatility and growth in earthquake insurance premiums in the past 10 years. Large increases in premiums followed the Christchurch, Seddon, and Kaikoura earthquakes, with further fluctuation as insurers entered/exited the market over this time. In the absence of further major events, it is expected that the volatility will subside, albeit that this is unlikely to result in a reduction in premium rates in the short term. WIAL's insurance requirements have historically been managed through both UK and NZ based insurers. Direct relationships are maintained with insurers in the UK to achieve the best terms possible. WIAL has also recently established a captive insurance company to increase price tension and provide self-insurance optionality. There are two significant issues affecting the forecast for insurance premiums: • Potential for further large increases in market premiums as insurers continue to reprice NZ disaster risk; and • Increases in WIAL's premiums due to its proposed capital investment programme. The PSE4 insurance cost forecast allows for: • 10% increase in premium rates in FY23 based on external market advice • 3% increase in premium rates in FY24 based on external market advice • Increases in levels of cover required for capital investment forecast over the pricing period **Local Authority Rates** Rates are set by Wellington City Council (WCC) and Greater Wellington Regional Council. WIAL therefore has limited control over this cost. WCC's draft long-term plan indicated 14% rates increases for 2021/22 and approximately 7% increases in the following years. The 14% mid-year uplift is already incorporated into the FY22 forecast and 7% annual uplifts are assumed from FY23 onwards. WIAL has also provided for growth in rateable values of property, based on building-related projects in the capital expenditure forecasts. **IT/Software** WIAL has made significant investments and improvement in IT over recent years. In addition, the transition to cloud-based

Determination Reference	WIAL Comment
	software subscriptions has resulted in an increase in operating rather than capital expense. WIAL expects this trend to continue from FY23 onwards at a rate of 4.0% cost growth per year, as the airport continues to invest in fit-for-purpose systems to improve service and efficiency. This is expected to include common-use terminal equipment, ongoing automation and monitoring of asset performance. **Passenger Numbers** Passenger driven costs such as rubbish removal, toilet consumables, and certain maintenance requirements are assumed to grow over time with traffic levels. **Employee Headcount** WIAL's headcount reduced 30% through the business resizing undertaken in FY21. The forecast assumes the headcount rebuilds over PSE4 and returns to FY20 levels in FY24, when demand forecasts indicate annual passenger numbers should again reach 6 million. WIAL has also undertaken a Task and Resource Analysis (TRA) on the Airport Fire Service, following the guidance issued by the Civil Aviation Authority. The purpose of a TRA is to establish the minimum number of personnel required to deliver an effective Airport Fire Service and the analysis indicates that WIAL needs additional firefighters. Initial forecasts allowed for 3 new fire crew each year from FY21 – FY24. WIAL has now deferred implementation to reflect reduced traffic levels and the forecast now assumes 2 new fire crew each year from FY23 onwards. **Business Recovery Impact** WIAL aims to maintain the FY21 cost efficiencies as far as possible, however certain areas of expenditure that were reduced in response to Covid-19 are expected to return to FY20 levels in FY23/FY24, aligning with forecast traffic and operational requirements. FY24 operating costs are still forecast to be $2.7 million or 8% below previous forecasts. ***3. Substantial customer feedback*** Airline customers provided limited specific feedback on operating expenditure, both in early consultation and following WIAL's final reset of forecasts in February-April 2021. BARNZ provided feedback that, while BARNZ did not have enough information to determine whether insurance costs were too high, the escalating costs were concerning and WIAL should take all possible action to keep these down. WIAL shares BARNZ concerns regarding escalating premiums but is confident every possible step has been taken to manage its insurance cover.

Determination Reference	WIAL Comment
	Qantas provided consistent, though non-specific, feedback that operating expenditure should be kept low and efficiencies found wherever possible. WIAL shares this objective and is proud to be one of the most efficient airports in Australasia in terms of opex per passenger. Cost minimisation initiatives are ongoing and WIAL expects some efficiencies established during Covid-19 will be embedded over the longer term. ***4. Description of Forecasting Approach/Rationale & Key Assumptions: Noise Mitigation Activities*** Costs for the noise mitigation activities of Wellington Airport Noise Treatment Limited (WANT Ltd) have been forecast in three key categories as outlined below. **Noise Treatment** WANT Ltd undertakes treatment of certain properties impacted by airport noise to achieve acceptable noise levels. This work is being undertaken in a staged approach across 6 residential areas and the treatment costs for PSE4 have been forecast using the following assumptions for each area: • Homeowner uptake rates (based on historic actuals and WIAL's best judgement) • Average cost of treatment design and installation per house (based on historic actuals and external contractor advice) • Annual cost of construction inflation of 3.5% (based on external expert advice and current trends) **House Removals/Write-Offs** WIAL acquires and removes houses that are exposed to high noise levels if they cannot be effectively treated. The cost of the buildings acquired then written-off is determined using rateable values. The land component is not included in the cost forecast as this is recognised as an asset. WIAL has assumed a further 2 houses will need to be acquired and demolished by WANT Ltd in PSE4. Actual expenditure will depend on ongoing review of noise impacts, home-owner uptake, and the individual property values. **Administration** This category incorporates the staffing cost of delivering the programme, annual audit fees for WANT Ltd's financial statements, plus contract works insurance. These costs are forecast based on historic actuals, increasing at 1.5% inflation each year over PSE4.

Determination Reference	WIAL Comment

5. Extent to Which the Forecasts are Used to Determine the Total Revenue Requirement

Only the forecasts for pricing activity expenditure were included in the building block model for the determination of WIAL's pricing over PSE4.

Forecasts for noise mitigation activity expenditure are included in a separate standalone model for the determination of noise mitigation (LUMINS) passenger charges.

Forecasts for leased aeronautical facility expenditure are not incorporated into the determination of WIAL's pricing but are disclosed in schedule 18 as part of total operational expenditure for regulated activities.

WIAL's final operating expenditure forecasts, summarized in the categories required by schedules 18/19, are provided below:

PRICING ACTIVITIES	Pricing Period Starting Year 2020	Pricing Period Starting Year + 1 2021	Pricing Period Starting Year + 2 2022	Pricing Period Starting Year + 3 2023	Pricing Period Starting Year + 4 2024
Corporate overheads	6,069	4,715	5,560	6,208	6,944
Asset management & airport operations	13,752	11,781	14,215	17,138	20,387
Asset maintenance	1,921	1,553	1,735	1,950	2,080
Total	**21,743**	**18,049**	**21,509**	**25,296**	**29,412**

LEASED AERONAUTICAL FACILITIES	Pricing Period Starting Year 2020	Pricing Period Starting Year + 1 2021	Pricing Period Starting Year + 2 2022	Pricing Period Starting Year + 3 2023	Pricing Period Starting Year + 4 2024
Corporate overheads	93	71	82	96	111
Asset management & airport operations	600	491	541	689	763
Asset maintenance	28	26	26	28	30
Total	**721**	**588**	**648**	**812**	**904**

NOISE MITIGATION ACITIVITIES	Pricing Period Starting Year 2020	Pricing Period Starting Year + 1 2021	Pricing Period Starting Year + 2 2022	Pricing Period Starting Year + 3 2023	Pricing Period Starting Year + 4 2024
Corporate overheads	216	123	136	193	195
Asset management & airport operations	2,382	741	1,122	2,904	2,467
Asset maintenance	0	0	0	0	0
Total	**2,597**	**865**	**1,258**	**3,097**	**2,662**

Determination Reference	WIAL Comment
	Additional information provided to substantial customers during consultation included: • Costs for each year from 2020 – 2024, broken down into key expenditure lines; • Costs for each year from 2020 – 2024, grouped by specified airport serviced; • Commentary on the rationale for, and drivers of, forecast movements in expenses from the most recent Annual Information Disclosures and over the Pricing Period; and • Commentary on WIAL's historic cost performance, service quality and efficiency. ***6. Differences between the preparation of forecasts and the most recent corresponding historical financial information disclosed*** WIAL's initial operating expenditure forecasts were based on the actual 2019 Annual Information Disclosures. Due to the extended consultation period, WIAL subsequently changed the forecasting base to reflect the more recent actual information available. WIAL's most recently audited and published Annual Information Disclosures are for the period ending 31 March 2020 ('2020 Disclosures'). WIAL used actual operating expenditure from these 2020 Disclosures for the first year of the revised PSE4 forecast. The forecast for the remaining four years 2021 – 2024 were prepared using the same cost structure, allocation methodology, and allocation ratios as the 2020 Disclosures. The different expenditure amounts each year are driven by the forecast assumptions described above.
Clause 2.5(1)(c)(iv) Forecast Depreciation	The Forecast Depreciation comprises depreciation on existing assets plus an allowance for depreciation on new assets commissioned during the Pricing Period. ***1. Forecast Depreciation on Established Asset Base*** WIAL forecast annual depreciation from the RAB included in the 2019 Annual Disclosures. The forecast was determined in the manner required by the IMs for Annual Disclosures with the calculation using the asset values and asset lives from the 2019 RAB rolled forward for the following 5 years, excluding the assets for which nonstandard depreciation was applied. For further information on WIAL's depreciation methodology refer to our comments at clause 2.5(1)(p) for nonstandard

<table>
<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
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depreciation, and clause 2.5(1)(q) for standard depreciation.

2. Forecast Depreciation on Assets Commission During the Period

Assets are depreciated from the date assets are forecast to be commissioned. Depreciation for new assets is calculated in the building block model and determined from:

WIAL's capital expenditure forecast which provides details of the types of assets (e.g. civil works, buildings, plant and equipment) that are to be commissioned and expected timing for project completions;
WIAL's assessment of appropriate depreciation rates for each project.

Depreciation rates applied by WIAL to asset additions for the forecast period are as follows:

<table>
<tr><th>Class of asset</th><th>Sub-Category</th><th>Depreciation rate Range</th></tr>
<tr><td>Buildings and building services</td><td>Structure
Building Fit Out</td><td>2.5%-5.0%
5-10%</td></tr>
<tr><td rowspan="2">Civil works</td><td>Marine Protection Works</td><td>2.0%</td></tr>
<tr><td>Other</td><td>2.5-5.8%</td></tr>
<tr><td>Vehicles, plant and equipment</td><td></td><td>10-20%</td></tr>
</table>

3. Allocation of Depreciation to Regulated Activities

The depreciation expense is allocated to the pricing activities using the same methodology as is applied for the allocation of assets.

4. Tax Depreciation

WIAL determines its tax depreciation in accordance with IRD requirements. WIAL's calculation of the tax expense for pricing activities recognises the timing difference between accounting and tax depreciation. That is, WIAL uses tax depreciation to calculate the annual tax expense on a tax payable approach.

WIAL has established forecast tax depreciation from the tax asset base used for its 2019 Annual Disclosures in the same manner as accounting book depreciation has been calculated for the RAB.
</td></tr>
</table>

Determination Reference	WIAL Comment
	5. Extent to Which the Forecasts are Used to Determine the Total Revenue Requirement Forecast depreciation for pricing activities is included in the calculation of the forecast asset base which is included in the closing investment value in the target return or IRR calculation for the pricing period. ***6. Differences between Preparation of the Forecast Depreciation Adopted for Price Consultation and Information Disclosure for the Year Ended 31 March 2019*** The depreciation forecast for pricing was established in a consistent manner with the calculation methodology for the 2019 Annual Disclosures.
Clause 2.5(1)(c)(v) Forecast Unlevered Tax	***1. WIAL Methodology*** WIAL determined its tax forecast by applying a tax payable approach which calculates tax cash flows following the recognition of asset tax depreciation rather than accounting book depreciation. ***2. Extent to Which the Forecasts are Used to Determine the Total Revenue Requirement*** The annual forecast tax cashflow is included as a cost in the target return or IRR calculation for the pricing period. ***3. Differences between Preparation of the Forecast Tax Adopted for Price Consultation and Information Disclosure for the Year Ended 31 March 2019*** WIAL's tax calculation is consistent for the pricing consultation and Annual Disclosure calculations.
Clause 2.5(1)(c)(vi) Forecast Revaluations	***1. Approach to Forecast Revaluations*** WIAL has forecast revaluations for PSE4 based on WIAL's CPI assumption, with the annual revaluations included as income. ***2. CPI Assumption for Revaluations (and other pricing inputs)*** WIAL initially obtained airline views on its proposal to apply WACC inputs as at 1 April 2019, the commencement of PSE4. BARNZ provided the following comment which was supported by Air NZ. *"A WACC based on March 2019 data is acceptable if the CPI (or equivalent) forecasts that are used for asset revaluations are also set using March 2019 data (ie a CPI forecast from March 2019). The indexed revaluation rate and cost of capital inputs should have consistent timing to ensure the pricing model is internally consistent."*

Determination Reference	WIAL Comment
	WIAL therefore proposed to adopt a CPI assumption of 1%, which was based on an alternative forecast methodology. BARNZ provided feedback noting *"there is an inherent inflation forecast built into the cost of capital used for price setting and we show in this submission that errors in forecasting inflation in these two inputs provide a natural hedge"*, and further commented that it was *"not comfortable with applying the new and untested breakeven rate methodology as the sole forecast of CPI… [however] a reasonable outcome would be to use an average of market forecasts of CPI, but include the breakeven analysis as another forecast within this assessment"*. WIAL accepted the BARNZ comments and proposed an averaging approach which resulted in WIAL amending its CPI assumption for PSE4 to 1.5%. WIAL notes BARNZ still prefers its own forecast of 1.98% but believes a fair compromise has been reached. In any event, the outcome of a different approach would be NPV neutral over time. WIAL retained its CPI forecast of 1.5% for PSE4. ***3. Extent to Which the Forecasts are Used to Determine the Total Revenue Requirement*** An allowance for CPI is provided in inputs to the building block model as follows: • As an annual cost escalation allowance for operating expenditure and non pricing lease revenues where no allowance has been made for expected rent reviews; and • To calculate annual forecast revaluations included in the rolled forward asset base, and in regulated income. ***4. Differences between Preparation of the Forecast Revaluations Adopted for Price Consultation and Information Disclosure for the Year Ended 31 March 2019*** WIAL's approach of including forecast revaluations, utilising forecast CPI, in regulated income is consistent with the ID Determination requirements for annual information disclosures.
Clause 2.5(1)(c)(vii) Other Factors	There are no forecast other factors.
Clause 2.5(1)(d)-(e) Carry Forward Adjustments	***Opening Carry Forward Adjustments*** WIAL has included two opening carry forward adjustments, which are both related to the pricing asset base only, and arise from asset revaluations.

Determination Reference	WIAL Comment

1. *Historic revaluation shortfall since the start of the ID regime*

WIAL has a historic revaluation shortfall since the commencement of the Annual Disclosure regime. The shortfall resulted from the differences between WIAL's forecast real revaluations in prior pricing periods and the actual real revaluation outcomes.

WIAL's approach, and calculations, were reviewed by independent economists Sapere Research Group to achieve independent confirmation that the approach proposed by WIAL was appropriate and consistent with the Commission's IMs.

The cumulative revaluation shortfall calculated was $36.5 million for the total RAB, and$33.6 million for the pricing asset base. As set out below the IMs allow the shortfall to be included as an opening carry forward adjustment for PSE4.

Calculation of the carry forward adjustment was derived from the revaluation approaches and assumptions that were undertaken by WIAL in the relevant pricing periods. WIAL included forecast revaluations as income in its building block models for the pricing periods that have applied since the commencement of the ID Regime.

The following table summarises the valuation asset valuation methodologies, and revaluation and CPI forecasts applied in WIAL's building block models for the three pricing periods since commencement of the ID Regime.

Pricing Period	Asset Valuation Methodologies	Asset Revaluation Forecasts	CPI Forecast
PSE1 – 1 July 2007 to 31 March 2012	• Land at MVEU (zonal approach) • Buildings and civil works at ODRC	• Land 2.5% pa • Buildings and civil works 5% pa	2.5% pa
PSE2 – 1 April 2012 to 31 May 2014	• Land at MVEU (MVAU + holding costs approach) • Buildings and civil works at ODRC	• Land 2.5% pa • Buildings and civil works 2.5% pa	2.5% pa
PSE3 – 1 June 2014 to 31 March 2019	• Land at MVAU • Building and civil works at IM compliant roll forward	• At CPI	Y/E 2015 2.02% Y/E 2016 2.50% Y/E 2017 2.32% Y/E 2018 2.00% Y/E 2019 1.80%

Determination Reference	WIAL Comment

Several steps were required to calculate the historical revaluation carry forward adjustment. The steps needed to be considered separately for land and other regulated assets, as shown in the table below.

Step		Land
	Name of Carry Forward Adjustment	Default revaluation gain/loss adjustment
1	Establish asset base to be adopted for calculation.	WIAL utilised different asset valuation methodologies for the pricing periods that have applied since commencement of the new ID Regime. Land was valued at market value existing use for PSE1 and PSE2, with WIAL reverting to the IM compliant market value alternative use methodology for PSE3. Other assets were valued at optimised depreciation replacement cost, which formed the basis for the commencing IM compliant asset base in 2009, and consequently the valuations for these assets were materially consistent with the IM for PSE 1 & 2, while the IM compliant values were adopted for PSE3. In establishing the revaluation carry forward WIAL has used the IM compliant asset bases reported in the annual information disclosures, with separate outcomes calculated for the total RAB and pricing asset bases.
2	Establish forecast revaluation rates from price setting	Calculation of the revaluation adjustment requires reference to: • WIAL's nominal (or total) forecast revaluation rates in price setting • WIAL's forecast CPI rates in price setting
3	Identify actual real revaluations	The actual CPI rates applied for indexed revaluations and the adjustments to the MVAU valuation are disclosed in WIAL's annual disclosures
4	Calculate forecast revaluations	These have been calculated by multiplying the IM compliant asset bases from step 1 and the forecast revaluation rates from step 2.
5	Calculation of real valuation variances	The real revaluation variances are then calculated as the difference between the total forecast revaluations from step 4 and the actual revaluations from step 3.
6	Allow for the time value of	The real revaluation variances from the steps above must then be

Determination Reference	WIAL Comment

	money	indexed to the commencement of the new pricing period PSE4 ie 1 April 2019. Economic advice received by WIAL from Sapere proposes that this indexation should occur at the cost of debt applying at the commencement of each pricing period.
7	Allocation to pricing assets	The revaluation carry forward calculation is initially performed for all regulated assets, and then replicated for pricing assets only. The allocation methodology to establish the pricing asset base is consistent with the allocation approaches WIAL has used for pricing and information disclosures and has been consistently applied by , over a long period of time.

2. Increase in MVAU Valuation at 1 April 2019

The updated 2019 land valuation resulted in a large uplift in land values, with the last revaluation undertaken on 1 April 2019. WIAL applied the updated land value in accordance with the IM, and included the valuation uplift as a carry forward adjustment in the pricing calculations for PSE4.

The carry forward adjustment (which excludes assets held for future) was calculated as follows:

	Total Regulated Asset Base $000	Pricing Asset Base $000
2019 annual disclosures land valuation	125,045	116,268
2019 updated MVAU valuation plus Value of WANT properties	171,208	158,841
Uplift in Land Value Effective Commencement of PSE4	**46,163**	**42,574**

3. Allocation of net carry forward adjustment to customers

Net Carry Forward

As advised above, in accordance with the IM WIAL proposes to allocate the MVAU revaluation gain to consumers while also recognising the carry forward allowance for the historical revaluation deficit.

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	In combination the total asset revaluation carry forwards at the start of PSE4 therefore comprise:

	Total Regulated Asset Base $000	Pricing Asset Base $000
Uplift in Land Value Effective Commencement of PSE4	46,163	42,574
Historic revaluation shortfall	(36,450)	(33,640)
Net Revaluation Carry Forward Adjustments	**9,713**	**8,934**

Note: The pricing asset base carry forward was subsequently increased to $9.224 million due to an issue raised by BARNZ. Further comment is provided below.

Allocation of Carry Forward Adjustments

WIAL considered that allocating revaluation adjustments to consumers over single time periods would be disadvantageous for WIAL or consumers depending on whether it was a revaluation surplus or deficit to be recognised.

This is because revaluations, and the related carry forward adjustments, impact on required revenue over multiple periods and consequently there is an imbalance in a single pricing period. This was illustrated in the following hypothetical example, included in the IPP, which shows:

- Sharing of revaluation gains reduces cash income in the periods the gains are allocated to consumers.
- The compensating benefit for airports (from sharing a gain), is not received until the pricing periods after the gain has been fully allocated.
- Spreading the gains (or losses) over more than one period mitigates the short term impact on required revenue, and reduces the likelihood of volatility in pricing from a short term approach.

Determination Reference	WIAL Comment

Summary of Nominal Cash Flows

		Required Revenues Spread Over			
		Pricing Period 1		Pricing Period 2	
	Key Inputs	Annual	For Period	Annual	For Period
Starting Asset Base	$200,000				
Potential MVAU Uplift	$10,000				
WACC	5%				
Illustration 1: No Revaluation		$10,000	$50,000	$10,000	$50,000
Illustration 2: MVAU Land Revaluation - Revaluation Gain Allocated in One Pricing Period		$8,195	$40,978	$10,505	$52,526
Illustration 3: MVAU Land Revaluation - Revaluation Gain Allocated in Two Pricing Periods		$9,127	$45,635	$9,237	$46,186

WIAL therefore proposes to allocate the total revaluation adjustment to consumers evenly over two pricing periods.

4. Substantial Customer Views on Opening Carry Forward Adjustments

The airlines were supportive of WIAL's approaches for the uplift from the 2019 MVAU revaluation, and treatment of the historic revaluation deficit, because these approaches were consistent with the IM's.

However, there were several queries in respect of the calculation of the historic deficit.

- Air NZ commented that WIAL's calculation should exclude a share of the shortfall that resulted from WIAL's changing its land valuation methodology from MVEU to MVAU in 2014.

  WIAL provided further explanation to Air NZ demonstrating that WIAL's calculation had already allowed for the change in

Determination Reference	WIAL Comment
	methodology and was therefore correct. • Air NZ also advised that their adviser *"TDB disagreed with WIAL's advisor, Sapere, that the present value adjustment to carry forward items should be adjusted forward at a pre-tax cost of debt, preferring instead an escalation using CPI"*. WIAL responded that the approach recommended to it by Sapere was consistent with the approach applied by the Commerce Commission and with the IM's, and therefore WIAL would retain its methodology. • BARNZ in their response to the RPP raised a technical issue in respect of depreciation on the non-land assets included in the calculation. WIAL accepted the BARNZ feedback and, in consultation with BARNZ, provided an adjustment for depreciation which amended the carry forward amounts. Note: This adjustment resulted in the carry forward for the pricing asset base increased from $8.934m, advised in the IPP and noted above, to $9.224m showing in schedules 18 and 19. • BARNZ, and latterly Air NZ, indicated that they would prefer that the revaluation adjustment was all allocated to PSE4. WIAL advised that it would retain its approach to spread the adjustment over two pricing periods. ***Closing Carry Forward Adjustments*** WIAL also included two closing carry forward adjustments for PSE4. ***1. Remainder of Net Revaluation Carry Forward Adjustment*** The comments above explain why this adjustment has been allocated over two pricing periods. ***2. Revenue Concession and Mechanism for Revenue Deferral*** WIAL adopted a concessionary price path for PSE4 that results in an average price per customer of $15 in 2024, compared to an average of $16.63 in 2024 with no concession. WIAL considered the concession provided a reasonable outcome for airlines, aiming to mitigate price increases at this time. WIAL has allocated the earnings deficit, between its nominal PSE4 revenue and concessionary revenue, as a closing carry forward adjustment. The carry forward of $15.1m is the value of the deficit as at the end of PSE4. This is shown in the IRR

Determination Reference	WIAL Comment
	calculations included in the ID schedules 18 and 19 and explained further below. Exclusion of the deficit as a carry forward adjustment in the IRR calculation for PSE4 reduces the return, on WIAL's pricing asset base, achieved for the period from WIAL's target return for PSE4 of 5.93% to 5.43%. ***3. Appropriateness of the Carry Forward Adjustment*** Each of the carry forward adjustments represent deferral of risk share arrangements from PSE4. The comments above explain why the deferred transactions are appropriate and included as closing carry forward adjustments. It is intended that both of the carry forward adjustments will be extinguished in PSE5. ***4. Substantial Customer Views on Closing Carry Forward Adjustments*** Air NZ welcomed WIAL's proposal of the alternative concessionary price path and noted that the adjustment could be mitigated with updates to forecast passengers and introduction of a risk sharing arrangement for variations from forecast passenger numbers. BARNZ and Qantas did not specifically disagree with WIAL's proposed mechanism for revenue deferral, but believed WIAL should reduce its revenue target (including the deferred amount) in response to Covid-19 and financial pressure on airlines. ***5. Passenger Risk Sharing Adjustments (including airline comment)*** During consultation it was noted that forecasting passenger numbers in the current environment was particularly challenging. As a result, Air NZ proposed the following constructive solution: *"Noting the inherent uncertainty in forecasting, and particularly in the current circumstances, Air NZ considers there would be value in adopting a risk sharing mechanism in respect of passenger forecasts over the remainder of PSE4, where actual passenger revenue - based on actual passenger numbers - is used to calculate the revenue shortfall carry forward adjustment at the end of the period, rather than the forecast shortfall, as per the Proposal. With such a mechanism in place, WIAL would achieve a guaranteed full recovery over PSE4, including for the period impacted directly by COVID-19 (unlike other players in the sector), and the lower charges over PSE4 and PSE5 (assuming the recovery is faster than WIAL is forecasting) would enable Air NZ to maintain lower fares over the period."* WIAL sought feedback on the Air NZ proposal from other airlines on 19 February 2021. BARNZ supported the proposal. Qantas did not provide a view. WIAL decided to adopt Air NZ's suggestion and calculate the carry- forward into PSE5 based on actual passengers in the remaining years of this regulatory period. In combination with the approach to FY21 prices that we notified to airlines in March

Determination Reference	WIAL Comment
	2020, WIAL's aeronautical revenue for the period from 1 April 2020 to 31 March 2024 will be based on actual passenger numbers rather than forecast passenger numbers. This is an appropriate response to the unique challenge of setting prices in the face of the COVID-19 pandemic. The impact of this arrangement will not be quantifiable until actual passenger numbers are known at the end of PSE4.
Clause 2.5(1)(f) Cash Flow Timing	WIAL has applied the default cash flow timing prescribed in the ID Determination.
Clause 2.5(1)(g) Forecast Post Tax IRR	Refer to comments above on clauses 2.5(a)(i) and (ii).
Clause 2.5(1)(h)-(i) Post Tax WACC	Refer to comments above on clauses 2.5(a)(i) and (ii), clause 2.5(1)(c)(ii).
Clause 2.5(1)(j) Valuation of Forecast Asset Base	The asset valuation methodologies adopted by WIAL for pricing purposes are consistent with the Commission's Asset Valuation IM. Comments on WIAL's methodologies are provided above in respect of clause 2.5(1)(c)(i). The most recent MVAU land valuation was applied by WIAL with effect from 1 April 2019, the commencement of PSE4. The report prepared by Savills NZ, including the supporting market analysis and land planning advice, was published with WIAL's annual disclosure for the year ended 31 March 2020, and is available on WIAL's website at www.wellingtonairport.co.nz/business/investor-services/regulatory-disclosures/
Clause 2.5(1)(k) Assets Held for Future Use Charges	There are no charges for Assets Held for Future Use.
Clause 2.5(1)(l) Forecast Capital Expenditure by Category and Key Projects	***1. Consultation on Forecast Capital Expenditure*** WIAL engaged in considerable levels of consultation with airline customers for PSE4. Originally, pricing consultation was extended for six and then twelve months to enable WIAL to fully develop its 2040 Masterplan in consultation with airlines and

Determination Reference	WIAL Comment
	other stakeholders. This consultation had reached completion, and the Masterplan was supported by all airlines though Qantas supported further initiatives to keep costs to a minimum. However, immediately prior to determining prices for PSE4, Covid-19 struck and it became very clear WIAL would be required to amend its capital expenditure plan for PSE4 and focus on essential capital expenditure and maintenance rather than growth projects. This was due to both reductions in passenger growth, which deferred requirements for apron and terminal expansion; and a desire to minimise costs to both airlines and WIAL as the aviation industry grappled with the pandemic. WIAL proposed to reconsider its capex forecasts and issue a capex reset in March 2021, along with a reset of passenger forecasts. Airlines agreed with this approach. Air NZ and BARNZ agree with WIAL's final capital expenditure forecast, which reduced capital expenditure from $541.6m to a revised PSE4 forecast of $298.5m. Air NZ stated that the forecast "was appropriate for the current and forecast operating environment". Qantas raised further questions regarding particular capital expenditure projects, which WIAL answered in pricing consultation. ***2. WIAL's Forecast Capital Expenditure*** WIAL has forecast aeronautical capital expenditure of $330.6m for the Pricing Period. WIAL's forecast is summarised as follows: **PSE4 Nominal $m** / **PSE5 Nominal $m** / **Total Nominal $m** Operational and renewal capex: 107.0 / 88.6 / 195.6 Capex projects (detailed in schedule 18): 223.6 / 553.1 / 776.7 **Total: 330.6 / 641.7 / 972.3** Detailed comments on each of the key projects are provided in Appendix B including outlining the disclosure requirements required by clauses 2.5(1)(l) and (m). ***3. Transfers of Land from WIAL Commercial Land Holdings*** The construction of the 8MPPA Terminal and apron developments (described in Appendix B) will require WIAL to reallocate land currently used for commercial activities to the RAB. This land includes:

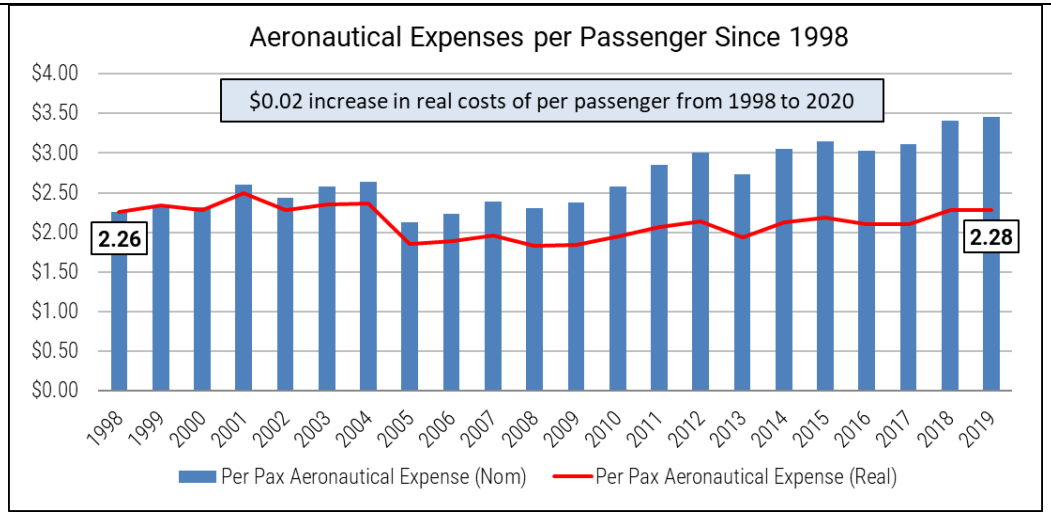
Determination Reference	WIAL Comment
	• Car parking land for terminal development project - $4.35 million in 2020 • Car parking land for apron development - $2.46 million in 2022 • Leased land for apron development - $2.92 million in 2022 WIAL's capex forecast for regulated activities assumes the transfer of this land at its current commercial value, which is represented by a MVEU plus the actual cost of civil development in WIAL's financial records. WIAL appreciates that this treatment is not consistent with the IMs which require that this land be transferred at an MVAU valuation. WIAL however considers that the IM approach should be amended because it: • Disincentivises regulated airports to grow by repurposing their commercial land holdings to regulated activities because the MVAU valuation is lower than the airport's MVEU carrying value; • Is inconsistent with the IM provision for purchases of third party land which are purchased at the value of their existing use with this value recognised in the RAB; and • Could create a perverse incentive for airports, such as to sell land to third parties and then repurchase as a third party transaction. WIAL expressed its concern to the Commerce Commission who acknowledged that it is an issue that requires further consideration. WIAL considers that an appropriate valuation alternative for land transfers to the RAB should be MVEU, plus expected cost of relocating and reinstating the commercial activities. Both BARNZ and Air NZ disagreed with WIAL's proposal and responded that the land should be included in the RAB at its MVAU valuation to comply with the IMs. WIAL noted in the RPP that the impact of this issue on pricing was minor and therefore retained its proposed approach.

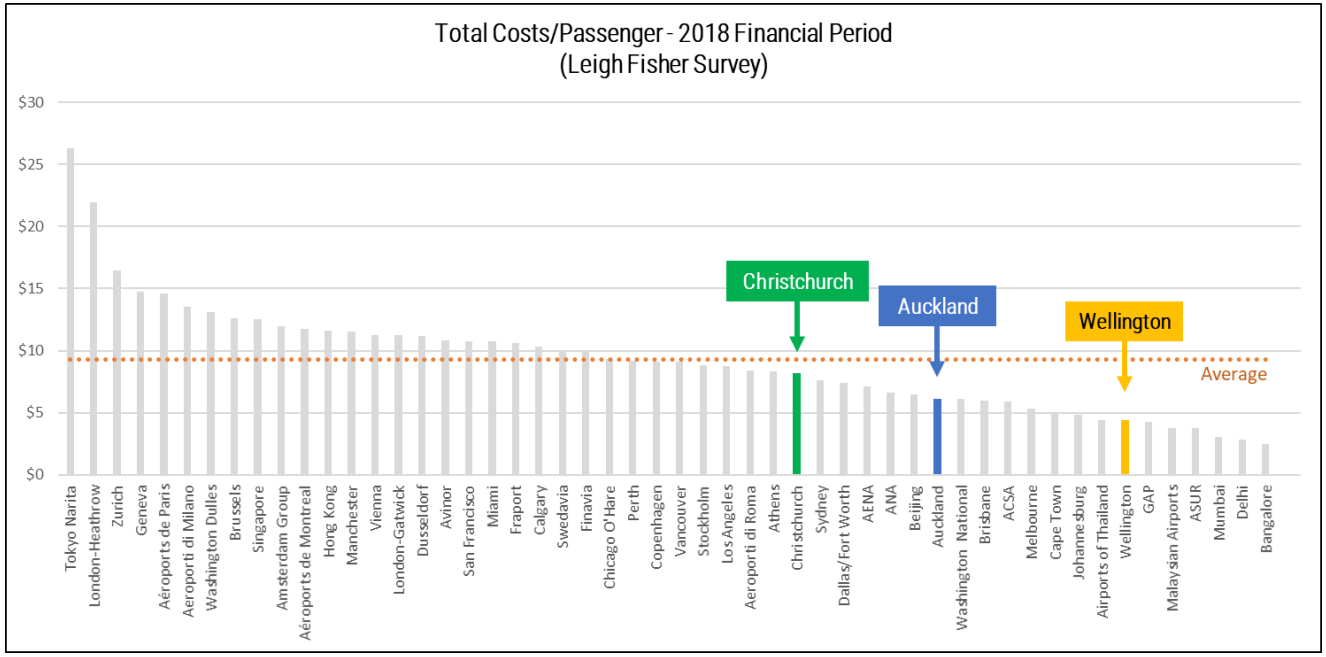
Determination Reference	WIAL Comment

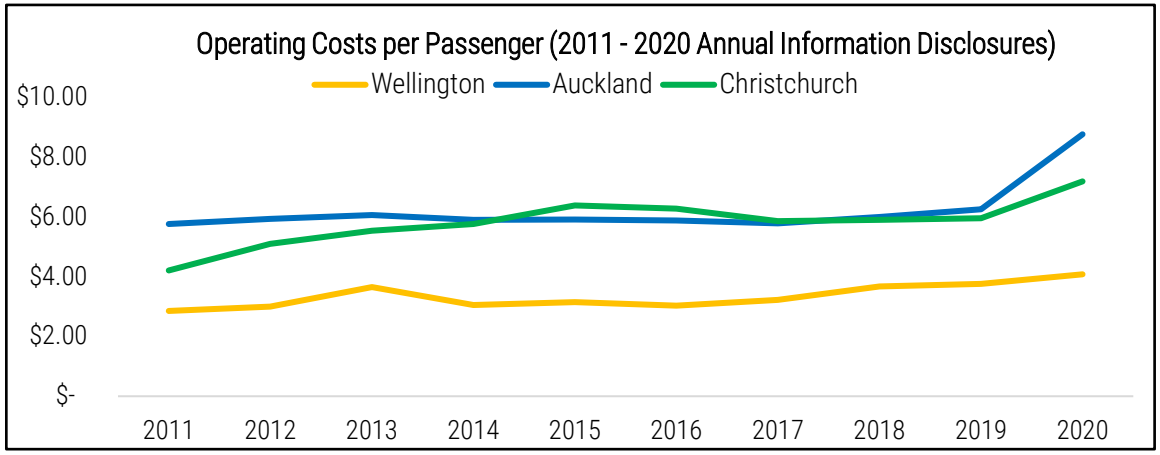
	4. Airfield Lighting SPC Mechanism
	
	WIAL understands Airways NZ is looking to divest itself of airfield lighting assets, and transferring responsibility for providing airfield lighting services to airports. This includes airfield approach and runway lighting, inground wiring, data cabling, power distribution centres, runway marking, windsocks, stock and spares.
	
	WIAL does not yet have a verified estimate of the book value of these assets or their ongoing maintenance costs, and is unable to include an accurate cost estimate at this stage. If this matter progresses, WIAL proposed a Specific Project Charge to recover the costs associated with airfield lighting assets, as follows.
	
	Airfield lighting costs are the only item currently identified for possible inclusion as a Specific Project Charge in PSE4. However, other projects that may be included are:
	
	• Projects requested by airlines that were not advised to WIAL during consultation; and/or
	• Projects required due to changes in regulatory requirements (e.g. security or safety requirements).
	
	Price adjustment mechanism
	
	• Mechanism to apply the building block approach with a return on SPC projects of NPV=0.
	• WACC for SPC projects to be the same as the target Rate of Return set during the most recent price reset consultation i.e. in this instance as set for PSE4. This applies for any SPC project in PSE4 and hence WIAL bears the risk of any movement in WACC during PSE4.
	• Other items to be included in pricing calculation to be considered (e.g. depreciation, revaluations, life of asset, allocation, changes in operating costs, changes in forecast passenger numbers)
	• At the next price reset the SPC project would become part of the aeronautical asset base
	
	Consultation on projects
	
	• WIAL to undertake consultation with substantial customers for SPC projects demonstrating matters such as:
	  ○ Demand requirements
	  ○ Service quality and performance requirements

Determination Reference	WIAL Comment
	○ Project design; and ○ Project costing • In common with other capex consultation airlines would have the option to comment on the efficiency of project costs **Adjustment of base prices** • Undertaken in accordance with established price adjustment mechanism
Clause 2.5(1)(m) Future Key Capital Expenditure Projects	The key capital expenditure projects forecast for the Pricing Period are explained in detail in Appendix B.
Clause 2.5(1)(n) Assumptions or Justifications for Forecast Operational Expenditure by Category	***1. Justification of Operating Expenditure: Pricing Activities*** **Assessment Approach** The Commerce Commission commented in its s56G report for WIAL that operational efficiency can be evidenced in two ways. Namely by the maintenance of quality of service with a reduction in costs, or alternatively an increase in quality of service for no additional operating costs. WIAL considered the justification of its forecast expenditure by analysing the historic accuracy of forecasts, real cost changes over time, and by comparing costs and service quality with other airports. **Forecasting Accuracy** WIAL's actual costs have historically been consistent with forecasts, supporting the robustness of forecasting methods. For the most recently completed pricing period, PSE3, WIAL incurred $100.6 million in operating costs which was within 2.0% or $2.0m of forecast. **WIAL's Growth Context** In response to growing passenger numbers, WIAL has expanded terminal infrastructure and operations over time. Significant changes to WIAL's facilities in the past decade have included:

Determination Reference	WIAL Comment
	• Expansion of the terminal with the new Rock terminal which opened in 2010; • Expansion of the baggage handling system and redesign of the apron layout to accommodate the introduction domestically of A320 aircraft by both Air NZ and Jetstar; • Redevelopment of the international passenger arrival areas in the North Pier; and • Most significantly, extension of the main terminal to the south which was completed in PSE3. With a growing asset base there is generally also a corresponding increase in associated costs for maintenance, cleaning, energy and other consumable costs driven by new infrastructure. In addition, the aviation industry and airports have faced ever increasing compliance costs. This includes development of health and safety, operational compliance and economic regulation requirements. WIAL is extremely focused on its health and safety responsibilities, and with ever increasing requirements this area will require ongoing focus. With respect to its operational compliance, in recent years WIAL has needed to undertake a review of, and adopt enhancements in relation to, CAR139 and ICAO Annex 14 as well as its own Safety Management Systems and disaster recovery plans. With regard to Commerce Act and economic regulation requirements, recent years have seen the ongoing development and implementation of the new ID regime. **Long-Term Cost Performance** WIAL's costs per passenger at the end of PSE3 (2019) were only $0.02 higher than 1998 in real terms. This was achieved despite the growth factors described above plus substantial cost pressures from insurance issues and local authority rates in particular.

Determination Reference	WIAL Comment
	 **Comparison to Other Airports** WIAL's costs are also low by comparison to other airports in both Australasia and worldwide. WIAL recognises that any analysis of charges needs to be treated with caution due to the impacts of factors, such as the differing mix of international and domestic passengers and the nature of services provided. For instance, in Australia security and baggage handling services are typically undertaken by the airports, whereas in New Zealand these are undertaken by Government agencies and the airlines respectively. By contrast, in New Zealand airports employ the fire crew, whilst in Australia this is not the case. Notwithstanding these considerations, WIAL's costs compare extremely favorably to other airports. A survey on international airport operating costs undertaken by Leigh Fisher (2018 financial period) showed that, on a per passenger basis, NZ airports were at the lower end of airports globally.

Determination Reference	WIAL Comment
	 The Annual Information Disclosures published by Wellington, Auckland and Christchurch International Airports also show WIAL has had the lowest cost per passenger within New Zealand.

Determination Reference	WIAL Comment
	 *In the above chart Auckland Airport's 2020 costs have been adjusted to exclude $69.6m project write-offs*. **Service Quality** Importantly, WIAL's cost efficiency has been achieved while maintaining a high level of service quality, as evidenced by consistently high customer survey scores. WIAL's Airport Service Quality scores for both domestic and international services have averaged above 4 (out of 5 since) the ID regime began. A score of 4.3 has been maintained for the past 3 years, being the 3rd highest score in Australasia and mid-range in the worldwide peer group of airports with 5 to 15 million passengers per annum. Over the 10-years of Annual Information Disclosures, WIAL has reported a total of 80 on-time departure interruptions averaging 26.1 minutes in duration. Given that WIAL has had over 423,000 aircraft departures in that period, this is a strong indicator that the airport provides reliable assets and services. ***2. Justification of Operating Expenditure: Leased Aeronautical Facilities*** These costs comprise expenses incurred by WIAL to administer and maintain premises leased to airlines and other parties for the provision of specified airport services. The costs are not recovered through the aeronautical pricing mechanism and rental revenues are established through commercial negotiation with tenants.

Determination Reference	WIAL Comment
	3. Justification of Operating Expenditure: Noise Mitigation Activities These costs are essential, as the Wellington City Council District Plan requires Wellington Airport to manage its noise levels responsibly to limit the impact on its surrounding community.
Clause 2.5(1)(o) Total Financial Incentives	There are no forecast financial incentives for PSE4.
Clause 2.5(1)(p) Non Standard Depreciation	***1. Description of the Non-Standard Depreciation Methodology*** WIAL commissioned an updated valuation of its buildings for financial reporting in respect of the year ended 31 March 2018. In undertaking the valuation, Savills also undertook a review of the asset lives used to depreciate assets in WIAL's asset register, and the RAB, to ensure these continue to reflect reasonable expectations for future asset use. Savills recommended changes to the remaining asset lives being applied by WIAL. WIAL has adopted the revised asset lives recommended by Savills in its financial reporting to ensure that the depreciation recovery of the remaining asset values occurs over the actual expected lives of assets, and therefore asset stranding, with short term lump sum recovery of remaining depreciation, is avoided. These changes have been similarly updated to WIAL's regulatory assets. These changes were provided to airlines in WIAL's pricing documents with no adverse feedback. ***2. An Explanation of How the Non-Standard Depreciation is NPV Neutral*** Changing the expected life of RAB assets will retain the recovery of the NPV over the life of the specified assets because any change in the required revenue from the change in the time profile for depreciation will be offset by a change in the return required on remaining value of the assets. For example, an increase in depreciation will result in an increase in required revenue, but this will be offset by a reduction in required revenue to compensate for the lower return on assets from a reduced asset base.

3. *Comment on How the Non-Standard Depreciation is Consistent with Section 52A of the Act*

Clause 3.4(5) of the IM provides that *"non-standard depreciation may be applied at the time of a price setting event if the results of the non-standard approach are consistent with the airport's time profile of capital recovery, and the airport can explain why the non-standard approach is consistent with the purpose in s52A."*

The review of the asset deprecation lives meets these requirements because:

- The revised depreciation lives reflect updated expectations for asset use and the forecast asset cost recovery will be over the period that the assets are used and will be limited to recovery of IM compliant asset values; and
- Section 52A requires WIAL to consider the long-term interests of consumers and in particular "to have incentives to innovate and to invest, including in replacement, upgraded, and new assets". The revised depreciation assumptions, while enabling WIAL to more efficiently recover the cost of existing assets, also provide further incentive to WIAL to invest in the new assets required to meet capacity or demand requirements identified in WIAL's capital planning.

4. *Illustration of the Change in Depreciation for a 10 Year Period*

Buildings

WIAL reviewed the expected useful lives of its buildings to consider:

- The implications of the development plan for existing buildings, and where current buildings may be demolished.
- The updated assessment of useful lives from Savills building asset valuation, which was undertaken for the 2018 financial reporting year.

Consequently, WIAL assumed that the following buildings will be demolished in either PSE4 or PSE5.

Determination Reference	WIAL Comment

Building	Demolish by End of Period	Comment
Airport Fire Station	PSE4	Current building nearing end of life and current building site impacts on taxiway compliance.
Old Ansett Terminal Component of North Pier	PSE5	This building has a low earthquake compliance rating and is not suitable for long term use.
International Ramp Component of North Pier	PSE5	Removal of this section of the building at the end of the North Pier will enhance taxiway compliance.
Former Regional Lounge Area in South West Pier	PSE5	Removal of this section of the building at the end of the South West Pier will enhance taxiway compliance.
South Pier	PSE5	This is the site for the new terminal development proposed in the updated Master Plan.

A summary of the impact of the amended building asset lives on WIAL 's forecast annual depreciation is:

	Existing Forecast Annual Depreciation	Revised Forecast Annual Depreciation
Buildings expected to be demolished	$584	$1,000
Buildings with revised economic lives recommended by Savills	$2,531	$3,301
Total	**$3,115**	**$4,301**

The airlines did not provide any comments in respect of the changes to the building depreciation lives during consultation.

Baggage Handling System

The capital expenditure forecast provides for the replacement of the Baggage Handling System (BHS), with commissioning anticipated in the 2022 forecast year. The southern baggage belt predominantly used by Air NZ will be

Determination Reference	WIAL Comment
	reused but otherwise the entire system will be replaced. The prevailing remaining life for the BHS assets that will be replaced is 6 years including 2019. This needs to be shortened to three years to recognise introduction of the new system. Amending the asset lives will result in an increase in annual depreciation for the BHS assets from $170,000 per annum to $310,000 per annum until 2022. The impact of the change will not be material as the total net increased depreciation in PSE4 will be $75,000, with an equivalent reduction in forecast depreciation for PSE5.
Clause 2.5(1)(q) Standard Depreciation	WIAL has applied a standard depreciation approach for all assets not referred to in the above comments on non-standard depreciation. WIAL's standard approach for all other assets in the RAB is therefore: **For Existing Assets** WIAL has calculated forecast depreciation for each year of PSE4 using the RAB file for its 2019 annual information disclosures. Depreciation for each asset has been calculated in the manner required by the Commission's asset valuation IM with standard depreciation assumptions for each asset consistent with those used for WIAL's annual disclosures. **For Capital Additions** Assets are depreciated from the date assets are forecast to be commissioned. Depreciation for new assets is calculated in the building block model and determined from: • WIAL's capital expenditure forecast which provides details of the types of assets (e.g. civil works, buildings, plant and equipment) that are to be commissioned and expected timing for project completions; • WIAL's assessment of appropriate depreciation rates for each project. Depreciation rates applied by WIAL to asset additions are summarized earlier in these disclosures, under the section "Clause 2.5(1)(c)(iv) Forecast Depreciation".

<table>
<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
<tr><td>Clause 2.5(1)(r) Forecast Revaluations</td><td>Refer to Schedules 18 and 19.</td></tr>
<tr><td>Clause 2.5(1)(s) Forecast CPI</td><td>Refer to Schedules 18 and 19. Comments on WIAL's approach to determining a CPI forecast for PSE4 is detailed in the comments above on clause 2.5(1)(c)(vi).</td></tr>
<tr><td>Clause 2.5(1)(t) Alternative Methodology with Equivalent Effect</td><td>WIAL's valuation methodologies are consistent with the IM, and consequently this clause is not applicable to WIAL.</td></tr>
<tr><td>Clause 2.5(1)(u) Services not Included in Price Setting Event</td><td>
1. Description of the Service
WIAL leases land and facilities to airlines and other parties providing services that are incorporated in the definition of specified airport services. WIAL negotiates rental agreements with individual tenants and the revenues and costs for leased property are excluded from the price setting event to set aeronautical charges.

2. Forecast Revenue
<table>
<tr><th>$000</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th></tr>
<tr><td>Annual Revenue from Leased Properties</td><td>4,607</td><td>4,592</td><td>4,907</td><td>4,773</td><td>8,110</td></tr>
</table>
3. Reference to Any Price Setting Event that the Service has been Applicable
Negotiation of commercial lease terms is undertaken individually with the property tenants. WIAL has forecast rentals for over 30 commercial tenants with some of these having multiple tenancies.

The timing of the negotiations for individual leases is determined by the terms of the lease arrangements.
</td></tr>
<tr><td>Clause 2.5(2) WACC Percentile Equivalents</td><td>Disclosed at schedule 18(v).</td></tr>
</table>

Determination Reference	WIAL Comment
Clause 2.5(3)(a) Summary of Pricing Methodology for Price Setting Event	Determination of aeronautical prices was undertaken in two parts. Firstly, determination of required revenue for the Pricing Period that would achieve WIAL's target return. Secondly, specific prices were developed which would be economically efficient. Both parts were put together with substantial customers and expert advisor input through the consultation process and by commercial concessions intended to encourage airline support, to reflect past practices and the on-going evolution of the regulatory environment. ***1. Determination of Required Revenue*** WIAL applied the building block methodology to establish the pricing revenue required to achieve WIAL's target return. A summary of the outcomes from WIAL's building block model, presented in the regulated ID format illustrating IRR outcomes, for the Pricing Period is shown in the comments in respect of clause 2.5(1)(a)(i) above. The assumptions applied by WIAL in determining its building block components, are detailed in the information required by clause 2.5(1)(c) above. ***2. Pricing Methodology for Airfield and Specified Terminal Activities*** The pricing methodology for PSE4 has considered previous feedback from the Commission, and views from airlines based on discussions throughout the current pricing period. The components of the price structure are described below. <u>Price Structure Simplification</u> Airline feedback featured a view that a simplification of the price structure would be welcomed. WIAL has converted airfield and terminal charges into a per passenger charge. <u>Exempt Passengers</u> The price structure exempts infants (under 2 years old), transit passengers (those travelling on the same aircraft without leaving the lounge), positioning crew, and diverted international passengers (not processed by customs). The volume of exempts totals around 1.3% of the domestic and 1.2% of all international passengers; the PSE4 forecasts assume these proportions remain unchanged.

Determination Reference	WIAL Comment
	Transfer Passengers WIAL was interested in airline views of the merits of incorporating discounts or exemptions for transfer passengers, the definition of transfer passengers (within airline, between airlines, timeframe between connecting flights), and the ability of airlines to be able to provide accurate counts of transfer volumes for charging purposes. Accurate information regarding the transfer volumes is still not visible to WIAL and therefore Transfer discounts have not been adopted in PSE4. Peak Pricing The introduction of peak pricing has supported a reduction in movements during the peak (to the shoulder) and an upgauging of aircraft, resulting in more efficient use of the runway. The Commence Commission in their review of Wellington Airport's pricing was notably supportive of the peak pricing mechanism. WIAL has retained the current definition of the peak time period, being 07:45-08:45 and 18:15-19:15 weekdays, and the shoulder time period applying 30 minutes either side of the peak. WIAL has continued the application of increased charges during the peak but with a simplified price structure calculated on a per movement basis (replacing the current mix of MCTOW and movement charge). The charge is fixed throughout PSE4 at $20.00 during the peak and $10.00 during the shoulder. With no relative increase in peak pricing proposed, the forecast assumes the current proportions of peak, shoulder and off peak flying remain unchanged over PSE4. For unscheduled movements, the peak charge is proposed to equal a MCTOW charge consistent with a scheduled aircraft of the same MCTOW (assuming 80% load factor), while general aviation (aircraft less than two tonnes) will face a higher fixed charge. Parking WIAL has retained free parking during off-peak and when airlines operate reasonable turn times (60 mins for domestic, 120 mins for international/unscheduled), encouraging the efficient use of apron space during the peak (06:00-10:00 and 16:00-20:00 weekdays). Charges per (part) hour were set based on FY19 values escalated by CPI over PSE4.

Determination Reference	WIAL Comment
	Incentive Arrangements Given the possible material & uncertain impact of Covid-19 on domestic and international passenger volumes and the resulting revenue shortfall carry forward adjustment, the published growth incentive programme will not continue for the remainder of PSE4. However, WIAL expects to enter into commercial incentive agreements with some airlines to support the recovery of passenger demand. These agreements have previously included both financial and non-financial incentives, the value of which cannot be reliably forecast due to dependency on commercial negotiations. These incentives are treated as a commercial (non-regulated) expense and are excluded from the determination of airline pricing. Pricing Methodology for Noise Mitigation Activity WIAL has established a separate company, WANT Limited, to administer WIAL's noise mitigation obligations. Separation of this activity allows WIAL to use a stand-alone building block model with the revenue required determined in the same manner as for other charges.

Clause 2.5(3)(b)(i) Description of Charged Services	WIAL's charges for scheduled airline operators apply to all relevant services to airlines and passengers. The list of services provided is set out below.
	• Airfield services
	  ○ Runway and taxiways including all entrances and exits.
	  ○ Aprons including parking stands and aircraft maneuvering areas.
	  ○ Airport fire services.
	  ○ Airside safety services.
	  ○ Asset management of airfield services including planning and repairs and maintenance.
	• Terminal services
	  ○ Check-in hall.
	  ○ Landside areas for passengers and visitors.
	  ○ Secure airside areas for passengers following security screening and gate lounges for passengers not requiring security screening.
	  ○ Egresses throughout terminal for arriving and departing passengers.

Determination Reference	WIAL Comment
	○ Baggage collection area and facilities for airlines and Aviation Security Service (Avsec) to process baggage. ○ Terminal systems required for processing or administration of passengers including security, flight display system, public address system, building fire system, closed circuit television system and communication systems. ○ Non-leased facilities required by for the operation of border control services for international passengers. ○ Non-leased facilities required for the operation of security and police services. ○ All building infrastructure to provide passenger utility and comfort including washroom facilities, heating and air conditioning, electricity and lighting. ○ Operations staffing and management to facilitate effective daily operation of the terminal building and interaction with airlines. ○ Asset management of terminal services including planning and repairs and maintenance. • <u>Air bridge services (for jet aircraft only)</u> ○ Use of air bridges for departing and arriving passengers. ○ Asset management of air bridge services including planning and repairs and maintenance. • <u>Corporate costs</u> ○ Company overheads allocated to other activities for corporate functions including executive management, finance, human resources, information technology, property management and marketing and communications. ○ Company management overhead costs such as directors' fees, non-activity attributable insurances and office administration costs. • <u>Noise mitigation activity</u> ○ Specific noise management obligations to be met following the Environment Court proceedings in 1997 and subsequent LUMINS study and consultation undertaken with the airlines, WCC and residents. ○ Charges to aircraft operators that do not provide scheduled passenger services are for the airfield services and noise mitigation activity detailed above together with a share of allocated corporate costs.
Clause 2.5(3)(b)(ii) Relationship between Quality of Service and Cost for	The airport benchmarking analysis provided in the operating expenditure section above (in respect to clause 2.5(1)(n)) shows that WIAL's costs are low by comparison to other airports in both Australasia and worldwide. WIAL also maintains a high level of service quality, as evidenced by consistently high customer survey scores. WIAL's

Determination Reference	WIAL Comment
Each Charged Service	Airport Service Quality scores for both domestic and international services have averaged above 4 (out of 5) since the ID regime began. A score of 4.3 has been maintained for the past 3 years, being the 3rd highest score in Australasia and mid-range in the worldwide peer group of airports with 5 to 15 million passengers per annum. Recently WIAL has paused Airport Service Quality surveys due to Covid-19, but WIAL's internal customer surveys continue to show extremely high levels of customer satisfaction with WIAL's facilities. Over the 10 years of Annual Information Disclosures, WIAL has reported a total of 80 on-time departure interruptions averaging 26.1 minutes in duration. Given that WIAL has had over 423,000 aircraft departures in that period, this is a strong indicator that the airport provides reliable assets and services. WIAL's intention was to set operating cost forecasts for PSE4 which support the high quality of services to airlines and passengers, balanced with cost efficiency and value for money charges.
Clause 2.5(3)(b)(iii) Methodology Used to Allocate Costs to Particular Charged Services	A description of WIAL's asset and cost allocation processes are provided in the comments regarding clauses 2.5(1)(c)(i) and 2.5(1)(c)(iii).
Clause 2.5(3)(b)(iv) Significant Changes to, or Rebalancing of Prices from the Previous Pricing Period	For PSE4 WIAL has simplified its price structure into mainly passenger based charges.
Clause 2.5(3)(b)(v) Methodology for Determining Pricing for Charged	***1. Charges Excluding Noise Mitigation Activity*** The forecast revenue requirement for pricing activities was determined using the building block model described earlier in these disclosures, and the outcome is provided in schedule 19. WIAL has adopted a concessionary price path to provide a reasonable outcome for airlines, aiming to mitigate price

Determination Reference	WIAL Comment
Services and How These Were Reconciled With the Forecast Revenue Requirement	increases at this time. This resulted in PSE4 charges below the forecast revenue requirement. The earnings deficit for the period (being the difference between actual and required revenue) is allocated as a closing carry forward adjustment at the end of PSE4. This is shown in the IRR calculations in schedules 18 and 19. ***2. Charges for Noise Mitigation Activity*** Charges for the noise mitigation activities were determined from a separate building block calculation in order to establish charges to achieve a NPV=0 for the project. Charges were established as follows: ○ From 1 April 2019 to 31 March 2024 – a charge of 32c per passenger (unchanged from previous charges). The level of this charge is the sum required to result in WIAL achieving an NPV=0 over the duration of the noise mitigation project. ***3. Charges for operators of aircraft not carrying passengers or using terminal facilities:*** Fixed charges were determined to apply over the Pricing Period in three aircraft weight categories; aircraft less than 2 tonne, aircraft between 2 and 30 tonne and aircraft over 30 tonne. The charges were determined to be equivalent with those payable by airlines operating scheduled passenger services, thus ensuring that the pricing reconciles to the revenue required.
Clause 2.5(3)(b)(vi) Terminal Access Charges	WIAL has no terminal access charges for the Pricing Period. WIAL's airfield and specified terminal charges are inclusive of the terminal access services and facilities provided by WIAL.
Clause 2.5(3)(c) Explanation of the Extent to Which WIAL Considers the Airport Pricing Methodology Will Lead to Efficient Prices including whether there are	***1. Cross Subsidies*** Cross subsidies arise where a service is priced below marginal cost. Given the high fixed costs and low marginal costs of WIAL's aeronautical business, WIAL considers that it is unlikely that material cross subsidies arise despite the price structure for the Pricing Period not being based on average cost per individual activity. WIAL has responded to airline feedback seeking the simplification of its price structure. The congestion charge element has been retained as: ✈ The allocation of scarce capacity to those who value it most and (care of the NPV=0 rebalancing) lower off-peak charges for airport users likely to be more price sensitive.

Determination Reference	WIAL Comment
any Cross Subsidies	✈ Collecting a greater proportion of fixed costs from services that are less price-sensitive assists overall efficiency by lowering any distortion of demand. WIAL's airline customers were supportive of simplification of PSE4 airline charges.
Clause 2.5(4) Standard Prices	WIAL's Schedule of Charges for the Pricing Period is attached at Appendix C.

Appendix A – Cost Allocation Approaches for the Pricing Period

Cost centre	Cost centre activity	Cost allocation approach/driver
Hangar #12	Property for aircraft and freight services	Aircraft and freight direct costs
Hangar #18	Property for aircraft and freight services	Aircraft and freight direct costs
Executive Jet Hangar	Property for aircraft and freight services	Aircraft and freight direct costs
Western Other	Property with mixed tenancies	Use of shared rental revenues as causal allocator
Hangar #23	Property for aircraft and freight services	Aircraft and freight direct costs
Houses	Residential properties purchased by WIAL	Use of rental revenues as causal allocator
Terminal	Terminal buildings, including all passenger facilities	Use of share of terminal net book value as causal allocator
Fire Station	Building accommodating airport fire service	Airfield direct cost
AGS	Property with mixed tenancies	Use of shared rental revenues as causal allocator
Eastern Other	Properties with mixed tenancies	Use of share of rental revenues as causal allocator
Infrastructure Project Delivery	External costs to maintain WIAL's civil works infrastructure	Airfield direct cost
Airport Operations	Staff and associated facilities costs for staff administering airside safety and terminal facilitation	Estimate of time allocated to aeronautical and non-aeronautical activities as causal allocator
Airport Fire Service	Airport fire service staff and costs	Airfield direct cost
Noise Mitigation	Costs associated with managing WIAL's air noise obligations	Airfield direct cost
Maintenance	Maintenance staff and associated facilities	Share of maintenance expenditure incurred on maintaining facilities as proxy allocator
Corporate Property	Staff and associated facilities costs for staff administering property lease portfolio	Estimate of time allocated to aeronautical and non-aeronautical activities as causal allocator
Marketing	Staff, associated costs, and marketing, airline development and external relations costs	Initial identification of direct costs for each area with shared costs allocated in proportion to estimate of time allocated to aeronautical and non-aeronautical activities as causal allocator
Corporate salaries	Corporate office staff and associated costs for company management functions including HR, finance and IT	Estimate of time and costs allocated to aeronautical and non-aeronautical activities as proxy allocator
Consultation and regulation costs	Costs associated with Airport Authorities Act consultation and Commerce Act ID regime	Allocated to regulated activities based on the proportion of total regulated revenue forecast for each activity

Cost centre	Cost centre activity	Cost allocation approach/driver
Corporate administration costs	Corporate overheads (eg director's fees, audit fees) and administration costs.	Share of all other expenditure allocated to aeronautical and non-aeronautical activities as proxy allocator

Appendix B – Commentary on Key Capital Expenditure Projects for the Pricing Period

INTRODUCTION

This document provides further detail of the major, or "key", capital expenditure projects that are included in WIAL's capital expenditure forecast for PSE4 and PSE5. The ID Determination requires that a capital expenditure forecast is provided for a 10 year period, from the commencement of PSE4. However, only projects commissioned during PSE4 will affect the pricing that was subject to this consultation.

For reference the projects requiring comment are defined as:

> ***"key capital expenditure project** means a current or future project or programme of **capital expenditure** that involves total expenditure of more than $5 million over the life of the project or programme. For the avoidance of doubt, any amount of forecast capital expenditure that is planned to be incurred in a **disclosure year**, must be disclosed in the **disclosure year** it is incurred. For the purpose of this definition, a programme is a group of projects that together contribute to one output (or a set of broadly overlapping outputs). In making disclosures regarding programmes, **airports** must provide details of each individual project that the programme comprises."*

KEY DOCUMENTS AND ADVICE

In the project commentary provided below we also refer to a variety of documents that WIAL has used to inform its planning and consultation processes. These documents demonstrate the extensive material prepared by WIAL, received by WIAL from technical experts or referred to by WIAL in respect of regulatory requirements. The material prepared by WIAL is for public consultation and information, while other technical documents or advice has been used to inform discussions with airlines.

Document	Description
CAR139	Civil Aviation Rule Part 139 - Aerodromes – Certification, Operation and Use
IATA Airport Development Reference Manual, Edition 11.	Airport Development Reference Manual – International Air Transport Association
Airport Service Quality Surveys	Airport surveys conducted by ASQ, benchmarking Wellington Airport against peers in Australia and NZ.
Intervistas report	Passenger and aircraft movement forecast
Airbiz report	International South Expansion (ISE) terminal and apron planning
Xplane report	Report issued by Xplane to WIAL outlining key issues with WIAL's current BHS system, and providing a roadmap for implementation of a new system
CAA letter 09 Feb 2018	Letter from CAA to WIAL advising Notice of Changes impacting infrastructure requirements for Aviation Security

CAA letter 02 October 2020	Revised letter deferring the required rollout of CT screening equipment required to meet ECAC Std3
CAR139.59-67A	CAA rules relating to Aircraft Rescue and Firefighting
Memorandum – Airport Fire Service Site Evaluation	Beca Multi Criteria Analysis of AFS site options
NZ Building Code – clause A3	Documents Building Importance Level requirements
Draft Taxiway Utilisation study	Report by Beca assessing the current capacity of the core parallel taxiway system, and identifying when WIAL should plan for a taxiway system upgrade
Draft trunk utilities Master Plan	Report by Beca evaluating the existing and future trunk utilities capability to accommodate ongoing development at WIAL and assessing potential trunk utility alignment changes and future safeguarding options.
Beca annual pavement maintenance report 2018.	Report compiled following detailed engineering inspection of airfield in late 2018
GHD Peer Review of Beca 2018 Pavement maintenance report	GHD Peer Review of Beca 2018 Annual Pavement maintenance report
NZ Coastal Policy Statement (s27)	The purpose of the New Zealand Coastal Policy Statement (NZCPS) is to state policies in order to achieve the purpose of the Resource Management Act in relation to the coastal environment of New Zealand.
RMA 1991 – sections 6 and 7	Sections outlining Matters of National Importance (s6), and Other Matters (s7)
Beca report – Wellington Airport, Seawalls Repairs and Maintenance.	Report on condition, and asset management strategy recommendations on seawall assets
Draft Aecom Peer review and report.	Peer review report on Beca report – Wellington Airport, Seawalls Repairs and Maintenance.
Draft Airfield Mastergrading study	Report by Beca assessing apron grading and 3D development staging requirements, balancing airfield compliance, stormwater management, and earthworks volume efficiencies

PART A - KEY LONG TERM GROWTH PROJECTS

International South Expansion

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
New 8MPPA Terminal Build - Stage 1	$1.890m	$174.050m	$175.940m

Disclosure Requirement	WIAL Comment
Description of works	Development of an 8MPPA terminal to meet forecast passenger growth.
Aims and objectives	To construct an 8 MPPA terminal: • to provide additional terminal space at “optimum” IATA level of service: • to meet forecast passenger growth; • to provide efficient operations while optimising commercial opportunities andpassenger experience; • to meet forecast stand demand; • to provide opportunity for forecast future expansion (10 MPPA and 12 MPPA) and toenable efficient staging (flexible and stageable design to match actual growth). • that continues to facilitate the efficient common user terminal operation; • that continues to maximise the efficient use of assets by promoting swing domestic/international capability; • that provides a high quality passenger experience and be recognisably “WellingtonAirport”, providing a “sense of place” and reflect Wellington’s cultural identity; • that integrates with and builds on the successful spaces created by the Main Terminalbuilding and the recently completed South Extension project; • that provides options to include and promote environmentally sustainable features; • that provides options for the future introduction of centralised security screening,self-service/biometric technologies and other potential technology initiatives.

Disclosure Requirement	WIAL Comment
Process by which need for the expenditure was determined	Forecasts were developed to identify international and domestic busy hour (BHR); these in turn used industry metrics such as the IATA Airport Development Reference Manual and WLG specific passenger mix and performance to determine terminal area and stand numbers. A number of different terminal development options were developed and evaluated before adopting the preferred option for the draft 2040 Master Plan. Airlines were consulted and their initial feedback was used to refine the plans prior to a further round of consultation.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Airlines were engaged in 2017 to seek their advice on their forecast needs during the Master Plan period. Based on the airlines' input, and other information a number of different terminal development options were developed and evaluated before adopting the option for the Draft 2040 Master Plan. Airlines were consulted on the Draft 2040 Master Plan in late 2018 and early 2019 and their initial feedback was used to refine the Master Plan. Airlines were then involved in a further round of consultation in August 2019 on the revised Draft 2040 Master Plan; their input will now be considered before finalising the Master Plan and brief for the terminal development. As the terminal design is developed it is envisaged that further involvement of airline customers will occur. Airport Service Quality surveys and customer experience focus groups are used to understand performance and inform design requirements.
Any alternative projects considered and the rationale for excluding the alternatives	A number of alternatives were developed and evaluated as part of the Master Plan process; further refinement occurred as a consequence of initial airline feedback. Further engagement and refinement will occur as terminal concepts are developed.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are combined regulated and unregulated activity costs. While the capital expenditure for the next 10 years is provided the first stage will not be completed until PSE5, and therefore prices being set for PSE4 will not include all of the new terminal.

Disclosure Requirement	WIAL Comment
Any constraints or other factors on which successful completion of the project is contingent	The success of the project is dependent on: • the completion of the 2040 Master Plan to ensure it is located correctly, is consistentwith future expansion, and is flexible and adaptable; • Obtaining resource consent, required before large scale earthworks commence; • Development of the apron and the relocation of aviation support buildings such asexisting cargo buildings and the Airport Fire Station; • Relocation of main services infrastructure and the agreement of utilityowners/operators.

Apron Development Programme

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Apron Development Package 1	$23.330m	$0m	$23.330m
Apron Development Package 2	$0m	$66.585m	$66.585m
Apron Development Package 3	$0m	$42.699m	$42.699m

Disclosure Requirement	WIAL Comment
Description of works	Staged development of the apron to 8MPPA to meet forecast growth in passenger numbers and aircraft movements.
Aims and objectives	To construct an apron which: • meets forecast passenger growth; • meets forecast stand demand; • is staged so that it enables alignment with the delivery of the New 8MPPA Terminal Build; • provides efficient operations which maximise stand utilisation, and minimise aircraftholding time and delays; • provides opportunity for forecast future expansion (10 MPPA and 12 MPPA) and toenable efficient staging (flexible and stageable design to match actual growth); • continues to enable the efficient common user terminal operation; • continues to maximise the efficient use of assets by promoting swing domestic/international capability; • provides a safe and efficient experience for both passengers and ramp staff; • provides options to include and promote environmentally sustainable features.
Process by which need for the expenditure was determined	Forecasts developed by Intervistas were transferred into a synthetic stand allocation schedule, which taking into account WLG specifics such as fleet mix, susceptibility to wind, etc., were used to determine stand demand. A number of different apron development options were developed and evaluated before adopting the preferred option for the Draft 2040 MP. Airlines were consulted and their initial feedback was used to refine the plans.

Disclosure Requirement	WIAL Comment
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Airlines were engaged in 2017 to seek their advice on their forecast needs during the Master Plan period. Based on airlines' input, and other information a number of different apron development options were developed and evaluated before adopting the option for the Draft 2040 Master Plan. Airlines were consulted on the draft 2040 Master Plan in late 2018 and early 2019 and their initial feedback was used to refine the Master Plan. Airlines were then involved in a further round of consultation in August 2019 on the revised Draft 2040 Master Plan; their input will now be considered before finalising the Master Plan, and the brief for the apron development. As the apron design is developed it is envisaged that further involvement of the airlines will occur.
Any alternative projects considered and the rationale for excluding the alternatives	A number of apron layout alternatives were developed and evaluated as part of the Master Plan development process, each having to overcome different constraints and having different pros and cons. Further refinement occurred as a consequence of initial airline feedback, with the timing of apron expansion onto the Miramar Golf Club reviewed. Further engagement and refinement will occur as apron concepts and designs are developed.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are exclusively airfield activity costs. The forecast expenditure for the development is staged so that incremental improvements are achieved as demand grows and as the new terminal is constructed. The expenditure for the stages to be completed for the next five years is included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	The success of the project is dependent on: • the completion of the 2040 Master Plan to ensure it is located correctly, is consistentwith future expansion, and is flexible and adaptable. • Obtaining resource consent, required before large scale earthworks commence. • Development of the terminal, and the relocation of aviation support buildings such asexisting cargo buildings and the Airport Fire Station. • Relocation of main services infrastructure and the agreement of utilityowners/operators.

BHS Development Programme

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Stage 3 - New EDS ECAC Std3 (capitalisation 1)	$21.892m	$0m	$21.892m
Stage 3 - New EDS ECAC Std3 (capitalisation 2)	$0m	$24.882m	$24.882m

Disclosure Requirement	WIAL Comment
Description of works	Renewal of existing end-of-life and at capacity Baggage Handling System with a new BHS to meet demand and regulatory requirements (ECAC Standard 3).
Aims and objectives	The existing Baggage Handling System (BHS) at Wellington Airport was commissioned in early 1999 and since then has been expanded and altered to meet growth (eg additional laterals), additional security/ screening requirements (e.g. domestic hold baggage screening), and airline user requirements (e.g. self-service check in). To date the BHS has performed well but it is now nearing the end of its service life and system interruptions are increasing, requiring more hands-on management. In 2017 WIAL appointed a fulltime Baggage Handling System Project Engineer and team to ensure the BHS continued to operate at an appropriate level The current BHS is also space constrained within the existing bag hall and does not allow for the increased requirements for modern manual handling and health and safety systems. In 2018 it was confirmed that the new European Civil Aviation Conference (ECAC) standard 3 screening machines need to be operational by the end of 2021. Post Covid, the NZ CAA updated this to FY 24 but are considering extending the date further. This regulatory requirement is a catalyst to investigate a replacement and expansion of the wider BHS and permit the introduction of increased functionality, such as early bag stores, and improve safety by reducing manual handling. The BHS development programme will address the above issues by commissioning a new multi-user system of adequate capacity, which meets ECAC std 3 requirements.

Disclosure Requirement	WIAL Comment
Process by which need for the expenditure was determined	WIAL commissioned Xplane Ltd (a specialist BHS consultant) to undertake a review of our current BHS and consult both internal and external stakeholders. Xplane's report identified the following: a. key issues with the current system; b. options for expansion; c. options for enhanced functionality; d. identified a roadmap for implementation; and e. considered how the major intervention could be completed in an efficient transition.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	WIAL commenced consultation in mid-2018 with airline customers who were issued an information pack. In 2018, airline customers were invited to accompany Xplane and WIAL staff on a fact-finding tour to ensure WIAL is fully informed before embarking on this significant investment; Air New Zealand accepted this offer. The tour included visits to the company headquarters/ innovations centres of the potential BHS suppliers and also included observation of new technologies in operation in live airport environments. Airlines are in support of the project, with further engagement on technical matters and staging planned as designs are developed.
Any alternative projects considered and the rationale for excluding the alternatives	WIAL has already attempted to "sweat" and extract the most out of the current asset by employing additional resource and taking on additional risk. Options for modifying the existing system to meet the regulatory requirements were investigated, however these would fail to address key issues with capacity, reliability, and safety of the existing end-of-life system.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are exclusively specified terminal activity costs with the forecast expenditure for the next five years included in the building block model to establish the required revenue for PSE4.

Disclosure Requirement	WIAL Comment
Any constraints or other factors on which successful completion of the project is contingent	Due to the tight timeframes required to meet regulatory requirements, WIAL is required to construct a temporary building and relocate the southern make to this facility before re-install back into the new terminal extension.

Airport Fire Station Replacement

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
AFS Relocation	$30.724m	$0m	$30.704m
AFS Land Purchase	$1.228m	$0m	$1.228m

Disclosure Requirement	WIAL Comment
Description of works	Construction of a new Airport Fire Station (AFS) on a new site on the Western Apron, and demolition of the existing AFS building to allow for future airfield geometry improvements and additional remote aircraft stands.
Aims and objectives	To provide a resilient, efficient and expandable facility to meet regulatory requirements for the provision of Airport Rescue and Firefighting Services, whilst also allowing airfield geometry and capacity to be improved.

Disclosure Requirement	WIAL Comment
Process by which need for the expenditure was determined	The existing AFS is at end of life, no longer fit for purpose and its location is not consistent with the 2040 Master Plan or efficient operations. The AFS was constructed in the late 1950s to service the new Rongotai Airport, and the building has been extended numerous times over the years. In 2007 the building was strengthened from earthquake prone to 67% of the New Building Standard (NBS) Importance level 2 (IL2). This is the minimum standard recommended by the NZ Society of Earthquake Engineers. However, under the NZ Building Code new Fire Stations are required to be designed to 100% of IL4 to ensure an adequate level of resilience for emergency facilities. The condition, layout and amenity of the building is generally poor, it is lacking in acoustic and thermal insulation and its site orientation means that it is subject to aircraft fumes when RWY 16 is in operation. Overall, it provides a sub optimal work environment. Its location is confined by operational requirements (wing tip clearance and the Obstacle Limitation Surface (OLS)) and consequently it is not easy or efficient for the building to be extended to meet future requirements. Its location prevents the efficient full utilisation of Taxilane Papa. This project will therefore replace the existing end-of-life, inefficient, and ill-situated building with a modern and resilient fire station, which will be sited to align with the 2040 Master Plan, and make efficient use of surplus land. The existing fire station will be demolished to allow for interim aircraft parking, and long-term taxiway realignment in line with the draft Master Plan.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	The construction of a new AFS was first included in WIAL's PSE2 disclosures to the Commerce Commission for construction in 2016. The project was delayed until the 2040 Master Plan could be further developed. WIAL has now engaged with its stakeholders on the AFS replacement during consultation on the 2040 Master Plan. Responses from the initial consultation included: a. "The proposal to relocate fire services, cargo, Avsec and catering facilities seemreasonable" - BARNZ representing Fiji Airways, Singapore Airlines and Virgin Australia. b. QF/JQ made no comment regarding the AFS relocation but wanted to see businesscases for all works. c. "The relocation of Avis, LSG (flight kitchen) and JUHI is supported" – Air New Zealand.(Noting that the relocation of AFS is integral to relocating JUHI).

Disclosure Requirement	WIAL Comment
Any alternative projects considered and the rationale for excluding the alternatives	The size and general layout of the station are regulated by civil aviation rules, and the building will be designed and built in keeping with those requirements. The location for the new AFS has been selected based on a detailed Multi Criteria Analysis (MCA). The MCA process considered six potential sites, and evaluated them against economic and operational attributes, to arrive at the currently proposed site on Coutts St.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are exclusively airfield activity costs with the forecast expenditure for the next five years included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	The success of the project is also reliant on the purchase of a small section of council owned land. There is a willingness for Wellington City Council to dispose of the land, and valuation and disposal process mechanisms have been advanced. It is anticipated that there is no impediment to the timely acquisition of this precursor to site development.

Cargo Facilitation Area Development

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Cargo Hub – Stage 1	$42.228m	$0m	$42.228m

Disclosure Requirement	WIAL Comment
Description of works	Construction of a new Cargo Facilitation Area in three stages: • Stage 1, to replace the existing earthquake prone Air NZ cargo building with a newexpandable building in a location in line with the draft 2040 Master Plan. • Stages 2 & 3, to be constructed at a later date, currently anticipated to occur in PSE5, asdemand grows, to create a dedicated, multi-agency cargo handling and processing facility.
Aims and objectives	The construction of a new, stageable, consolidated Cargo Facilitation Area will provide multiple benefits. The current building was earthquake prone, being rated as only 20% of NBS. There was a strong desire by the existing tenants (Air New Zealand) for a new resilient facility to be constructed to modern standards. The existing building was in a location which prohibits expansion of apron and taxiway facilities required in the draft 2040 Master Plan. Relocation of the building will enable the apron and taxiways to be expanded to meet capacity and regulatory geometric requirements. The existing facility was operating at capacity. The current location of Cargo does not allow for the building to be expanded. A move to a new location, consistent with the 2040 Master Plan would enable an appropriately sized facility to be constructed to meet current demands, as well as ensuring sufficient space is available as demand grows in the future.

Disclosure Requirement	WIAL Comment
Process by which need for the expenditure was determined	As part of managing its property portfolio, WIAL has conducted seismic assessments on all its buildings. Air NZ approached WIAL in early 2017 with a request for a new cargo facility, at a site to be determined. WIAL has made arrangements to decant the Air NZ cargo operation to a temporary facility to address the seismic risk, however a more permanent site which is compatible with the Master Plan is needed. In developing the draft 2040 Master Plan, WIAL commissioned a Taxiway Utilisation Study, which considered the effects of current airfield geometry on runway capacity. The study determined that a new compliant main taxiway (in the current vicinity of TWY B) would need to be constructed in the future, to provide compliant runway-taxiway separation without affecting runway capacity. The existing Cargo building is in the way of this future taxiway extension and requires relocation. The Master Plan also requires the area to facilitate capacity and access to a newly expanded Southern Apron area.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Air New Zealand have been in discussions with WIAL regarding relocating the existing Cargo building to a new location since early 2017. They have been consulted on sizing and location of facilities. Other freight and cargo handlers have also been consulted on requirements, to ensure the facility is appropriately sized and makes efficient use of the constrained site. Airline customers have also been consulted on the draft 2040 Master Plan.
Any alternative projects considered and the rationale for excluding the alternatives	Various options for the relocation of Cargo were considered but the proposed new site was assessed as being the optimum one. Strengthening the existing facility was considered, however it would still be capacity limited and its location is not consistent with the draft 2040 Master Plan.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are Aircraft and Freight activity costs and are included in the capex forecasts for PSE4 and PSE5. Leases are negotiated directly with building tenants. In the event that a tenant providing non-regulated services occupies part of the facility, the property assets and costs will be allocated in an IM compliant manner. Leased properties are not included in the pricing asset base for consultation with airlines, and therefore not including in pricing paid by consumers for aviation services.

Disclosure Requirement	WIAL Comment
Any constraints or other factors on which successful completion of the project is contingent	The success of the project depends on the availability of alternative land to enable relocation of existing commercial operations (rental car staging).

Trunk Utilities Relocation

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Trunk Utilities Relocation	$21.324m	$0m	$21.324m

Disclosure Requirement	WIAL Comment
Description of works	Investigation and renewal of existing end of life major utilities (stormwater, sewer, gas, and power) within the current and future maneuvering area.
Aims and objectives	Some of the underground utilities at Wellington Airport are at the end of their useful life. Many date back to the original airport construction, and their condition, location, and capacity are not at optimum levels. The project will relocate trunk services which are under (current and future) aircraft operational areas to minimise risk to aircraft operations and improve service resilience. An outage in one of the many utilities which are currently under aircraft operational areas could cause significant delays, as parts of the airfield are closed while the service is repaired. The proposed new service corridors are outside significant operational areas and allow for maintenance activities to occur with minimal disruption. Stormwater assets will be renewed to progressively improve stormwater quality in line with National Environmental Standards. All services will be sized with consideration of future growth, to provide adequate capacity as demand increases (passenger and apron areas).
Process by which need for the expenditure was determined	WIAL commissioned a draft Trunk Utilities Master Plan, which was developed in parallel with the draft 2040 Master Plan. It explored current and future demands based on Master Plan forecasts, and considered alignments for trunk utilities based on proposed future developments.

Disclosure Requirement	WIAL Comment
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	WIAL has consulted with the operators and/or owners of the major utilities in developing the draft trunk utilities masterplan. Consultation with airline customers has occurred as part of the 2040 Master Plan consultation. Airlines acknowledged the need to renew and relocate the utilities in order to safely and efficiently extend the apron, and allow for future growth.
Any alternative projects considered and the rationale for excluding the alternatives	Various alignment and scope options were considered, including a "do nothing" approach. Retaining the services in their existing configuration/location would still require significant expenditure to protect them and "bridge" over them to handle aircraft operations. This would add significant risk to operations and service resilience, whilst failing to address regulatory and environmental drivers.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are combined regulated and unregulated activity costs. The forecast costs, including construction cost escalation, are included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	The success of the project depends on the availability of land to relocate the trunk utilities corridor. The optimum alignment locates the utilities corridor on existing Miramar Golf Club land. WIAL is also investigating potential efficiencies with the proposed expansion of the Moa Point Wastewater Treatment Plant, including potential sustainability upsides through the use of energy-recovery of bio-methane from the plant.

JUHI Relocation

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
JUHI Relocation	$0m	$8.177m	$8.177m

Disclosure Requirement	WIAL Comment
Description of works	Relocation of the Joint User Hydrant Installation (JUHI) to a new site , allowing apron expansion on the existing site.
Aims and objectives	JUHI's existing site is on the north side of Taxilane Papa, an area required for future regional expansion under the 2040 Master Plan. JUHI's existing lease expires in 2023. This project will relocate the JUHI facility to a new site (site to be confirmed using MCA process, in consultation with key stakeholders), with the new facility sized to efficiently meet forecast future growth, and resilience of supply. Relocation of the JUHI would also enable the long-term taxiway realignment in line with the Master Plan 2040.
Process by which need for the expenditure was determined	Forecasts developed by Intervistas were transferred into a synthetic stand allocation schedule, which taking into account WLG specifics such as fleet mix, susceptibility to wind, etc, were used to determine stand numbers A number of different apron development options were developed and evaluated before adopting the preferred option for the 2040 Master Plan. All options considered required the relocation of JUHI in order to free up the existing site.

Disclosure Requirement	WIAL Comment
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	WIAL met with JUHI operators (AirBP and Exxon Mobill) to present the draft 2040 Master Plan, and seek input on future operations and potential locations. JUHI advised that the optimum location is upstream on the current supply line, on the former Miramar South School site. Airlines were engaged in 2017 to seek their advice on their forecast needs during the Master Plan period. Based on airlines' input, and other information a number of different development options were developed and evaluated before adopting the option for the draft 2040 Master Plan. This included consideration for the optimal location of JUHI. Airlines were consulted on the draft 2040 Master Plan in late 2018 and early 2019 and their initial feedback was used to refine the Master Plan.
Any alternative projects considered and the rationale for excluding the alternatives	A number of alternatives were developed and evaluated as part of the Master Plan process; further refinement occurred as a consequence of initial airline feedback. Further engagement and refinement will occur as apron concepts are developed. All options considered required the relocation of JUHI in order to free up the existing site for future apron and terminal development.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost, detailed above are exclusively airfield activity costs with the forecast expenditure for the next five years included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	The success of the project depends on the availability of the former Miramar South School land to relocate the JUHI facility, and obtaining Resource Consent for siting and operating the facility.

Land Acquisitions

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Miramar South School	$16.296m	$0m	$16.296m
Miramar Golf Club	$0m	$45.760m	$45.760m

Disclosure Requirement	WIAL Comment
Description of works	The Miramar South School site, and Southern half of the Miramar Golf Course, have been acquired for development of aeronautical facilities. The forecast land transfers into the RAB comprise of four areas at the Southern End of the airport, currently utilised for commercial activities, that will be required for the terminal and staged apron developments.
Aims and objectives	Secure the land necessary to undertake planned projects.
Process by which need for the expenditure was determined	Expansion of certain activities onto Miramar South School and Miramar Golf Course is required to facilitate staging of apron other associated activities in the projects listed above.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Airlines were engaged in 2017 to seek their advice on their forecast needs during the Master Plan period. Based on airlines' input, and other information a number of different apron development options were developed and evaluated before adopting the option for the Draft 2040 Master Plan. Airlines were consulted on the draft 2040 Master Plan in late 2018 and early 2019 and their initial feedback was used to refine the Master Plan. Airlines were then involved in a further round of consultation in August 2019 on the revised Draft 2040 Master Plan; their input will now be considered before finalising the Master Plan, and the brief for the apron development. As the apron design is developed it is envisaged that further involvement of the airlines will occur.

Disclosure Requirement	WIAL Comment
Any alternative projects considered and the rationale for excluding the alternatives	A number of layout alternatives were developed and evaluated as part of the Master Plan development process, each having to overcome different constraints and having different pros and cons. Further refinement occurred as a consequence of initial airline feedback, with the timing of facility expansion onto Miramar South School, Miramar Golf Course, and other land reviewed. Further engagement and refinement will occur as concepts and designs are developed.
The extent to which the project is reflected in pricing	Each land area is only recognised as an asset in the RAB in the period it is utilised for regulated activities. Land is allocated to activities based on the underlying use of the land, which will be a mixture of regulated and unregulated activities. The land values to be added to the RAB over the next five years, as detailed above, are included in the building block model as assets commissioned to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	The success of the project depends on the outcome of the draft 2040 Master Plan consultation.

PART B - OTHER PROJECTS

Airfield Maintenance Programme

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Runway Overlay	$14.290m	$0m	$14.290m
TWY Bravo Reconstruction	$19.949m	$0m	$19.949m

Disclosure Requirement	WIAL Comment
Description of works	The ongoing maintenance of all sealed surfaces, including Runway, Taxiways, aprons, and aircraft parking stands required to accommodate safe and efficient aircraft movements. The most operationally significant component of this programme in the forecast period is the upgrade and replacement of the runway overlay, originally planned for 2022. Post the initial arrival of Covid-19, the overlay was brought forward to 2020, to capitalise on opportunities resulting from the reduction in flight schedules. The previous runway overlay was completed in 2008-09, with a design life at the time of 12 years. The programme also includes the full reconstruction of Taxiway Bravo. The taxiway pavement is at the end of its life, and its alignment does not allow for efficient future expansion. The Airfield Ground Lighting (AGL) system on taxiway Bravo will be upgraded at the same time.
Aims and objectives	To ensure continued operational safety, security, regularity, and efficiency through compliance with CAA regulations.

Disclosure Requirement	WIAL Comment
Process by which need for the expenditure was determined	WIAL's runway and other sealed surfaces are inspected regularly by WIAL staff and external consultant engineers to determine the requirement for repair or replacement. Reports are prepared annually by the engineers which determine and optimise the schedule of upcoming works required. WIAL commissioned a peer review of the latest annual pavement inspection report (Nov 2018) to ensure Beca's finding and recommendations were given an additional level of scrutiny. The peer review was conducted by GHD, and came away with no significant findings. Further inspections are conducted on a regular basis, and additional testing has since been carried out on taxiway Bravo and its stub taxiways to refine estimates for the works.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	These works are largely an update of regular cyclic maintenance as forecast in PSE3 and amended by actual wear and updated to be consistent with the 2040 Master Plan. WIAL is consulting with the airlines, and other interested parties, on the draft Master Plan and will include this project in the capital expenditure forecast for PSE4 and PSE5. Airlines will have the opportunity to provide formal responses to WIAL's pricing proposals during the PSE4 consultation.
Any alternative projects considered and the rationale for excluding the alternatives	No alternative options were identified in respect of the repair and replacement of sealed surfaces.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are exclusively airfield activity costs with the forecast expenditure for the next five years included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	None.

Marine Defences Programme

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Marine Protection – Southern Seawall	$4.603m	$83.632m	$88.235m
Marine Protection – Breakwater	$0m	$68.275m	$68.275m
Marine Protection – Western Seawall	$0m	$15.779m	$15.779m

Disclosure Requirement	WIAL Comment
Description of works	The ongoing maintenance of all marine protection structures to ensure the integrity of the airfield platform is preserved and to provide resilience against seismic events; future climate change; sea level rise and the increasing frequency and intensity of storms. The Programme includes $6.8m across PSE4 and PSE5 for planned preventative and reactive works arising from deterioration of the structures due to storms and wave action. The most significant piece of work in the programme is the complete replacement of the marine defences towards the end of PSE4 and the start of PSE5, at a cost of $128m.
Aims and objectives	The aim of the programme is to ensure continued operational safety, security, regularity and efficiency through compliance with CAA regulations; and to meet WIAL's obligations under the Resource Management Act and its memorandum of understanding with Wellington City Council. Lyall Bay faces south towards the Southern Ocean and is consequently exposed to large waves from southerly storms, especially during the winter. In order to protect Wellington Airport's runway and flight operations, wave protection seawalls and a breakwater were constructed starting in 1954. From that date various extensions, improvements and maintenance works have been carried out.
Process by which need for the expenditure was determined	WIAL's Marine Defences are inspected regularly by WIAL staff and external consultant engineers to determine the requirement for repair or replacement. Reports are prepared annually by the engineers, which determine the upcoming works required. Beca have provided engineering advice on WIAL's marine defence structures since 1994. This includes a series of nine reports on maintenance recommendations and asset life. Beca's most recent report (November 2016) confirmed earlier advice that the marine defences were approaching the end of their life.

Disclosure Requirement	WIAL Comment
	Due to the significant value and importance of these structures WIAL engaged AECOM to undertake a peer review of these previous reports on the Southern Seawall and Breakwater. Specifically, WIAL required them to: 1. Review earlier reports by Beca on the maintenance and projected life of the marine defence assets. This review would also include an assessment of the original akmon design and wave reports; 2. Assess the remaining life; 3. Complete a gap analysis between the original design conditions and requirements and today's (eg design improvements, industry best practice improvements, latest wave recordings, climate change - sea level rise and storm intensity, resistance to earthquakes, the requirements of the NZ Building Act and RMA); 4. Develop a high-level renewal/re-armouring design; 5. Develop a high-level budget; 6. Develop a high-level programme. **AECOM's findings** AECOM advised that: a) The Southern Seawall and Breakwater are under-designed and that this was "not surprising based on design approach at the time and the information available on wave height and length". b) The original design wave adopted was 5.2 metres. Advances in design, allowance for climate change and better wave measurement data dictate that a 7.4 metre (lower bound) design wave be adopted for future replacement work. c) The original 10 tonne tetrapod and 12 tonne akmon multi-layered design used for the main defence structures is inadequate and allowed too much movement and wear. AECOM propose using a single layer of 34 tonne "accropodes" as a basis for the replacement design. d) The original primary defence structure contained ~1650 akmons. To maintain it at an appropriate level and manage the risk, over 1500 replacement akmons have been added over the years. This includes two significant failures; I. In 1973 465 akmons were placed. II. In 1984 496 akmons (along with 2035 tonnes of rockfill and 1200 tonnes of backing rock) were placed. III. A further ~612 akmons have been placed over 13 instances in the last 30 years; averaging 20 akmons per annum. e) To compensate for the under-design, the inspection and maintenance regime adopted to date is higher than would be normal for a modern structure. f) Continuing with the existing maintenance regime is a short-term risk until planned replacement. However, there is

Disclosure Requirement	WIAL Comment
	only a 5% chance of a 1:100 year wave in a 5 year period and there has not been a complete failure of seawall in the past. g) Indications are that a significant earthquake would see lateral movement but not a catastrophic failure of the Southern Seawall and Breakwater. h) AECOM concurred with Beca on the remaining life of WIAL's marine defence structures.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	WIAL has consulted with airline customers on the proposed expenditure by: • Providing an overview of the project to airline customers as part of the draft 2040 Master Plan discussions that occurred with Jetstar on 13 August 2019 and Air New Zealand and BARNZ on the 15 August 2019. A commitment was given to consult morefully on the project as detailed information came to hand, noting that resource consents were anticipated to be lodged for approval in late 2019 or early 2020; and Including the proposed works in the capital expenditure forecast for PSE4 and PSE5. Airlines will have the opportunity to provide formal responses to WIAL's pricing proposals during PSE4 consultation.
Any alternative projects considered and the rationale for excluding the alternatives	An alternative to the full replacement of the Marine Defences is to continue with reactive maintenance, without improving the capacity of the system. This presents a significantly increased risk profile arising from the continued deterioration of the existing end-of-life infrastructure combined with increased and more intense storm activity, climate change induced sea level rise, and seismic events. This alternative is not recommended by either WIAL's engineers or the peer reviewer.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are exclusively airfield activity costs with the forecast expenditure for the next five years included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	Resource Consent is required for works within the Coastal Marine Area from Greater Wellington Regional Council and Wellington City Council. It is anticipated that this would be lodged for approval in late 2019 or early 2020, with the approval process taking approximately 12 months. Given the ongoing uncertainty regarding the proposed runway extension, it is imperative that certainty around critical asset integrity is maintained, and therefore it is essential that these works are progressed.

Security Screening Programme

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Regional and Goods screening	$8.033m	$0m	$8.033m

Disclosure Requirement	WIAL Comment
Description of works	Staged programme for the installation of Advanced Imaging Technology (AIT) body scanners, CT scanners for cabin baggage, screening of inward goods, and potential increases to screening requirements for regional aircraft.
Aims and objectives	To meet regulatory requirements set by CAA and MOT, while maintaining or improving efficiency, throughput, and passenger amenity.
Process by which need for the expenditure was determined	The Director of the CAA has instructed Aviation Security to introduce AIT, better known as body scanners, for international departures no later than December 2020. Initially the CAA requires Aviation Security to use the AIT for 25% of all departing passengers, in addition to the traditional walk through metal detectors. The floor space required for AIT in combination with metal detectors is not available in the existing screening areas. A further change required by the Director of the CAA is to implement ECAC Standard 3 compliant Explosive Detection Systems (EDS) for carry-on baggage screening (CT scanners). This will need to be completed by 31 Dec 2021. The proposed CT scanners are double the size of the current X-ray machines and weigh 2.5 tonnes each and also require additional cooling. Again, this cannot be accommodated in the existing departures screening spaces. Aviation Security have started a screening point modernisation program to increase passenger throughput and improve overall customer experience. This has resulted in the Smartlane concept which has been successfully trialled in Auckland Airport for the last 12 months. These Smartlanes will now be implemented at all New Zealand international airports. The benefits of the Smartlane are that up to five passengers can divest simultaneously, slow passengers can be overtaken, and trays are returned automatically. Passenger throughput is increasing from 270 pax p/h to 340 pax p/h. However, the overall length required for the Smartlane combined with CT scanners is 21 metres, which cannot be accommodated in the current screening areas. WIAL has been working in collaboration with Avsec and Customs on a design that incorporates the following specifications:

Disclosure Requirement	WIAL Comment
	1. Space allowance for AIT, CT scanners and Smartlanes; 2. Increase queueing space; 3. Improvement of overall passenger amenities and international departure entrance. The border agencies have now signed off on the concept design.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Forecasts were developed to identify international and domestic busy hour (BHR); these in turn used industry metrics such as the IATA Airport Development Reference Manual and WLG specific passenger mix and performance to determine terminal area and layout, including specifics such as security screening requirements, using the latest Smartlane concepts. A number of different terminal development options were developed and evaluated before adopting the preferred option for the 2040 MP, including a number of possible locations for centralised security screening. Airlines were consulted and their initial feedback was used to refine the plans. Further consultation with customers will occur as designs for the terminal are developed.
Any alternative projects considered and the rationale for excluding the alternatives	As this will be a regulatory requirement, no alternatives have been considered.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost, detailed above are exclusively specified terminal activity costs with the forecast expenditure for the next five years included in the building block model to establish the required revenue for PSE4.

Flight Catering Relocation

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Flight Catering Relocation	$16.710m	$0m	$16.710m

Disclosure Requirement	WIAL Comment
Description of works	Construction of a new Flight Catering Facility and demolition of the existing one.
Aims and objectives	To free up space for Apron development to meet aircraft parking demand. To develop a new efficient purpose built facility appropriately sized to meet current demand.
Process by which need for the expenditure was determined	To construct an apron which: • meets forecast passenger growth; • meets forecast stand demand; • is staged so that it aligns with the delivery of the New 8MPPA Terminal Build; • provides efficient operations which maximise stand utilisation, and minimise aircraftholding time; • provides opportunity for forecast future expansion (10 MPPA and 12 MPPA) and toenable efficient staging (flexible and stageable design to match actual growth); • continues to enable the efficient common user terminal operation; • continues to maximise the efficient use of assets by promoting swing domestic/international capability; • provides a safe and efficient experience for both passengers and ramp staff; • provides options to include and promote environmentally sustainable features.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Forecasts developed by Intervistas were transferred into a synthetic stand allocation schedule, which taking into account WLG specifics such as fleet mix, susceptibility to wind, etc., were used to determine stand demand. A number of different apron development options were developed and evaluated before adopting the preferred option for the Draft 2040 MP. Airlines were consulted and their initial feedback was used to refine the plans.
Any alternative projects considered and the rationale for excluding the alternatives	Airlines were engaged in 2017 to seek their advice on their forecast needs during the Master Plan period. Based on airlines' input, and other information a number of different apron development options were developed and evaluated before adopting the option for the Draft 2040 Master Plan. Airlines were consulted on the draft 2040 Master Plan in late 2018 and early 2019 and their initial feedback was used to refine the Master Plan.

Disclosure Requirement	WIAL Comment
	Airlines were then involved in a further round of consultation in August 2019 on the revised Draft 2040 Master Plan; their input will now be considered before finalising the Master Plan, and the brief for the apron development. As the apron design is developed it is envisaged that further involvement of the airlines will occur. A number of apron layout alternatives were developed and evaluated as part of the Master Plan development process, each having to overcome different constraints and having different pros and cons. Further refinement occurred as a consequence of initial airline feedback, with the timing of apron expansion onto the Miramar Golf Club reviewed. Further engagement and refinement will occur as apron concepts and designs are developed.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are exclusively airfield activity costs. The forecast expenditure for the development is staged so that incremental improvements are achieved as demand grows and as the new terminal is constructed. The expenditure for the stages to be completed for the next five years is included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	The success of the project is dependent on: • The completion of the 2040 Master Plan to ensure it is located correctly, is consistentwith future expansion, and is flexible and adaptable. • Obtaining resource consent, required before large scale earthworks commence. • Relocation of main services infrastructure and the agreement of utilityowners/operators.

Energy Centre

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Energy Centre	$0m	$17.013m	$17.013m

Disclosure Requirement	WIAL Comment
Description of works	Development of a new centralised services building to provide an efficient replacement of expiring assets, new capacity for terminal expansion and provision of plant room areas in a more cost effective building structure.
Aims and objectives	To reduce the risk of service failure. To minimize costs. To provide efficient use of buildings and service reticulation. To provide opportunity for the introduction of more sustainable services.
Process by which need for the expenditure was determined	Energy demands were calculated based on those needed to support the expanded terminal. Design workshops were held with specialist consultants, including International experts, to identify opportunities to incorporate sustainable design. Design of new terminal also aimed to reduce the energy requirements. (Materials, shading, and insulation etc.)
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	None to date. This will be included in the consultation for the new terminal project.
Any alternative projects considered and the rationale for excluding the alternatives	Alternatives included a traditional installation of services within plantrooms in the terminal. Excluded due to a higher cost and reduced efficiency/ flexibility and reduced opportunities for sustainable design.
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are combined regulated and unregulated activity costs.
Any constraints or other factors on which successful completion of the project is contingent	Availability of site. Commencement of Terminal development

Apron Under AFS

Includes:

Project Line	PSE4 Forecast Spend (Nominal)	PSE5 Forecast Spend (Nominal)	Total Spend (Nominal)
Apron Under AFS	$1.082m	$4.810m	$5.893m

Disclosure Requirement	WIAL Comment
Description of works	Demolition of the Existing Airport Fire Station (post construction of the new station above), and creation of a remote aircraft parking apron in it's place.
Aims and objectives	To develop a facility appropriately sized to meet current and future apron demand.
Process by which need for the expenditure was determined	Forecasts developed by Intervistas were transferred into a synthetic stand allocation schedule, which taking into account WLG specifics such as fleet mix, susceptibility to wind, etc., were used to determine stand demand. A number of different apron development options were developed and evaluated before adopting the preferred option for the Draft 2040 MP. Airlines were consulted and their initial feedback was used to refine the plans.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Airlines were engaged in 2017 to seek their advice on their forecast needs during the Master Plan period. Based on airlines' input, and other information a number of different apron development options were developed and evaluated before adopting the option for the Draft 2040 Master Plan. Airlines were consulted on the draft 2040 Master Plan in late 2018 and early 2019 and their initial feedback was used to refine the Master Plan. Airlines were then involved in a further round of consultation in August 2019 on the revised Draft 2040 Master Plan; their input will now be considered before finalising the Master Plan, and the brief for the apron development. As the apron design is developed it is envisaged that further involvement of the airlines will occur.
Any alternative projects considered and the rationale for excluding the alternatives	A number of apron layout alternatives were developed and evaluated as part of the Master Plan development process, each having to overcome different constraints and having different pros and cons. Further refinement occurred as a consequence of initial airline feedback, with the timing of apron expansion onto the Miramar Golf Club reviewed. Further engagement and refinement will occur as apron concepts and designs are developed.

Disclosure Requirement	WIAL Comment
The extent to which the project is reflected in pricing	The forecast costs, including construction cost escalation, detailed above are exclusively airfield activity costs. The forecast expenditure for the development is staged so that incremental improvements are achieved as demand grows and as the new terminal is constructed. The expenditure for the stages to be completed for the next five years is included in the building block model to establish the required revenue for PSE4.
Any constraints or other factors on which successful completion of the project is contingent	Relocation of the Airport Fire Station

APPENDIX C

Wellington International Airport Limited ("WIAL")
Schedule of Landing and Terminal Charges
Effective 1 April 2021 to 31 March 2024

NOTE: All charges are exclusive of GST unless noted otherwise.

1. Charges for Operators of Passenger Services Utilising Terminal Facilities

(a) Airfield and Terminal Charges[1]

	1 April 2021	1 April 2022	1 April 2023
Offpeak Passenger Charge[2]			
Domestic Jet	$14.44	$14.60	$15.16
Domestic Prop ≥ 10 Tonnes	$10.94	$11.00	$11.17
Domestic Prop < 10 Tonnes	$10.19	$10.25	$10.42
International	$20.54	$21.10	$22.27
Peak Movement Charge[3]			
Peak[4]	$20.00	$20.00	$20.00
Shoulder[5]	$10.00	$10.00	$10.00

Notes:

1. Charges are additive
2. Per departing and arriving passenger, as defined by the total passengers carried on board less infants, positioning crews, domestic or international transit passengers, and diverted international passengers returned to a destination (being only those diverted passengers not processed by customs)
3. Per aircraft landing and departure
4. Peak defined as actual landing or take-off between 07:45-08:45 and 18:15-19:15
5. Shoulder defined as 30 minutes either side of the peak definition

(b) Parking Charges[1]

		1 April 2021	1 April 2022	1 April 2023
Per (part) Hour – Only applies Mon-Fri 06:00-10:00, 16:00-20:00				
Domestic Jet	After 60 mins	$57.79	$58.66	$59.54
Domestic Prop	After 60 mins	$46.23	$46.93	$47.63
International	After 120 mins	$80.91	$82.12	$83.35

Notes:

1. Parking charge rates are per hour (or part thereof). Parked time is determined by subtracting the scheduled aircraft take-off time from the scheduled aircraft landing time, and then subtracting 8 minutes for taxiing time (4 minutes in each direction). Parking charges apply to any time spent on the Eastern apron; parking on the Western apron will incur the non-passenger parking charges. WIAL will consider parking charge relief for the time parked outside of the control of the operator e.g. weather disrupts

(c) Noise Mitigation (LUMINS) Charge[1]

	1 April 2021	1 April 2022	1 April 2023
Passenger Charge	$0.32	$0.32	$0.32

Notes:

1. Charges for implementation of the Land Use Management and Insulation for Airport Noise Study (LUMINS) scheme

2. Charges for Operators not Using Terminal Facilities

(a) Aircraft Movement Charges[1]

		1 April 2021	1 April 2022	1 April 2023
Per MCTOW Tonne Movement				
Domestic ≥ 30 Tonnes	Peak[2]	$17.52	$17.62	$18.15
	Shoulder[3]	$17.38	$17.48	$18.01
	Offpeak	$17.24	$17.34	$17.87
Domestic 2-30 Tonnes	Peak	$13.37	$13.27	$13.02
	Shoulder	$12.36	$12.26	$12.01
	Offpeak	$11.35	$11.25	$11.00
International	Peak	$25.77	$26.54	$28.05
	Shoulder	$25.65	$26.42	$27.92
	Offpeak	$25.52	$26.30	$27.80
General Aviation	Note 4	$11.56	$11.73	$11.91

Notes:

1. Per aircraft landing and departure
2. Peak defined as actual landing or take-off between 07:45-08:45 and 18:15-19:15
3. Shoulder defined as 30 minutes either side of the peak definition
4. General Aviation refers to aircraft less than 2 tonnes. Off peak charge per movement (not MCTOW tonne). A minimum charge of $100 in the peak and $75 in the shoulder applies. A minimum monthly charge of $45 per month (increased by CPI) applies

(b) Parking Charges[1]

		1 April 2021	1 April 2022	1 April 2023
Per (part) Hour – Only applies Mon-Fri 06:00-10:00, 16:00-20:00				
All Aircraft	After 120 mins	$23.12	$23.47	$23.82

Notes:

1. Parking charge rates are per hour (or part thereof). Parked time is determined by subtracting the actual aircraft take-off time from aircraft landing time, and then subtracting 8 minutes for taxiing time (4 minutes in each direction). Charges apply for Western apron parking; parking on the Eastern apron will be charged at equivalent rate to passenger services. Parking within a hangar will not incur a charge. WIAL will consider parking charge relief for the time parked outside of the control of the operator e.g. weather disrupts

(c) Noise Mitigation (LUMINS) Charges[1]

	1 April 2021	1 April 2022	1 April 2023
MCTOW < 2 tonnes	$1.78	$1.78	$1.78
MCTOW 2- 30 tonnes	$8.38	$8.38	$8.38
MCTOW ≥ 30 tonnes	$56.71	$56.71	$56.71

Notes:

1. Fixed charge per movement for implementation of the Land Use Management and Insulation for Airport Noise Study (LUMINS) scheme

3. Terms of Trade for Payment of Invoices

(a) Payment Terms

WIAL will as soon as practicable after the end of each month calculate each airline's charges for that month, and will send each airline an invoice for their charges. Each airline must pay the amount of the invoice by the later of:

- The 20th day of the month after the month to which the invoice relates; and
- 7 days after the date it receives the invoice.

The airlines must inform WIAL within 7 days of when they receive an invoice, if they disagree with the invoice. The airlines will pay the correct amount due as soon as the correct amount is agreed or determined.

(b) Interest on Overdue Amounts

The airlines will pay interest on the amount of any charge which is properly owed, but not paid on time, if the charge is not in dispute. The airlines will also pay interest on unpaid amounts that relate to charges which are in dispute, but only if any of the following apply:

- The airlines who have failed to pay, agree to pay the charge in dispute; or
- The airlines who have failed to pay, agree that the charge in dispute is properly payable; or
- The charge in dispute is determined to be properly payable.

The interest is payable on the unpaid amounts from the day it should have been paid, until paid in full. The day it should have been paid, is the later of the 2 days for payment listed under clause 3(a) above, after WIAL issues an invoice for the correct amount.

(c) Rate of Interest and Costs

The rate of interest payable under the previous clause is the rate WIAL's principal bank charges, or would charge, WIAL for overdraft money during the time for which interest is being charged plus a margin of 3%.

In addition to penalty interest, the airlines must pay all reasonable costs of and incidental to the enforcement, or attempted enforcement, of WIAL's rights, remedies and powers under this schedule of charges.

4. Service Quality and Compliance Reporting

(a) Service Quality Reporting

In order to continually improve its operations and service delivery, WIAL requires the provision of data from airlines for Airport Service Quality reporting and the measurement of service performance.

(b) Compliance Reporting

In order to achieve compliance with its reporting obligations under the Commerce Commission's Information Disclosure regime, WIAL requires certain information from its airlines in respect of interruptions, on time departure delays and passenger data:

Interruptions:

Airlines to advise WIAL of:

- All outages of WIAL facilities as they are identified.
- The cause of the outages (if known).

On Time Departure Delays:

Airlines to provide WIAL with:

- Monthly reports of on time delays for flight departures from WIAL.
- The cause of the delays.

Passenger Data:

WIAL requires that the airlines provide WIAL with monthly reports of passengers carried by flight including details of the time of the flight and origin/destination for the flight. This information should be provided in electronic form.

An Example of the Provision of Airline Information for Passenger Services

Airline: _____

for the Month of: _____

	Information
Flight Number	NZ123
Aircraft Type	A320
Aircraft Registration	ZK-ABC
Aircraft MCTOW (kg)	78,000
Aircraft Seats	168
Sector Origin	WLG
Sector Destination	SYD
Actual Departure Time (NZST)	1/6/2014 06:00
Actual Arrival Time (NZST)	1/6/2014 09:05
Scheduled Arrival Time (NZST)	1/6/2014 06:00
Scheduled Departure Time (NZST)	1/6/2014 09:05
Diverted to/from WLG?[1]	No
Total Passengers Carried	158
Less Exemptions:	
Infants	3
Positioning Crews	3
Transit Passengers	0
Less Diverted Passengers Returned to Destination[2]	0
Passengers Carried for Billing Purposes	152

Note:

1. If passengers remain on the aircraft in the case of domestic, or are not processed through customs in the case of international, then non-passenger charges will apply
2. Passengers not processed through customs only

Signed by: _____

Title: _____

Date: _____