Wellington International Airport Limited

Revised pricing proposal

For aeronautical prices for the period 1 April 2024 to 31 March 2029

31 October 2023

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APPENDICES

Updated Capital Expenditure Forecast

Further information on capital projects

ELECTRONIC FILES ATTACHED

WIAL & WANT Building Block Models and Draft ID Schedules 18 and 19[1]

WIAL Pricing Structure Model

Specific Project Charge mechanism for seawall project

[1] Drafts of price setting disclosure schedules 18 & 19 have been included in the Pricing Model, with key figures populated based on the RPP. Certain sections in the schedules have deliberately been left blank (where information is required for final pricing disclosure purposes only).

PART A: OVERVIEW

1. On 31 July, WIAL issued its Initial Pricing Proposal (IPP) for the 1 April 2024 – 31 March 2029 period (PSE5). Air New Zealand (Air NZ), Qantas Group (Qantas) and the Board of Airline Representatives of New Zealand (BARNZ) provided feedback in September. WIAL thanks airlines for this feedback, which has been considered and responded to in this Revised Pricing Proposal (RPP).

2. WIAL is pleased to have received broadly supportive or neutral feedback on the following areas:

   - Passenger forecasts;
   - PSE4 deferrals and wash ups;
   - Overall capital expenditure plan and PSE4 capex wash up;
   - Majority of capital projects;
   - Operating expenditure;
   - Asset valuation, RAB classification and roll forward;
   - CPI forecast method.

3. As a result, no major changes have been made in these areas, other than changes that flow from updated passenger numbers and CPI measures. Passenger forecasts have been updated with latest inputs from InterVistas, referencing the latest actual FY24 figures. A small adjustment has been made to the CPI forecast with latest inputs.

4. WIAL received mixed feedback on the following areas, with Air NZ and BARNZ supportive/neutral and Qantas either not supportive or requesting further information:

   - Asset revaluations;
   - Some aspects of operating expenditure;
   - Elements of some capex projects.

5. As a result of feedback, WIAL has identified the following capital projects for either expense reductions or further engagement with airlines as they progress:

   - Airport Fire Station ($0.5m reduction);
   - Centralised Security Screening ($4m reduction);
   - Marine Defences, Terminal build, Baggage Factory, and EMAS highlighted for ongoing engagement to ensure the success of projects and collaborate with airlines to reduce operational impacts.

6. Further information on some projects has been requested by Qantas during consultation and this is attached for the benefit of all parties.

7. Airlines noted their disagreement with WIAL's Weighted Average Cost of Capital (WACC) inputs. WIAL and airline views are well canvassed in the submissions to the Commerce Commission's Input Methodologies (IM) review. WIAL has determined to retain its WACC parameters for the RPP, with an update to the risk-free rate.

8. Airlines also provided general feedback on affordability. WIAL's IPP, which involved substantial capex deferrals and reductions, was developed with affordability in mind. Taking account of the further reductions made in this RPP, we consider the capex programme to be appropriate for the activities required of the airport. The opportunity to find further cost savings is small, and disproportionate to the effects on efficiency, resilience and service quality of deferring the works.

9. WIAL acknowledges the challenging environment including risk-free rate and construction cost increases, differences of opinion relating to the IM review, the ongoing impact of Covid-19, high airfares and recovering capacity. We believe our proposed prices are reasonable in this context, and reflect real cost increases faced by WIAL.

10. WIAL has presented two possible price paths in Chapter I for airline consideration and feedback. This shows the impact of smoothing price changes over the 5-year period, compared to a step up in Year 1 with CPI increases thereafter.

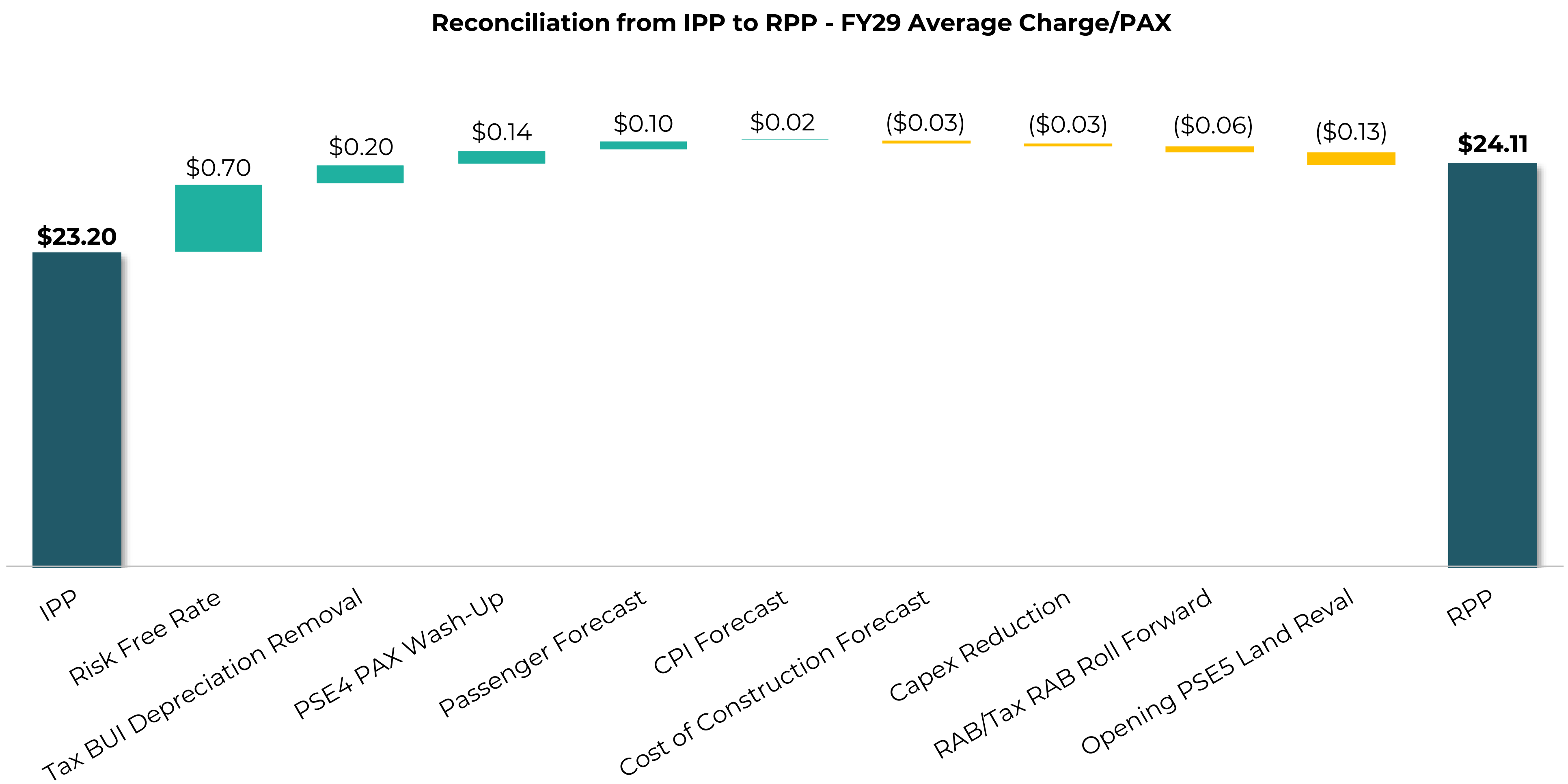
11. WIAL has proposed incentives for the introduction of sustainable aircraft, via a 100% rebate of aeronautical charges for electric, hybrid or hydrogen aircraft through PSE5. No response has been received on this proposal and we encourage feedback from airlines on how WIAL can incentivise sustainable aircraft types and provide infrastructure needed by airlines to prepare for future technology.

12. We look forward to receiving further airline feedback before developing our Final Pricing Document. This will be issued to airlines in March 2024.

As requested by airlines, this is an open and transparent consultation process with no general confidentiality given to documents. Airline feedback will be referred to in our Final Pricing Document and therefore shared with other airlines and the Commerce Commission. We request that airlines clearly mark any parts of their feedback which are to remain confidential.

Feedback is required by 5 pm NZT Monday 4 December 2023.

Summary of RPP Components



PART B: REVISED PASSENGER FORECASTS

IPP position

13. The IPP outlined WIAL's passenger forecasting process and underlying assumptions, and noted these forecasts would continue to be updated during pricing consultation to account for new information, updated trends and airline feedback.

14. The total passenger forecast was as follows:

Table: IPP Passenger Forecasts

		PSE5					
	2024	2025	2026	2027	2028	2029	CAGR 2024-29
Domestic	5,135,367	5,404,356	5,581,908	5,726,483	5,864,380	5,997,750	3.2%
International	693,882	752,321	836,489	931,479	1,009,180	1,090,666	9.5%
Total	5,829,248	6,156,677	6,418,398	6,657,962	6,873,560	7,088,417	4.0%

Airline feedback

15. Airline feedback indicated that airlines had no reason to challenge WIAL's forecasts or underlying assumptions. Qantas Group broadly agreed with the forecast. Air NZ had "no reason to dispute these forecasts, noting also that the airport will be reviewing these forecasts as the consultation process proceeds."

RPP position

16. InterVistas has prepared an updated forecast as at 06 October 2023. The underlying approach and assumptions are largely unchanged from the IPP, other than:

- Updated FY24 based on actual numbers and revised forecast;
- Higher international pax in FY24 due to earlier start of Qantas WLG-BNE service;
- A review of exogenous model inputs (GDP) which were broadly in line with the IPP;
- Consequential updates to later years due to new starting point;
- Lower domestic pax due to domestic A320 engine issues continuing through FY24-25 and high airfare environment suppressing FY24 passenger numbers.

The revised forecasts result in 129k (or 0.4%) fewer passengers over the PSE5 period, with the largest impact in FY25 and almost no impact in FY29. Domestic passengers are forecast to be 0.5% lower, and international passenger 0.5% higher over the pricing period versus the IPP.

Subsequent to the development of the RPP passenger forecasts, Air NZ has made WIAL aware that the A320 engine NEO maintenance issue may last longer than that assumed in the forecasts, and a more accurate outlook should be available by the end of the calendar year. Any new information will be included in the forecasts for the FPD.

Table: RPP Passenger Forecasts

		PSE5					
	2024	2025	2026	2027	2028	2029	CAGR 2024-29
Domestic	4,775,070	5,253,689	5,581,099	5,725,698	5,863,796	5,997,233	4.7%
International	707,671	793,259	831,687	925,725	1,006,512	1,087,679	9.0%
Total	5,482,741	6,046,948	6,412,786	6,651,423	6,870,308	7,084,911	5.3%

PART C: PSE4 DEFERRALS AND WASH UPS

IPP position

17. In the IPP, WIAL outlined four wash ups to be carried into PSE5:

Passenger wash up – During PSE4 consultation, WIAL and airlines established a risk sharing mechanism in respect of passenger forecasts, given the uncertain environment at the time. Given that passenger numbers turned out below forecast, the IPP outlined a wash up amount of $32.3 million to be applied to PSE5 prices.

PSE4 deferred revenue – Additionally, during PSE4, WIAL capped prices at an average $15.00 per passenger, with $15.1m in remaining revenue deferred into PSE5. The IPP proposed this amount be recovered via PSE5 charges.

Unspent PSE4 capex – Given the unique environment during PSE4 and the Covid-19 pandemic, the IPP proposed a one-off adjustment to PSE5 pricing to return unspent capital expenditure to airlines through a $9.8m opening carry forward adjustment in PSE5. This adjustment is voluntary and not required by the IMs.

Net revaluation carry forward – There is also a remaining net revaluation carry forward from PSE4, with $5.98m remaining to be returned to airline customers in PSE5.

Airline feedback

18. BARNZ stated "The initial proposals factor in the impact of PSE4 deferrals and washups arising from decisions made in 2020 and 2021 in consultation with airlines. The approach proposed to these deferrals and washups seems reasonable."

19. Air NZ stated "A key factor in determining the starting point price is the application of the wash-up mechanisms agreed when prices were set for PSE4 in 2021. Air NZ acknowledges the impact of these wash-ups on PSE5 allowable revenue and considers these have been appropriately applied in the pricing model. Wellington Airport is also proposing to wash-up unspent capex from PSE4 through a $9.8m opening carry-forward adjustment to the opening asset value. This adjustment is welcomed."

20. Qantas did not provide feedback on the wash up mechanisms.

Response to airline feedback

21. Given the supportive airline feedback, WIAL proposes to retain the wash up methodologies as outlined in the IPP.

Other changes made for RPP

22. The passenger wash up and capex wash up amounts have been adjusted slightly based on latest FY24 forecasts. The proposed passenger wash up amount is now $35.019m. The capex wash up has decreased from $9.808m to $9.789m.

PART D: COST OF CAPITAL AND INPUT METHODOLOGIES REVIEW

IPP position

23. In the IPP, Wellington Airport noted its intent to follow the Commerce Commission's 2016 IMs when calculating its WACC for PSE5, with two exceptions:

- Asset beta of 0.745, calculated over a 15 year period, incorporating post-Covid data and not applying a downward adjustment for the aeronautical business (compared to the Commission's estimate of 0.60);

- Adjusted debt premium from 1.20 to 1.60 given WIAL's BBB credit rating.

24. This resulted in a WACC of 8.55%, which WIAL applied as its target return for PSE5.

Airline feedback – draft Input Methodologies

25. Airlines commented that WIAL's WACC estimate was not in line with the Commerce Commission's draft Input Methodologies, and encouraged WIAL to apply the Commerce Commission's draft approach as released in June 2023.

Covid-19 methodology and comparator sample

26. Airlines reiterated their views in support of the Commission's draft approach to Covid-19, the comparator sample used to estimate asset beta, and the Commission's reasonableness checks, which represents a material departure from the Commission's current approach. WIAL does not agree with the Commission's draft approach or methodology and has submitted in favour of the existing methodology for estimating asset beta, with updated market data. The reasons behind airline and airport views are well canvassed in the Input Methodologies review and so we do not replicate them here.

Averaging beta over a fifteen-year period

27. BARNZ notes that the approach taken by HoustonKemp and WIAL, of averaging asset beta over a 15 year period, is not consistent with the Commerce Commission's draft approach. WIAL acknowledges this but believes the 15-year estimate smooths the impact of Covid-19 on betas, a concessionary approach to reduce WIAL's estimate from 0.79 to 0.745.

Approach to draft IMs

28. WIAL has considered airline feedback that the draft IMs should be adopted for pricing purposes. As we have explained in our submissions to the Commission, the draft IMs depart significantly from past practice and expert economic advice. Airports have provided substantial expert evidence in support of retaining the Commission's current approach to estimating asset beta, and are confident in our evidence and reasoning. We therefore have not adopted the Commission's draft approach.

Airline feedback – adjustment for final IMs

29. In the IPP, WIAL noted that the 2023 IMs were not proposed to take effect until 2026. This received mixed feedback from airlines, highlighting that the Commission's communication of the effective date has been confusing.

30. The Commission has since opened consultation on a proposal to apply the 2023 IMs with immediate effect upon publication in December 2023. The outcome of this consultation is currently unknown.

31. BARNZ has urged WIAL to defer the RPP until the final IMs are published in December. Qantas submitted that a pragmatic solution would be “to consider an approach that includes a framework to adjust the WACC upon a decision by the NZCC”.

32. While these are constructive suggestions, WIAL considers that the Commission’s decision is subject to appeals and therefore a final position may not be known for some time. Therefore it is not practical to delay price setting until final outcomes are known. We also do not think it advisable to delay the RPP because of disagreement on a single input. We note WIAL is obliged by legislation to set prices before 1 April 2024.

33. We also note the IM decision is not determinative for the purposes of pricing consultation. The final IMs will guide the Commission’s review of this Price Setting Event but do not determine WIAL’s ability to consult with airlines and set prices.

34. WIAL’s WACC estimate is backed by the best economic evidence and reflects real increases in airports’ cost of equity and cost of debt.

35. Our revised proposal is to hold WACC parameters constant as per the IPP, with an update to the risk-free rate. The resulting WACC is 8.94%.

36. We are open to further airline feedback on this proposal, and recognise this is a complex area that is the subject of contention between airlines and airports.

WACC model and parameters

37. WIAL’s updated WACC for the RPP is based on the following parameters.

Parameter	Commerce Commission benchmark WACC (2016 IMs) (1 June 23)	Wellington Airport WACC (1 June 23)	Wellington Airport WACC (15 Sep 23)
Risk-free rate	4.29%	4.29%	4.84%
Debt premium	1.20%	1.60%	1.60%
Leverage	19%	19%	19%
Asset beta	0.60	0.745	0.745
Equity beta	0.74	0.92	0.92
TAMRP	7.00%	7.00%	7.00%
Tax rate	28%	28%	28%
Debt issuance costs	0.20%	0.20%	0.20%
Cost of debt	5.70%	6.09%	6.63%
Cost of equity	8.28%	9.53%	9.92%
Mid-point vanilla WACC	7.79%	8.88%	9.29%

Mid-point post-tax WACC	7.49%	8.55%	8.94%

Forecast rate of return implied by proposed prices

38. The target rate of return for the pricing asset base is now 8.94%. This is an increase from the IPP position given the increase in the risk-free rate.

PART E: CAPITAL EXPENDITURE

IPP position

39. Prior to developing its capex forecast, WIAL has spent many years working with airlines on its future Masterplan, and taking into account airline feedback on specific projects. WIAL also met with airlines prior to issuing the IPP in order to provide a briefing on capital expenditure, and received a positive response.

40. WIAL has worked to defer projects and reduce costs where appropriate. This resulted in a reduction in PSE5 capex from $594m in prior forecasts, to $384.2 million in the IPP.

41. The capex forecast for the IPP included:

- Projects revised or deferred following Covid-19, including 8MPPA terminal construction (not commissioned until PSE6); apron development (reduced and re-staged from previous forecasts); and the marine defences programme (re-staged over 10 years to reduce immediate costs).

- Projects deferred from PSE4 which are now urgently required, including ECAC Standard 3 Bag Factory; AFS relocation; TC3 Baggage Handling System and Check-in Resilience; Decarbonisation; Underground utilities; Flight catering relocation; and Logistics Hub.

- New projects proposed for PSE5 including terminal optimisation, EMAS, and PLEXIT.

- Operating capital expenditure, including airfield maintenance and terminal projects.

General support from airlines

42. WIAL is pleased to have received general statements of support from airlines for the proposed capital expenditure programme.

43. BARNZ said:

We support the approach WIAL has taken to the proposed Capital Expenditure Programme and acknowledge the steps taken to revise this considering the impact of Covid-19 – while still supporting longer term Master Plan intent. In this regard we applaud the airport for its decision-making in what is a complex environment.

In particular we support the decision to defer the construction of the new terminal due to the impact of Covid-19 and the restrained passenger numbers now forecast, while still ensuring that existing congestion and service level concerns are addressed via interim terminal works.

44. Air NZ said:

The IPP capital plan essentially reflects the outcome of the Masterplan 2040 consulted on over 2019-20, albeit delayed by some 5-6 years given the impact of the pandemic on passenger volumes. Passenger numbers are forecast to reach 8 million passengers per annum in 2035, triggering the requirement for the redeveloped terminal and apron at that time.

Air NZ is generally comfortable with the proposed capital plan, noting that this was essentially consulted on as part of the PSE4 pricing consultation.

45. Qantas supported the majority of projects in principle, while noting this did not necessarily extend to agreement to cost or pricing impact. Qantas stated, “Affordability is a major concern with a

substantial price hike this year, and we will need to overlay an affordability lens across the program through the consultation." Comments on affordability are addressed below.

WIAL response to airline feedback on projects

Specific feedback was received on the following projects:

ECAC Std 3 Baggage System and Remote Bag Factory

46. BARNZ noted the operational success of the Baggage Factory would be dependent on baggage transfer times to and from aircraft, and requested involvement of airlines in detailed planning processes.

47. Air NZ also considered further engagement is required on this project, with baggage delivery times front of mind. Air NZ sought to further understand the operational implications, including any impact on amount of GSE required.

48. WIAL concurs with these requests for further engagement and had always intended to provide this engagement with airline customers as the project progresses.

49. Qantas requested further information. This was provided to Qantas on 30 August 2023.

EMAS

50. BARNZ supported the EMAS proposals to improve safety at the airport and applauded WIAL for moving to address this need, while noting the impact on operational capability needed to be considered with detailed technical input from airlines. Air NZ supported the approach to EMAS on the basis that it would not degrade operational capability. EMAS was supported in principle by Qantas.

51. WIAL agrees installation of EMAS will only be pursued if it can be designed and implemented such that it does not degrade operational capability. WIAL will engage with airline customers further as this project progresses.

Seawall

52. BARNZ highlighted the seawall renewal as needing ongoing assurance to airlines as to integrity of the marine defences, given the proposal for a longer construction timeframe. BARNZ requested regular updates to airlines on the sustainability of the proposed approach and a "no surprises" approach in the event of any need to bring works forward. Air NZ supported the approach to seawall renewal and noted WIAL's proposal for a Specific Project Charge in the event of bringing works forward.

53. Qantas also reiterated its view expressed in PSE4 consultation, that the seawalls should be partly allocated to the commercial till, and should receive contributions from others including Wellington City Council and Waka Kotahi NZ Transport Agency.

54. WIAL agrees the western seawall (as opposed to the southern seawall) should be part funded by Wellington City Council (as opposed to Waka Kotahi NZTA, as the adjacent roads are local roads), and is progressing discussions with WCC on this basis. Air NZ welcomed WIAL's commitment to continued engagement with Wellington City Council.

55. WIAL does not hold the same view as Qantas on the allocation of the asset. The marine defences protect the runway infrastructure and have always been treated as an aeronautical asset.

56. WIAL will provide regular updates to airlines as requested by BARNZ.

AFS Relocation

57. Qantas supported the project in principle, while asking WIAL to review the cost plan to find potential savings.

58. WIAL has conducted a full review of the cost plan and identified one item for savings: $0.5m earmarked for Greenstar certification of the project. WIAL believes the new AFS station can be built to a five star Greenstar standard without this additional cost relating to certification. WIAL will commit internal resource to ensure adherence to sustainable design guidelines for this project.

Apron development

59. Qantas supported the project in principle, while asking WIAL to review affordability of the project and ensure it is warranted. WIAL confirms the project is required in order to meet forecast passenger demand for the PSE5 period, as well as to alleviate capacity issues already experienced at peak times. The design of the works will balance long-term apron requirements against immediate needs, effectively managing costs in PSE5, and ensuring works are not abortive.

Centralised security screening

60. Qantas requested the cost plan for this project and requested the following be removed and allocated to the commercial till:

- Construct link corridor to hotel & check in ($4.0m); and
- Construct new toilets and modify existing ($1.411m).

61. WIAL agrees the corridor can be reallocated to the commercial till. The airside bathrooms are essential for passenger amenity and WIAL proposes to retain this component in the aeronautical till.

62. Qantas also asked follow up questions relating to the project. A response was provided on 30 August 2023.

Plexit

63. Qantas asked additional questions in relation to Plexit. This information was provided on 25 August 2023.

Underground utilities

64. Qantas thought these improvements would also benefit non-aeronautical tenancies within the terminal. WIAL does not agree with this view; the underground utilities capex is required as an enabler of stages of apron development, and provide for improving the structural capacity and alignment of those utilities to allow for aircraft trafficking.

Logistics Hub

65. Qantas asked whether the Logistics Hub redevelopment was warranted in PSE5 or could be deferred to PSE6.

66. WIAL notes this development is required in PSE5. The existing facilities are at the end of their intended design life, do not meet current earthquake code requirements and provide generally poor amenity. It is also noted that Logistics Hub redevelopment is an aeronautical lease project and is not proposed to be included in PSE5 charges.

8MPPA Terminal – Stage 1 and 2

67. Qantas noted "These works are not agreed and will require further consultation". WIAL agrees to further engagement with airlines well before this project is underway. We note this project does not affect pricing until PSE6, and have not made any changes to PSE5 forecasts.

Mechanism for Specific Project Charge

68. The Specific Project Charge (SPC) mechanism has been proposed in prior consultations by WIAL for certain projects, where capex costs are excluded from the pricing asset base.

69. WIAL proposes that this SPC approach be applied for the seawall costs should these works need to be accelerated. WIAL would consult on this specific project and PSE5 pricing would then be amended once the works are complete and in use.

70. The SPC mechanism is set out below:

- Standard building block approach is applied;
- WACC for SPC projects is the same as that set for PSE5 i.e. WIAL bears the risk of any movement in WACC during the pricing period;
- Other standard building block items are included in the pricing calculation i.e. depreciation, revaluations, life of asset, allocation and any changes in operating costs and forecast passenger numbers;
- At the next price reset consultation i.e. PSE6 the SPC project would become part of the aeronautical asset base.

71. This is set out in the spreadsheet included with the Appendices to this RPP.

Changes made for RPP

Adjustment to AFS capex forecast

72. Nominal forecast spend has been reduced by $0.5m as noted above.

Adjustment to Centralised Security Screening forecast

73. This has been reduced by $4m as noted above.

Cost of construction inflation

74. The cost of construction inflation assumption is based on NZIER's forecast for the non-residential building cost index. This has been updated for NZIER's latest forecast published 29 August 2023, which results in slightly lower capex inflation over PSE5 compared to the IPP:

	2024	**2025**	**2026**	**2027**	**2028**	**2029**
Forecast Index	5.0%	3.3%	2.8%	3.1%	2.8%	2.8%

RPP outcomes

75. WIAL's forecast capex in nominal terms is as follows:

Nominal Terms	2025	2026	2027	2028	2029	Total
	$000	$000	$000	$000	$000	$000
Total Capital Expenditure	153,116	120,070	87,833	69,260	42,570	472,849

76. Assets are only included in the regulatory asset base when the assets are completed and in use.

77. Therefore, the amounts actually proposed to be capitalised such that they will impact the forecast regulated return for PSE5 are summarised below. Note that these figures exclude asset transfers, but include some capitalisation of work in progress carried forward from PSE4.

Capitalised Values	2025	2026	2027	2028	2029	Total
	$000	$000	$000	$000	$000	$000
Infrastructure/Growth	67,702	90,260	41,576	120,292	27,057	346,887
Leasing Developments	-	56,610	-	-	-	56,610
Operational/Maintenance	19,407	22,145	17,748	12,673	13,083	85,056
Total Capital Expenditure	**87,109**	**169,015**	**59,324**	**132,965**	**40,140**	**488,553**

Affordability

78. WIAL has considered the final outcomes outlined above, in light of airline feedback on affordability.

79. Qantas stated: "Affordability is a major concern with a substantial price hike this year, and we will need to overlay an affordability lens across the program through the consultation… We recommend that WIAL uses our feedback from this round and any further workshops to refine the capital and opex and come back to us with an affordable program."

80. Air NZ stated: "Recovery from the pandemic brings with it a wave of capital expenditure across the New Zealand network as airports seek to pursue plans put on hold as a result of the pandemic. The increase in cost across the network, not least as a result of Auckland Airport's unprecedented expenditure, has real potential under the existing regulatory framework to result in air travel becoming unaffordable for many. It is vital that price increases are managed sustainably, thoroughly justified, and economically efficient."

81. These comments clearly link affordability to the capex programme. WIAL agrees it is important that all capex is well justified and that it is useful to consider projects through an affordability lens. We have reviewed the capex programme again in this light, as a result of airline feedback.

82. WIAL's Initial Pricing Proposal, which involved substantial deferrals and reductions, was developed with affordability in mind. We consider the capex programme is already lean, and the opportunity to find further cost savings is small.

83. We have also considered price path options to sustainably manage any impact on charges; and provided growth incentives to assist airlines with increasing capacity. These options are presented in Part I.

84. WIAL notes the proposed increase in charges is a reflection of real costs. WIAL's construction costs, cost of debt, insurance costs, and cost of equity have all increased. Affordability is a concern for airports as well as airlines, and Wellington Airport must remain financeable.

85. WIAL notes airline profitability is at record levels, and airlines have not evidenced any inability to afford WIAL's proposed prices. WIAL does not consider that airport charges are directly reflected in the final prices charged to consumers, which are currently at record levels despite airport charges being held artificially low through the Covid-19 period.

86. The proposed capital expenditure plan should also result in reduced operating expenditure for airlines, for example the upgraded Baggage Handling System and Bag Factory will reduce the need for manual handling and input from staff and improve the overall efficiency and resilience of the system.

87. WIAL acknowledges the complex environment, with the risk-free rate and ongoing subdued passenger numbers both contributing to increased airport charges. The return of competition and capacity to the market is expected to alleviate upward pressure on per-passenger charges over the medium term.

PART F: OPERATING EXPENDITURE

IPP position

88. The IPP outlined that WIAL is expecting several largely unavoidable cost increases relating to AFS staffing, insurance, rates and PLEXIT. Excluding these uplifts, WIAL's real operating costs per passenger are forecast to remain below pre-Covid levels. We aim to continue this trend over the long term with ongoing focus on efficiencies, growing passenger numbers and economies of scale.

Consideration of airline feedback

89. Air NZ was positive about Wellington Airport's measures to reduce costs and maintain efficiencies:

> *Air NZ acknowledges the measures Wellington Airport took in response to Covid-19 to reduce its operating cost base and welcomes the airport's commitment to retaining savings "wherever possible". It is also acknowledged that there are cost increases which are largely uncontrollable, driven by regulatory requirements and changes of function. Air NZ considers Wellington Airport has demonstrated historically a commitment to managing costs and urges a continued focus on this.*

90. Qantas considered that increases in opex did not reflect "efficiencies / economies of scale expected as a result of forecast passenger growth and continued recovery at the airport" and asked that WIAL identify efficiency improvements.

91. WIAL considers that its per-passenger opex is extremely efficient, compares favourably to other airports, and is generally (with the exception of rates, insurance, Plexit and firefighting resource) flat in real terms over time. Analysis of WIAL's opex with references to efficiency is included in the IPP.

92. WIAL therefore does not consider that further reductions or efficiencies are appropriate or necessary, and appreciates the acknowledgement by Air NZ of its ongoing efforts to reduce costs. We do not propose any items for reduction or revision in the RPP, but note specific responses to some items raised by Qantas below.

Aeronautical allocation methodology

93. Qantas requested information about WIAL's allocation methodology and stated "Qantas Group requires further detail on these categories to understand the appropriateness of their inclusion".

94. This information was provided on 25 August 2023.

Rates

95. WIAL's rates are based on the Council's published Long Term Plan (LTP) forecasts. WIAL has recently obtained confirmation from the Council that this remains an appropriate assumption.

96. Qantas referred to Wellington City Council's higher recovery of rates in the short term (compared to its LTP), and "considered it likely that long term rate growth will normalise and be less than what is in the forecast".

97. WIAL considers the opposite is likely to be true, i.e. that the Council has effectively signalled its intent to over-recover compared to its existing LTP forecasts and its large programme of capital works and debt constraints has been well publicised in the media.

98. It is also worth noting that 66% of the forecast increase in rates in PSE5 reflects growth in capital values due to capital expenditure and cost of construction inflation.

Insurance

99. Qantas noted that insurance costs effectively double between FY24 and FY29, and believed that "initial price increases proposed by insurers post-Covid can be reduced to reasonable levels for companies without a material claim history. We do not expect the historical rises to be sustained either."

100. Qantas also requested detail on WIAL's steps taken to ensure competitive pricing of insurance.

101. WIAL reiterates that the forecast increase in insurance costs over PSE5 reflects growth in insurable values, rising construction costs and a tough insurance market, especially for WIAL given its location in an earthquake zone.

102. Despite this, WIAL's insurance premiums per dollar of insured value have been near flat in nominal terms over the long-term, and have actually reduced in real terms. This is an exceptional outcome and is the result of an advanced insurance strategy with long term placement and relationships in the UK market and also expanding into other market areas. WIAL has an experienced insurance broker who is able to obtain pricing and cover across its global network. WIAL has also put in place a captive insurance subsidiary which has further enhanced its ability to achieve competitive premiums and cover. All insurances are based on competitive market rates.

103. As noted for overall operating costs, WIAL has a good record of robust forecasting of its insurance premiums in what has been a challenging market especially in recent years. These have been forecast in conjunction with our brokers, reflect our strong claims history and a moderating insurance market post Covid. WIAL is currently finalising its 2023/2024 material damage and business interruption insurances and pleasingly these are in line with budget, which was used as the base for the PSE5 forecast.

IT/Software

104. Qantas requested further detail on the nature of IT investment and an understanding of the extent to which it enables aeronautical outcomes or reduces overall costs; and requested detail on the steps WIAL has taken to ensure competitiveness of procurement processes.

105. As noted in its IPP, WIAL has made ongoing investments and improvements in IT over recent years, in particular for common use terminal equipment (CUTE), cyber security and increased automation. These have enabled reduced infrastructure spend as noted above plus increased customer service, efficiency and resilience. The aeronautical benefits for some of these projects are listed below:

- CUTE enables efficient sharing of IT infrastructure with reduced cost, increased customer service and helps prevent the need for an expansion of check in areas, gates and bag drops and also building infrastructure;
- Passenger tracking promotes customer service levels with reduced queue lengths and will inform future efficient operational and investment decisions;
- ACDM assists in apron efficiency and reduced track miles for aircraft plus improved on time performance;
- Ongoing need for cyber protection is well publicised and airport users benefit from the resulting operational resilience that this provides.

106. WIAL has financial delegations that are regularly reviewed and approved by the Board. These specify a contestable process to ensure that WIAL's suppliers provide appropriate value, expertise and

advice. All contracts over a specified value over the life of that contract require a minimum of two written quotes.

107. Qantas stated that WIAL's forecast increase in IT costs is not in line with industry reports such as SITA. WIAL has reviewed SITA's 2022 Air Transport IT Insights report and disagrees. The report shows that post-pandemic, 68% of airlines and 75% of airports expect their IT budgets to grow with an ongoing focus on digitisation, self-service and automation. The report also notes the accelerated digitisation of air travel is in full focus as passengers look to technology to support convenient and seamless journeys.

108. It is also worth noting that within the assumed cost increase for PSE5, WIAL has allowed for continued application of accounting guidance issued by the IFRS Interpretations Committee regarding cloud-based software, which requires WIAL to reclassify most of these costs from capital to operating expenditure (a change in treatment from previous pricing forecasts). Accordingly, capital expenditure forecasts for PSE5 now exclude these costs.

Changes made for RPP

109. The underlying approach behind WIAL's opex forecast is unchanged from the IPP. Some slight adjustments have been made in relation to:

- Inflation – our CPI forecast has changed very slightly, as outlined in Part H. This affects general costs and salary inflation, which is assumed at CPI+1%.

- Passenger forecasts – as per the revised passenger forecasts outlined in Part B. This affects passenger related costs such as cleaning and rubbish removal.

PART G: OPENING ASSET VALUATION, ASSET ALLOCATION, DEPRECIATION AND TAX

Updated land valuation

110. WIAL provided an updated MVAU land valuation prepared by CBRE with the IPP. No feedback was received on the valuation outcome or CBRE's report.

111. For the IPP, WIAL calculated the opening PSE5 land valuation uplift based on a roll forward of the FY22 RAB as the FY23 RAB was not yet complete.

Roll-forward of non-land assets

112. WIAL proposed rolling forward the audited 31 March 2023 RAB to 31 March 2024 to provide the opening PSE5 RAB values and depreciation forecasts for existing assets. No feedback was received on this proposal.

113. For the IPP, WIAL rolled forward the FY22 RAB as the FY23 RAB was not yet complete.

Changes made for RPP

114. The PSE5 land valuation has been recalculated based on a roll forward of the audited FY23 RAB, now that this is available. The 2024 CPI assumption for the roll forward has also been updated from 4.70% to 4.90%, based on updated bank forecasts.

115. A portion of land was reclassified from the non-pricing to pricing asset base in the FY23 Annual Disclosures to reflect the underlying use of the area. This update means a higher land valuation uplift is now forecast for the pricing asset base and results in reduced charges for PSE5.

116. Opening non-land RAB values and depreciation of existing assets for PSE5 have also been updated to reflect a roll forward of the audited FY23 RAB and the latest 2024 CPI assumption.

117. The allocation methodology has not changed from that outlined in the IPP.

118. The Labour Party announced as part of its 2023 Election Tax Policy that tax depreciation on commercial non-residential buildings would cease. The incoming National Government has similarly announced this policy with the removal of tax depreciation to take effect from 1 April 2024.

119. As a result, WIAL has updated forecast tax depreciation to reflect this change. This reduces tax depreciation by $16.6m and increases forecast tax expense by $4.6m over PSE5.

RPP outcomes

120. The land included in the MVAU valuation is calculated as follows:

	Hectares
Total WIAL Landholding	130.2
Less Investment Property and Commercial Land	(26.8)
Land Area Used to Provide Specified Airport Services	**103.4**
Less Allowance for Roads	(20.6)
Less Allowance for Public Spaces	(15.8)
Net Development Land Area for MVAU valuation	**67.0**

121. The value of the pricing asset base land (comprising airfield, specified terminal, and an allocation of shared land) was then calculated as follows:

MVAU Valuation	$288.5m
Total land available for MVAU valuation	103.4ha
Value of Land per Square Metre @ 1 April 2023	$279/sqm
Value of Land per Square Metre @ 31 March 2024 (4.9% CPI)	$293/sqm
Total land area in pricing asset base	83.3ha
MVAU Value of Land to Include in Pricing Asset Base	**$243.7 million**

Valuation of land transferred from commercial to aeronautical use

122. WIAL proposed in the IPP that land transferred into the RAB would be transferred at its existing use value rather than at MVAU.

123. Air NZ feedback was that “Air NZ continues to object to this approach given land included in the RAB is required to be valued at MVAU”.

124. WIAL does not agree that land is required to be valued at MVAU, but acknowledges this is the IM-compliant methodology.

125. WIAL retains its view that the actual alternative use value of an asset is best reflected by its immediate prior use, and has continued applying existing use value to transferred land. The alternative is that WIAL is disincentivised from repurposing land to aeronautical uses, which is not in the interests of users of the airport. As noted in the IPP, the forecast value of land transferred into the pricing asset base in PSE5 is $4.8m higher under MVEU compared with MVAU, and $7.0m higher for the total asset base.

PART H: ASSET REVALUATIONS

IPP position

126. In the IPP, WIAL set out our approach to revaluations, including a $37.0m uplift in WIAL's pricing land value, based on the CBRE 2023 land valuation.

127. WIAL also proposed to index its asset base to include forecast revaluations at CPI.

Updated CPI forecast

128. We note that the IMs do not prescribe a specific approach for estimating CPI. It was proposed in the IPP that an average of forecast CPI and breakeven rates be applied. These have been updated for the most recent forecasts per below:

Year ended	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**
RBNZ	2.27	1.99	2.00	2.00	2.00
NZIER	2.40	2.20	-	-	-
Breakeven	3.19	2.62	2.37	2.10	2.04
Average %	**2.62**	**2.27**	**2.19**	**2.05**	**2.02**

129. This CPI assumption is used throughout the IPP wherever CPI indexation is required, other than for construction cost indexing which uses NZIER construction market forecasts.

Qantas position

130. Qantas provided feedback opposed to asset revaluations, referring to IATA's view that revaluations are "inefficient", "unfair", "impractical" and "not standard practice".

131. Qantas notes revaluation gains are offset from revenue, but is opposed to the impact of a higher asset base on future consultations.

132. WIAL's approach is long standing and IM-compliant. All valuation increases are treated as income, and directly offset via reductions in charges. This approach is NPV neutral over time, i.e. it does not involve any value transfer from airlines to airports as asserted by Qantas.

133. We also note the impact on PSE5 charges of removing revaluations would be a $1.60 increase in FY29 charges, or a $51.1m increase in total nominal pricing revenue over the period.

134. Air NZ provided feedback in support of WIAL's proposed approach to valuation and revaluations, noting it is consistent with the IMs. Air NZ was also comfortable with WIAL's approach to asset allocation.

135. We propose to retain our IM-compliant approach, which reduces the impact of price increases on airlines.

PART I: TARGET REVENUE (BUILDING BLOCK MODEL)

IPP position

137. The IPP outlined WIAL's building block approach to establish its proposed required revenue to meet a post-tax target return of 8.55%.

138. The IPP proposed a PSE5 price path with a step up in year 1 and CPI adjustments thereafter. WIAL invited airline feedback on whether increases should instead be smoothed over the five-year period, which would result in lower prices in early years, and a higher end price in FY29.

139. Average charges were forecast to increase from an adjusted FY24 charge of $19.07 (being the charge that applied in PSE4 without any deferrals and using expected passenger numbers for the year at the time of the IPP), to $23.20 in FY29.

140. Qantas provided feedback that it was interested in consulting on a smoothed price path.

Changes for RPP

141. No changes have been made to the building block approach for the RPP.

142. The updated inputs and assumptions outlined in this document have been incorporated into WIAL's Pricing Model to establish the required revenue to meet a post-tax target return of 8.94%.

143. Based on Qantas' feedback, WIAL has presented a smoothed price path below for further consultation. Other customers did not comment on the price path.

RPP outcomes

144. Nominal pricing revenues and average proposed charges under the two price paths are shown below.

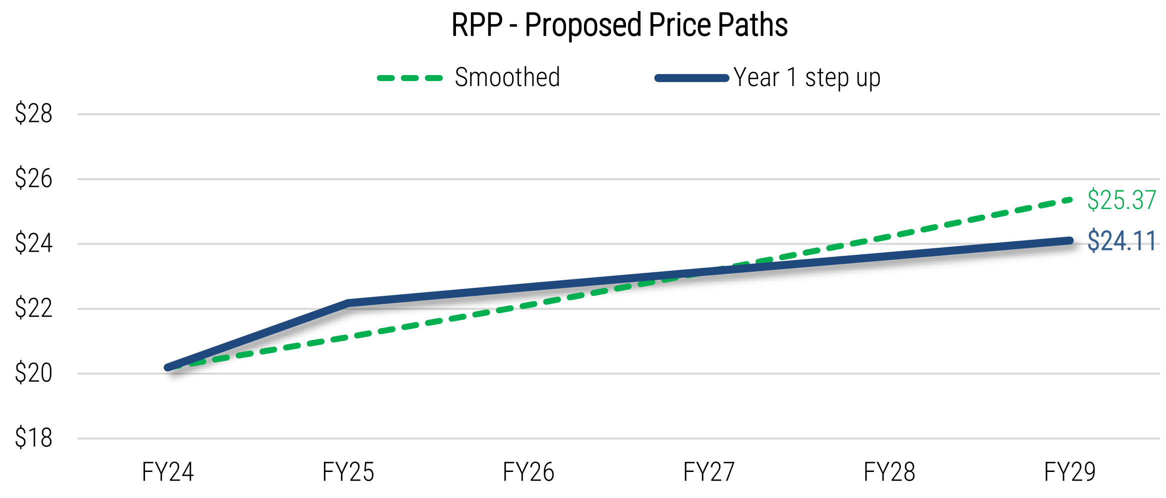
145. Forecast charges are based off an adjusted FY24 charge of $20.19 (being the charge that would have applied in PSE4 without any deferrals and using the latest actual passenger numbers).

Nominal Pricing Revenue

Price Path	FY25 $000	FY26 $000	FY27 $000	FY28 $000	FY29 $000	PSE5 Total $000
Year 1 step up	134,063	145,402	154,010	162,339	170,791	766,605
Smoothed	127,789	141,849	153,998	166,494	179,712	769,842
Difference	6,274	3,553	12	(4,155)	(8,921)	(3,236)

Average Charge Per Passenger

Price Path	FY25 $/pax	FY26 $/pax	FY27 $/pax	FY28 $/pax	FY29 $/pax	PSE5 Avg $/pax
Year 1 step up	22.17	22.67	23.15	23.63	24.11	23.18
Smoothed	21.13	22.12	23.15	24.23	25.37	23.28
Difference	1.04	0.55	-	(0.60)	(1.26)	(0.10)



146. The proposed revenues and charges above result in a forecast IRR of 8.94% on the pricing asset base over PSE5 (in line with the target WACC of 8.94%).

147. The forecast IRR for the total asset base over PSE5 is 8.69%, below the target WACC of 8.94%. This reflects a lower return on leased assets compared to pricing assets.

PART J: PRICING METHODOLOGY

IPP position

149. The IPP set out WIAL's pricing methodology, including:

- Largely retaining the previous methodology;
- Inviting views on lower charges or exemptions for transfer passengers;
- Retaining previous peak and shoulder charges;
- Reintroduction of published growth incentives;
- Inviting airline views on incentives for more sustainable aircraft and fuels.

Air NZ feedback noted Air NZ's support for WIAL's largely unchanged price structure.

Growth incentives

150. BARNZ supported the reintroduction of growth incentives, and the proposed approach. Air NZ and Qantas did not comment on this aspect.

151. The RPP proposes to maintain the inclusion of growth incentives, but with a change to the methodology for domestic passengers. In the IPP (and in previous price-setting events) the domestic growth incentive has been calculated based on discounts applied to growth over the prior year. The most recent RPP domestic passenger forecasts have resulted in a material reduction in FY24 (current year) and FY25 (first year of PSE5) passengers primarily as a result of reduced capacity associated with the A320 engine issues. Under the IPP methodology, the consequence of this disruption would be to pay out significantly higher growth incentives in FY25 and FY26 as the engine issues are resolved and capacity is returned. WIAL does not consider the restoration of capacity which has been temporarily displaced to enable engine maintenance to be genuine growth. The RPP proposes a change to the methodology in that year-on-year growth will be calculated based on the starting point of FY19 (pre-Covid) domestic passenger numbers, such that only genuine growth is incentivised.

Table: Scheduled Airlines Incentives for Growth[1]

	Qualifying Capacity		Year 1	Year 2	Year 3
Domestic	All Pax Growth over Previous Year[3]		50%	25%	0%
International – Short Haul	3 per week	Additional capacity on existing route[2]	50%	25%	0%
	3 per week	New route	100%	50%	25%
International – Long Haul	All	Additional capacity on existing route[2]	50%	25%	0%
	3 per week	New route	100%	100%	100%

Notes:
1) Discounts on qualifying passengers – excludes Noise Charges

2) Capped at total market growth

3) Capped at total market growth above FY19 (pre-Covid) level of 5.41M net passengers

152. The value of the incentive has been adjusted in the RPP to reflect the revised domestic growth incentive methodology, resulting in a lower incentive paid. The international incentive value remains at a similar level, with the earlier start of the Qantas BNE service offset by slightly higher unit charges. The total value of the incentive has reduced from $25.6M (3.5% of revenue) in the IPP to $20.2M (2.6% of revenue) in the RPP.

Transfer charges

153. In the IPP, WIAL expressed interest in hearing from airlines on transfer passenger exemptions or rebates. Air NZ indicated interest in exploring this and that "An important aspect of a rebate is understanding what impact it would have on the level of charges, given that the revenue foregone by any rebate will be recoverable through standard charges". No other feedback was provided by submitting parties.

154. Given the feedback provided, the RPP includes a proposed discount for passengers that transfer at Wellington Airport. Transferring passengers are defined as any passenger that arrives at Wellington Airport, changes aircraft and departs on a connecting flight to a different destination (than their original departure) on one itinerary with a stopover of less than 24 hours at the airport. The forecast number of transfer passengers has been provided by InterVistas as part of their forecasting methodology. Transfer passengers are forecast to be 14% of passengers at Wellington Airport (14% of domestic, 16% of international). WIAL is interested in airlines' views on the definition of a transfer passenger, the ability for airlines to separate transfer passengers in the data provided for billing, as well as whether these proportions forecast are consistent with their information.

155. To avoid significant price shocks for airlines that do not have a significant proportion of transferring passengers, WIAL proposes to phase in the discount for transfer passengers over PSE5 and PSE6 by 5% per annum to eventually reach a 50% discount by the end of PSE6. The discount is proposed to apply to both legs of the trip.

Table: Transfer Passenger Discounts PSE5

	PSE5				
	2025	**2026**	**2027**	**2028**	**2029**
Transfer Discount	5%	10%	15%	20%	25%

156. The transfer discount is calculated at $18.4M over the pricing period, around $1M in FY2025 and $6.7M in FY2029.

Incentives for Sustainable Aircraft and Fuels

157. WIAL asked for feedback on incentives for the introduction of more sustainable aircraft and/or fuel. No feedback was received from submitters.

158. Forecasts assume that from FY2028, electric/hybrid aircraft will be operating at Wellington Airport. By the end of PSE5, around 2,150 movements (3 return flights per day or 3% of total movements) will be operated by these aircraft, carrying approximately 53k passengers in FY2029. WIAL proposes that to support the introduction of new and initially expensive technology, that electric/hybrid/hydrogen aircraft will receive a 100% rebate of their aeronautical charges during PSE5. This equates to a rebate of $1.6M over PSE5. WIAL is interested in any further feedback from submitters on this topic.

Phasing of charges

159. The IPP phased charges with a step-up from FY24-25, and CPI increases thereafter. WIAL asked airlines for feedback on this approach, versus an approach of smoothing increases across the period (resulting in a lower FY25 price but higher increases each year through to FY29, and a higher end price).

160. BARNZ had no specific position.

161. Qantas was open to exploring the impact of smoothing revenue, to try to mitigate the financial impact of the increase in FY24-25; while noting "smoothing… is not a substitute for reduction of charges through efficiencies".

162. The following tables provide the schedule of charges for the RPP.

Table: Scheduled Airlines Airfield and Terminal Charges (Note 1)

	1 April 2024	1 April 2025	1 April 2026	1 April 2027	1 April 2028
Offpeak Passenger Charge (Note 2)					
Domestic Jet	$23.20	$23.89	$25.01	$25.75	$26.59
Domestic Prop ≥10 Tonnes	$15.83	$16.52	$17.64	$18.38	$19.22
Domestic Prop <10 Tonnes	$14.82	$15.51	$16.63	$17.37	$18.21
International	$32.77	$33.71	$35.08	$36.07	$37.16
Peak Movement Charge (Note 3)					
Peak	$20.00	$20.00	$20.00	$20.00	$20.00
Shoulder	$10.00	$10.00	$10.00	$10.00	$10.00

Notes:
1) Charges are additive.
2) Per departing and arriving passenger excluding infants (under 2 years old), transit passengers, positioning crew, and diverted international passengers returned to destination (being only those diverted passengers not processed by customs).
3) Per aircraft landing and departure. Peak defined as actual landing or take-off time 07:45-8:45 and 18:15-19:15 Monday-Friday; shoulder 30 minutes either side of peak. No peak charge outside of these periods.

Table: Transfer Passengers (Note 1)

	2025	2026	2027	2028	2029
Transfer Discount (Note 2)	5%	10%	15%	20%	25%

Notes:
1) Transfer passenger defined as any non-exempt passenger that arrives at Wellington Airport, changes plane and departs on a connecting flight to a different destination (than their original departure) on one itinerary with a stopover of less than 24 hours at the airport.
2) Discounts applied to both legs of the trip; discounts exclude Lumins

Table: Scheduled Airlines Parking Charges

		1 April 2024	1 April 2025	1 April 2026	1 April 2027	1 April 2028
Per (part) Hour – Only applies Mon-Fri 06:00-10:00, 16:00-20:00						
Domestic Jet	After 60 mins	$61.10	$62.49	$63.81	$65.12	$66.44
Domestic Prop	After 60 mins	$48.88	$49.99	$51.05	$52.09	$53.15
International	After 120 mins	$85.53	$87.48	$89.33	$91.16	$93.00

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.

Summary of charges per passenger by aircraft/service type

163. The following tables provide a summary of the charges per passenger for different aircraft types and services over PSE5.

Table: Average Domestic Charges per Passenger (Note 1)

Aircraft	Time Period	FY24 (Note 2)	FY25	FY26	FY27	FY28	FY29	FY29 vs FY24
A321	**Peak**	$20.52	$23.16	$23.57	$24.18	$24.56	$25.10	22%
	Shoulder	$20.46	$23.10	$23.52	$24.12	$24.50	$25.05	22%
	Offpeak	$20.41	$23.05	$23.46	$24.06	$24.44	$24.99	22%
A320	**Peak**	$20.55	$23.19	$23.60	$24.21	$24.59	$25.13	22%
	Shoulder	$20.48	$23.12	$23.53	$24.14	$24.52	$25.06	22%
	Offpeak	$20.41	$23.05	$23.46	$24.06	$24.44	$24.99	22%
ATR	**Peak**	$15.40	$16.04	$16.45	$17.06	$17.44	$17.99	17%
	Shoulder	$15.22	$15.86	$16.27	$16.88	$17.26	$17.80	17%
	Offpeak	$15.03	$15.68	$16.09	$16.69	$17.07	$17.62	17%
Q300	**Peak**	$15.53	$16.18	$16.59	$17.19	$17.57	$18.12	17%
	Shoulder	$15.28	$15.93	$16.34	$16.94	$17.32	$17.87	17%
	Offpeak	$15.03	$15.68	$16.09	$16.69	$17.07	$17.62	17%
C208	**Peak**	$16.11	$16.75	$17.16	$17.77	$18.15	$18.69	16%
	Shoulder	$15.07	$15.71	$16.12	$16.73	$17.11	$17.65	17%
	Offpeak	$14.03	$14.67	$15.08	$15.68	$16.06	$16.61	18%
PC12	**Peak**	$16.80	$17.44	$17.86	$18.46	$18.84	$19.39	15%
	Shoulder	$15.41	$16.05	$16.47	$17.07	$17.45	$18.00	17%
	Offpeak	$14.03	$14.67	$15.08	$15.68	$16.06	$16.61	18%

Notes:
1) Excludes parking, includes average discounts for growth/transfers/nextgen aircraft, assumes 80% LF.
2) FY24 published charges prorated to adjusted FY24 revenue

Table: Average International Charges per Passenger (Note 1)

Aircraft	Time Period	FY24 (Note 2)	FY25	FY26	FY27	FY28	FY29	FY29 vs FY24
A321	**Peak**	$30.09	$31.77	$33.12	$31.28	$31.70	$31.17	4%
	Shoulder	$30.03	$31.72	$33.06	$31.23	$31.64	$31.11	4%
	Offpeak	$29.98	$31.66	$33.00	$31.17	$31.59	$31.05	4%
A320	**Peak**	$30.12	$31.80	$33.15	$31.31	$31.73	$31.20	4%
	Shoulder	$30.05	$31.73	$33.08	$31.24	$31.66	$31.13	4%
	Offpeak	$29.98	$31.66	$33.00	$31.17	$31.59	$31.05	4%
B738	**Peak**	$30.12	$31.80	$33.15	$31.31	$31.73	$31.20	4%
	Shoulder	$30.05	$31.73	$33.08	$31.24	$31.66	$31.13	4%
	Offpeak	$29.98	$31.66	$33.00	$31.17	$31.59	$31.05	4%
A359	**Peak**	$30.07	$31.76	$33.10	$31.27	$31.69	$31.15	4%
	Shoulder	$30.02	$31.71	$33.05	$31.22	$31.64	$31.10	4%
	Offpeak	$29.98	$31.66	$33.00	$31.17	$31.59	$31.05	4%

Notes:

1) Excludes parking, includes average discounts for growth/transfers/nextgen aircraft, assumes 80% LF.

2) FY24 published charges prorated to adjusted FY24 revenue

Aeronautical revenue summary

164. The following table outlines Aeronautical Revenue by charging component over PSE5. Around 71% of revenue is airfield, consistent with the required revenue, with the scheduled per passenger component generating almost all the revenue. Unscheduled aircraft generate just over 1% of revenue, the peak runway component 0.2% and parking 0.1%. Around 30% is terminal revenue. Overall, forecast incentives are around 2.8% of total aeronautical revenue.

Table: Aeronautical Revenue by Component ($m)

Category	FY25	FY26	FY27	FY28	FY29	Total	% of Total
Airfield Fixed	0.313	0.327	0.331	0.326	0.323	1.620	0.2%
Airfield Pax	93.938	102.745	112.764	120.975	130.007	560.428	73.1%
Airfield Unscheduled	2.012	2.091	2.217	2.300	2.396	11.016	1.4%
Airfield Parking	0.159	0.169	0.175	0.177	0.181	0.860	0.1%
Airfield Incentives	-0.559	-0.603	-3.681	-4.478	-5.878	-15.199	-2.0%
Airfield Transfer	-0.678	-1.494	-2.458	-3.521	-4.738	-12.888	-1.7%
Next Gen Aircraft Incentives	0.000	0.000	0.000	-0.518	-1.027	-1.545	-0.2%
Airfield TOTAL	95.185	103.235	109.347	115.261	121.263	544.292	71.0%
Terminal Pax	39.299	43.024	46.890	50.011	53.315	232.539	30.3%
Terminal Incentives	-0.142	-0.244	-1.219	-1.493	-1.855	-4.953	-0.6%
Terminal Transfer	-0.279	-0.615	-1.010	-1.444	-1.935	-5.283	-0.7%
Terminal TOTAL	38.878	42.165	44.661	47.075	49.525	222.303	29.0%
TOTAL	134.063	145.400	154.008	162.336	170.788	766.595	100.0%

PART K: NOISE MITIGATION CHARGES

165. The IPP proposed a small increase in Noise Mitigation Charges from $0.32 per passenger to $0.34 per passenger. No feedback was received and WIAL has retained its approach.

166. The assumptions and inputs in the Noise Mitigation model have been updated in line with the RPP including CPI, cost of construction, passenger numbers and WACC.

167. Consistent with the IPP, the updated forecast shows that a charge of $0.34 will deliver an NPV neutral outcome by the end of PSE6.