Wellington International Airport Limited

Final Pricing Document (FPD)

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

7 March 2024

CONTENTS

ELECTRONIC FILES ATTACHED

WIAL & WANT Aero Pricing Model and Draft ID Schedules 18 and 19[1]

WIAL Price Structure Model

WIAL Schedule of Landing and Terminal Charges Effective 1 April 2024 to 31 March 2029

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

PART A: OVERVIEW

Overview

1. The commencement of PSE5 (FY25-29) marks the transition from the pandemic period to full recovery for Wellington International Airport (WIAL). Passenger numbers are forecast to exceed 7 million for the first time, and we have re-commenced significant infrastructure planning and reinvigorated the 2040 Masterplan as the guide for future development.

2. We are grateful to airlines for their ongoing support for the Masterplan, and for their helpful feedback on capital expenditure. We have worked hard during this consultation to re-stage developments and defer spending where appropriate. The major terminal build is now planned for commencement in PSE6, with continued consultation ahead as we work with airline customers to ensure delivery is efficient, cost effective, and takes customers' needs into account.

3. In the meantime, we have significantly reduced capital expenditure from prior PSE5 forecasts. The major item for commencement in PSE5 is the redevelopment of WIAL's seawalls, an essential resilience project that is recognised as necessary by airline customers, to support and protect WIAL's business and their own. We will continue to work closely with airlines on projects including the seawall redevelopment, advancing the first stages of apron development, as well as the EMAS and baggage handling projects, to ensure airline needs are met and operational impacts are minimised.

4. This pricing consultation has included the treatment of wash ups and deferred revenue from the pandemic period, where we worked hard to support airline customers when they needed it most. This resulted in suppressed prices in PSE4, leading to a step change in pricing at the commencement of PSE5. We consider this approach was supportive for airlines during that time and acknowledge the airline support for these wash up mechanisms, both during the pandemic and during this consultation as we worked through how they are to be recovered.

5. At WIAL, we take pride in our relationships with airline customers, our full and transparent consultation processes, and the level of support we have achieved for proposed expenditure. We also take pride in our record of delivery on infrastructure, with capex tracking well to forecast and projects delivered on time. The PSE4 period was rare in that capital expenditure forecasts were underspent due to the pandemic. We proposed a one-off wash up of revenue derived from this unspent capex back to airline customers in PSE5, which was welcomed by airlines.

6. We look forward to continuing to work with airlines throughout PSE5, particularly on the projects highlighted for further engagement; and to involving our customers at the appropriate time to continue discussions on terminal redevelopment in the medium term.

Key themes of airline feedback

7. Airlines have provided constructive feedback in two rounds of consultation, following an Initial Pricing Proposal (IPP) and Revised Pricing Proposal (RPP).

8. This feedback has elicited general support for key building blocks including passenger forecasts, asset valuation, revaluations, PSE4 deferrals and wash ups, the majority of capital projects and the overall capital expenditure plan. The majority of airline feedback has supported WIAL's expenditure forecasts. We believe we have submitted capital and operating expenditure forecasts that compare favourably to other airports and reflect our dedication to keeping cost increases sustainable and under control.

9. Excluding unavoidable step changes in a few areas (AFS staffing, PLEXIT, insurance and rates), operating costs remain flat in real terms per passenger over time.

10. Capex forecasts have also been kept within reasonable levels by deferring or re-scoping approximately $210m (36%) of expenditure for the period.

11. We have received some feedback regarding the affordability of proposed price increases. WIAL's pricing proposals have been structured with affordability in mind. We acknowledge the challenging environment including risk-free rate and construction cost increases, the ongoing impact of Covid-19, high airfares and recovering capacity. We believe our proposed prices are reasonable in this context. The ability to find further cost savings is small, and disproportionate to the effects on efficiency, resilience and service quality of further deferring works.

12. In this Final Pricing Document, we have also taken account of airline feedback requesting a smoother price path in order to ease the transition into PSE5. Whereas the IPP and RPP were structured with a step up in FY25, followed by CPI increases, this Final Pricing Document provides a smoother price path resulting in a less significant step up in Year 1, with a higher end point in FY29.

13. Finally, a major item of feedback from our substantial airline customers and BARNZ has related to WIAL's WACC estimate. This has been a challenging consultation period with the Commerce Commission's Input Methodologies (IM) review taking place in parallel to pricing consultation. In our final decision, we have applied a WACC and asset beta consistent with the final 2023 IM determination and the feedback from airlines during consultation.

14. In addition, we have included a mechanism to adjust WACC following the outcome of the IM appeals to the High Court. This is fully consistent with airline feedback and suggestions made during consultation and should eliminate this as an item of controversy.

15. We are also pleased to include in this pricing event a discount for next generation aircraft, operating expenditure for additional sustainability resource, and capital expenditure for decarbonisation to meet WIAL's Net Zero target during the period. We thank airlines for their submissions in support of these important initiatives.

Summary of changes made following RPP feedback

16. WIAL thanks airlines for their constructive feedback on the Initial Pricing Proposal (IPP) and Revised Pricing Proposal (RPP) for PSE5.

17. Limited new feedback has been received on the RPP. Where new feedback was received, it has been responded to in this document. Where not covered in this document, inputs remain as per the RPP.

18. The key changes included in this Final Pricing Document (FPD) are:

    - Updated passenger forecasts to take latest information into account;
    - Adoption of a smoothed price path as requested by airlines;
    - Adjustment to the capex wash up and passenger wash up based on updated PSE4 forecasts;
    - Updated CPI and cost of construction index forecasts based on latest information, consistent with the IPP/RPP methodology;
    - Depreciation based on updated RAB and capex forecasts due to updating of cost of construction index, CPI and asset roll forwards;
    - Taxation based on updated parameters noted above;
    - WACC adjustment in response to airline feedback and updated risk-free rate.

19. WIAL agrees to apply the 2023 IMs as the basis of PSE5 prices, subject to:

- Maintaining an adjusted debt premium of 1.60% given WIAL's BBB credit rating;
- Acknowledging the final outcome of the 2023 IM review will be determined by appeals; and
- Accepting airlines' suggestion of an adjustment mechanism, which will enable the final outcome to be appropriately considered.. The adjustment is to be made via a carry forward mechanism, which is described in Part D.

20. WIAL's updated WACC estimate for PSE5 is 8.61%, down from 8.94% in the RPP.

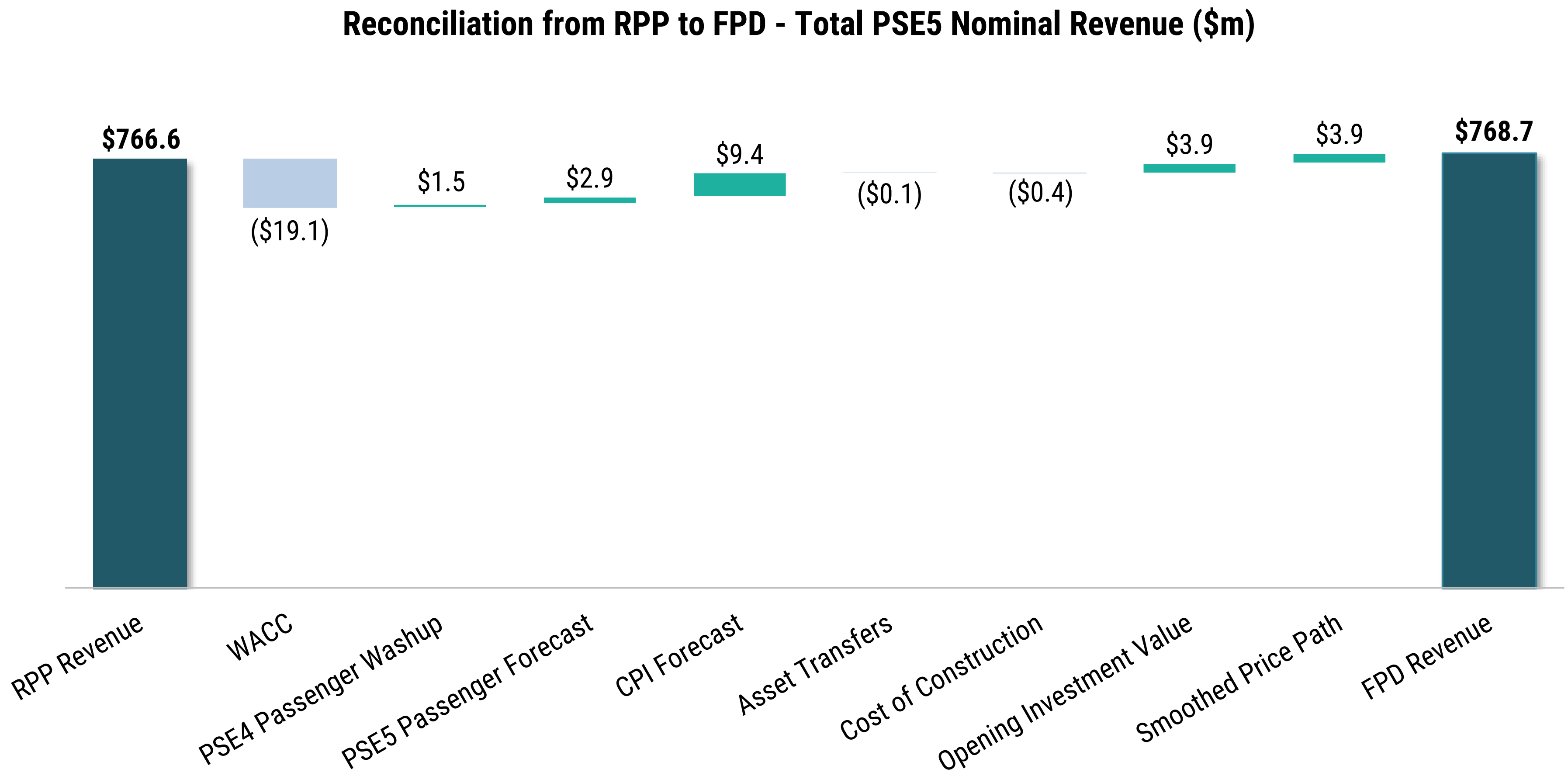
21. The FPD revenues and charges result in a forecast IRR of 8.61% on the pricing asset base over PSE5 (in line with the revised target WACC of 8.61%). This excludes revenue carried forward to PSE6.

22. The forecast IRR for the total asset base over PSE5 is 8.40%, below the target WACC of 8.61%. This reflects a lower return on leased assets compared to pricing assets.

23. The net impact on PSE5 revenue of these changes is minimal with a $2.1 million increase compared to the RPP.

24. WANT charges have been reviewed for the FPD, though no airline feedback was received. WANT charges remain at $0.34 per passenger.

Summary of FPD Components



PART B: FINAL PASSENGER FORECASTS

RPP Forecasts

25. The RPP outlined revised passenger forecasts (updated 06 October 2023) by InterVistas which updated the IPP forecasts based on the tracking of FY24 actual performance, changes in forward schedules, a review of exogenous inputs, and an initial assessment of the current A320 engine issue impact.

26. The RPP noted that after these forecasts were developed, Air NZ had made WIAL aware that the A320 Pratt & Whitney (P&W) engine issue may last longer than had been assumed, and that a further update containing the latest information would be included in the FPD forecasts.

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%

Airline Feedback

27. WIAL notes there was no airline feedback received on the RPP forecasts, apart from Air NZ noting the forward schedule adjustments expected due to the engine maintenance issue and acknowledging that further updates to the forecasts would be included in the FPD.

FPD Forecasts

28. The position adopted in the FPD is that the forecasts developed for the RPP continue to be appropriate over the timeframe of PSE5, however the initial impact of Air NZ's P&W engine issues and Jetstar's slower than anticipated domestic recovery will reduce capacity levels over FY25 and FY26 as has been seen in current year FY24. Based on the latest schedule information from airlines, and the out-turn in FY24, adjustments have been made for the these first 2 years of PSE5 which incorporate the continued impact of the P&W engine issues on both domestic and Tasman operations as described below.

Pratt & Whitney Engine Issue Update

29. On 7 November 2023, Air NZ released an update on the P&W engine impacts on their schedule[2]. In the media release, the airline advised of a new consolidated flying schedule which would combine some flying and move some aircraft types to different routes. The engine issue also impacted

[2] https://www.airnewzealand.co.nz/press-release-2023-air-new-zealand-schedule-update-pratt-whitney-engine-impacts

Tasman operations, including the pausing of the Auckland-Hobart service. The release noted that the "impacts of the P&W servicing schedule change are significant and could impact services for up to two years", and that "the airline will have up to four aircraft grounded at any one time"; at the time of writing, there are currently 4x A321Neo domestic aircraft parked representing around 13% of the airline's domestic capacity. The jet-fleet constraints for Air NZ have resulted in a material reduction in capacity flown between Wellington and Auckland on A321 domestic aircraft, the switching from predominantly jet to an ATR operation on Wellington-Christchurch, and some redistribution of ATRs from regional services to use on the Wellington to Christchurch route. Limitations on narrow-body jet availability have also constrained Air NZ's ability to restore Tasman services at Wellington, in particular Wellington-Sydney which is scheduled to operate at around 60% of 2019 levels in 2025 and the seasonal Wellington-Fiji service which has not returned post Covid.

Current Year FY24

30. In the IPP current year passengers were forecast (prior to the year commencing) to reach 5.82M (5.14M domestic, 0.69M international). As the year has progressed domestic passenger volumes have fallen well short of the estimate presented in the IPP, as the impact of the P&W engine issues were realised, loads were lower than expected, and the anticipated boost from the FIFA World Cup did not materialise. Conversely, the commencement of Qantas' Brisbane service at the end of October was sooner than anticipated. The RPP forecast a reduced passenger outturn of 5.48M (4.78M domestic, 0.71M international). Since then, domestic passenger numbers have continued to be weaker than anticipated, while international loads have been stronger. The latest estimate for FY24 passenger outturn, based on actual passenger counts for April-December and forecasts for January-March) is 5.42M with 4.70M domestic and 0.72M international.

FY25/FY26 Adjustment

31. The underperformance of the FY24 forecast (IPP vs FPD circa -440k or -8.6% domestic pax) highlights the significance of the ongoing P&W engine impacts for Wellington Airport. Based on the latest information provided, the impact of the consolidated schedule is likely to last into mid FY26 (up to two years). Also, the redeployment of Jetstar domestic capacity (formerly serving Auckland-Wellington) to Auckland Tasman operations is also contributing to a slower recovery in domestic capacity than previously anticipated.

FY25:

32. The latest information from airlines via published schedules for NS24 (April-October) and indications provided for NW24 (November-March) indicates that approximately 5.85m domestic seats will be operated in FY25, which represents 87% of the domestic capacity in FY19 (6.70m); with Air NZ operating around 91% of FY19 and Jetstar 70%[3]. Operated domestic capacity in FY25 is expected to be +1.4% on the latest current year forecast with no domestic A321Neos scheduled to operate. Domestic load factors are expected to improve as international travel (on the domestic network) continues to recover, improving from the lower loads seen in FY24 (particularly during the FIFA World Cup). Domestic passenger volumes are forecast to be 4.78m in FY25, around +2% on FY24 and at 87% of FY19 levels.

33. International passenger growth presented in the RPP has now been moderated downwards to reflect Air NZ's fleet constraints on the Tasman. The FPD forecasts around 768k international passengers, growth of +6.5% on FY24 and returning to 83% of FY19 levels.

[3] In FY19 Jetstar also operated to flights to Dunedin and Nelson, recovery is 80% when these routes are excluded.

FY26:

34. Based on Air NZ's description of the P&W engine issues, the forecasts assume that current fleet constraints will continue through to the end of NS25 (October 2025), with the second half of FY26 seeing gradual increase in capacity as domestic A321Neos are reintroduced into the schedule (on average 4 return flights per day are expected to be operated for the year). We note that Air NZ has 2x ATRs and 2x A321Neos arriving during this timeframe.

35. No reduction in international passengers in FY26 (versus the RPP estimate) has been assumed following the reversal of the P&W engine issues, as Air NZ has announced the arrival of 2xA321Neo international aircraft in 2025.

Table: FPD Passenger Forecasts

		PSE5					
	2024	2025	2026	2027	2028	2029	CAGR 2024-29
Domestic	4,695,308	4,779,052	5,237,283	5,725,698	5,863,796	5,997,233	5.0%
International	720,684	767,412	831,687	925,725	1,006,512	1,087,679	8.6%
Total	5,415,992	5,546,464	6,068,970	6,651,423	6,870,308	7,084,912	5.5%

36. By FY29, passenger numbers are expected to exceed 7m (6m domestic and almost 1.1m international), representing a CAGR of 5.5%, on FY24 (5.0% domestic, 8.5% international).

PART C: PSE4 DEFERRALS AND WASH UPS

IPP position

37. 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 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 passed back to airline customers in PSE5.

Airline feedback

38. Airline feedback on the IPP was positive where received, and WIAL retained its approach for the RPP with some slight updates based on FY24 passenger and capex forecasts.

39. No further feedback was received on the RPP.

Final outcome

40. The passenger wash up has been adjusted slightly based on latest FY24 forecasts for passenger numbers. The passenger wash up amount is now $35.9m.

PART D: COST OF CAPITAL AND INPUT METHODOLOGIES REVIEW

Summary

41. WIAL has given further consideration to airline feedback and agrees to apply the 2023 IMs as the basis of PSE5 prices, subject to:

- o Maintaining an adjusted debt premium of 1.60% given WIAL's BBB credit rating;
- o Acknowledging the final outcome of the 2023 IM review will be determined by appeals; and
- o Accepting airlines' suggestion of an adjustment mechanism, which will enable the final outcome to be appropriately considered.

IPP and RPP position

42. 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.

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

44. In the RPP, WIAL updated the risk-free rate to 4.84% based on latest data. This resulted in a 8.94% WACC.

Airline feedback on application of 2023 Input Methodologies

45. In feedback on the IPP, airlines encouraged WIAL to apply the updated 2023 IMs as the basis of its WACC calculation, though the IMs were only in draft at the time.

46. WIAL stated in the RPP:

> *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.*

47. WIAL also noted in the IPP and RPP that the updated IMs did not take effect until 2026 in any event.

48. Since the RPP was released, four things have occurred which have caused WIAL to reconsider our approach:

- o WIAL received further feedback from airlines that they expected WIAL to apply the 2023 IMs final determination for purposes of the FPD;
- o The Commerce Commission updated the effective date of the IMs, clarifying that it will apply the new IMs when considering WIAL's PSE5 disclosures;
- o The Commission's final IM determination was released; and

- o WIAL and other airports decided to appeal the IMs.

49. It is unfortunate that these developments occurred at a late stage in WIAL's pricing consultation. However, we have heard airlines' strong preference for WIAL to apply the updated 2023 IMs for PSE5 prices. We have taken this clear airline feedback into account when developing our final prices.

50. Therefore, WIAL has determined to broadly apply the final 2023 IMs when determining the revenue to be collected within the PSE5 period. However, WIAL has retained its own debt premium of 1.60%, due to WIAL's BBB credit rating, as outlined in the previous consultation documents and consistent with PSE4 pricing, which the Commission has accepted is appropriate.

Adjustment for final outcome of IM appeals

51. However, the 2023 IMs have not yet been finally decided as two parameters (asset beta and leverage) are subject to merits review. WIAL is confident in the strength of airport arguments on appeal, which are backed by a substantial body of expert evidence. Airports have also uncovered material computational errors in the Commission's code, creating mathematical errors and inconsistencies that must be addressed before the IMs can be applied with any confidence.

52. This means that a significant area of disagreement remains between airlines' position and WIAL's position on the IMs. This was anticipated in our earlier consultation documents, and airlines have proposed solutions in their feedback. We thank airlines for their constructive approach.

53. BARNZ proposed the following:

> *That WIAL set its final prices in line with the pending final 2023 IMs decision (whatever that may be).*
>
> *If any legal appeal process was to follow which resulted in changes to the IMs, WIAL await the outcome of that legal process before charging airlines in line with any such changes via a wash-up mechanism.*

54. Qantas said:

> *We reaffirm our proposal for a pragmatic approach to adjust WACC later in the process.*

55. Air NZ said:

> *If there is indeed uncertainty around the outcome due to appeals, a more consumer-centric approach would see Wellington Airport adopt Qantas' proposed approach which would enable an adjustment once the final outcome was known.*

56. WIAL accepts these proposals for an adjustment mechanism to be applied once appeals are resolved, and has determined to make this adjustment via a carry-forward mechanism, which would allow for recovery of any additional PSE5 revenue in PSE6, if appropriate.

Proposed carry forward asset

57. WIAL has calculated

   a) PSE5 revenue based on the equity beta and leverage in the 2023 IM determination and WACC of 8.61%;

   b) PSE5 revenue based on a successful airports appeal achieving the outcome sought by airports (that is, equity beta of 0.93 and leverage of 15%) and WACC of 9.35%;

and determined the "disputed revenue" by subtracting a) from b). This amount is $46.4m, equivalent to $38.5m post-tax returns in 31 March 2029 present value terms. This will be treated as a carry forward asset and recovered in PSE6, subject to the paragraphs below.

58. When the appeals are exhausted and a final outcome is known, WIAL may recalculate the carry-forward amount with updates to equity beta and leverage in the WACC calculation. All other WACC parameters will be held constant, along with expenditure, asset value and other inputs.

59. The carry forward amount will be included as an opening asset for PSE6 to reflect this final amount.

Risk-free rate

60. The risk-free rate has been updated based on data to 1 January 2024. This results in a risk-free rate of 5.03%.

61. We highlight the impact of risk-free rates on historic and current pricing periods. The risk-free rate for PSE4 was 1.77% which resulted in a relatively low WACC for that period of 5.93%, or 4.67% excluding revaluations. The risk-free rate for PSE5 is 5.03% as at 1 January 2024. Applying this increase alone to the PSE4 WACC would increase the WACC to almost 8.3%. As a consequence a large component of the increase in charges for PSE5 is due to the impact of the risk-free rate which has been low in recent years.

62. This reflects actual costs to WIAL at the time of setting prices, and is a result of applying the Commerce Commission's IMs. We acknowledge this causes swings in prices when the risk-free rate changes significantly between pricing periods.

WACC model and parameters

63. WIAL's updated WACC for the FPD is based on the highlighted parameters, at 8.61%. This differs from our calculation of WIAL's WACC at 9.35%. As noted above, the difference between these values will be carried forward and may be re-calculated once the IM appeals are resolved.

64. We consider the column "2023 IMs with BBB rating" best anticipates the Commission's likely approach to calculating WIAL's WACC, based on the 2023 IMs, current risk-free rate as per the Commission's methodology, and a credit rating adjustment which the Commission has accepted in the past.

65. We acknowledge the Commission has allowed a BBB+ adjustment in the past but has not considered applying a BBB rating for an airport. However, we note the difference between a BBB and BBB+ adjustment has a minimal impact on WACC and reflects the real impact on cash flows and credit metrics over Covid and recent years.

66. The column "Airport appeal position" represents WIAL's consistent calculation of an appropriate asset beta and WACC, reflected in submissions on the IM review and the Notices of Appeal as filed with the High Court. This is supported by the CEPA report which WIAL has had reference to in this pricing consultation.

Parameter	IPP	RPP	2023 IMs	2023 IMs with BBB rating	Airport appeal position
Risk-free rate	4.29%	4.84%	5.03%	5.03%	5.03%
Debt premium	1.60%	1.60%	1.17%	1.60%	1.60%
Leverage	19%	19%	23%	23%	15%
Asset beta	0.745	0.745	0.67	0.67	0.79
Equity beta	0.92	0.92	0.87	0.87	0.93
TAMRP	7.00%	7.00%	7.00%	7.00%	7.00%
Tax rate	28%	28%	28%	28%	28%
Debt issuance costs	0.20%	0.20%	0.20%	0.20%	0.20%
Cost of debt	6.09%	6.63%	6.40%	6.83%	6.83%
Cost of equity	9.53%	9.92%	9.71%	9.71%	10.13%
Mid-point vanilla WACC	8.88%	9.29%	8.95%	9.05%	9.63%
Mid-point post-tax WACC	8.55%	8.94%	8.54%	8.61%	9.35%

Forecast rate of return implied by PSE5 prices

67. The target rate of return for the pricing asset base is now 8.61% excluding revenue carried forward to PSE6. This is a reduction from the RPP position given the adjustment to reflect the 2023 IMs, and also the updated risk-free rate.

PART E: CAPITAL EXPENDITURE

Background

68. Prior to developing its capex forecast, WIAL has spent many years working with airlines on its 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.

69. 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 million in the IPP, and reduced further to $380 million in the RPP.

70. 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

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

72. Air New Zealand said:

> *Air New Zealand welcomes Wellington Airport's refinements to the capital expenditure programme as outlined in the RPP… Air New Zealand also welcomes Wellington Airport's commitment to continuing engagement on the programme. Given the impending nature of the Bag Factory expenditure it is vital that this engagement take place as soon as possible.*

73. BARNZ said:

> *WIAL has reduced its proposed aeronautical Capital Expenditure Programme by $4.5m based on individual airline submissions on the Initial Pricing Proposal (IPP).*
>
> *We support these amendments and note the efforts by the airport to reduce programme costs based on the prior feedback…*
>
> *We note and appreciate the commitments in the RPP to ensure ongoing engagement with airlines on key projects, including the maintenance of seawall defences and the development of the proposed Baggage Hall.*

74. Qantas maintained concerns about affordability and requested that WIAL revisit the capital plan again and find further reductions. This is addressed below.

Summary

75. Limited additional feedback was received on the RPP, and therefore our final capital expenditure forecast reflects the RPP forecast, updated for the latest cost of construction indices. Airlines were generally welcoming of WIAL's efforts to keep capital expenditure within reasonable limits, and appreciated WIAL's commitments to ongoing engagement on key projects.

76. Items of feedback on the RPP are addressed below.

Classification of Bag Factory, Centralised Security and passenger toilets

77. Air NZ queried whether the ECAC std 3 Bag Factory and Centralised Security Screening should be classified as "terminal" rather than "airfield" activities. WIAL has reviewed the definition of "specified terminal" and "airfield" activities in the Airport Authorities Act and considers these projects are appropriately classified. The definition of specified terminal activities in the Airport Authorities Act specifically includes the provision of baggage handling and operation of security services.

78. Qantas reiterated feedback that a portion of the cost to enable centralised security screening ($1.4m for construction of new toilets) should be allocated to the non-aeronautical till. WIAL does not consider this appropriate, as the toilets are in the airside departures area and are essential for passenger amenity.

Engagement on key projects

79. Air NZ noted the importance of engagement on the Bag Factory programme as soon as possible.

80. BARNZ noted the commitment to ensure ongoing engagement on the Bag Factory, seawall, and EMAS.

81. WIAL reaffirms our commitment to close engagement with airlines on these projects as they develop.

Western seawall

82. Qantas noted WIAL's agreement that the western seawall should be partly funded by Wellington City Council. Qantas expected discussions to be resolved prior to the FPD, noting the issue had first been raised several years ago.

83. WIAL shares Qantas' frustration that this issue has not been resolved. However, the western seawall is not included in the PSE5 capex forecast. We expect to resolve discussions with Wellington City Council prior to PSE6.

Affordability

84. Qantas reiterated previous feedback on affordability of the capex programme. WIAL considered this feedback for the RPP, and our previous comments stand.

85. We note that the price increase for PSE5 is largely the result of an increasing risk-free rate and the PSE4 wash ups. The macro-economic conditions are unavoidable and the wash-ups reflect the artificially low price airlines have benefited from during the pandemic recovery period. The capex programme itself is pragmatic and well within reasonable expenditure given the significance of the projects involved. Capital investment was significantly reduced and rephased prior to consultation, in anticipation of airline feedback, and we consider that there is no further scope for meaningful savings.

PART F: OPERATING EXPENDITURE

Background

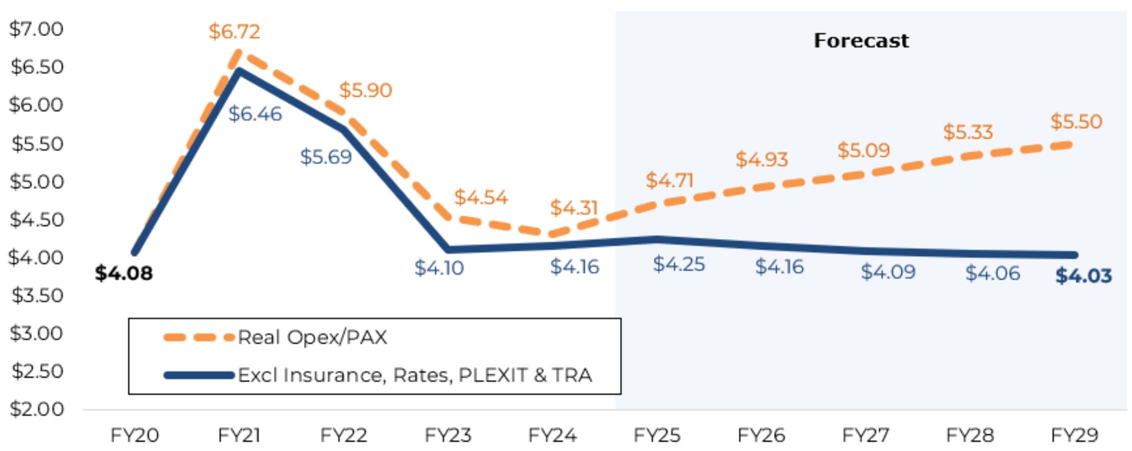
86. WIAL is proud of its track record on operating expenditure, striving to manage cost pressures while providing a high quality experience for our customers.

87. At the onset of Covid, WIAL responded quickly with a resizing of its operations, including a 30% reduction in staffing levels, salary reductions and cutting many other costs. These savings were shared with airline customers in PSE4 and WIAL is working to retain these savings going forward.

88. However, as previously stated during consultation, we are facing several step changes for PSE5, including additional Airport Fire Service staffing, ongoing insurance and rates increases and new PLEXIT operating costs.

89. Excluding these step changes, our operating expenses per passenger are flat in real terms over time, as outlined in the IPP and shown below:

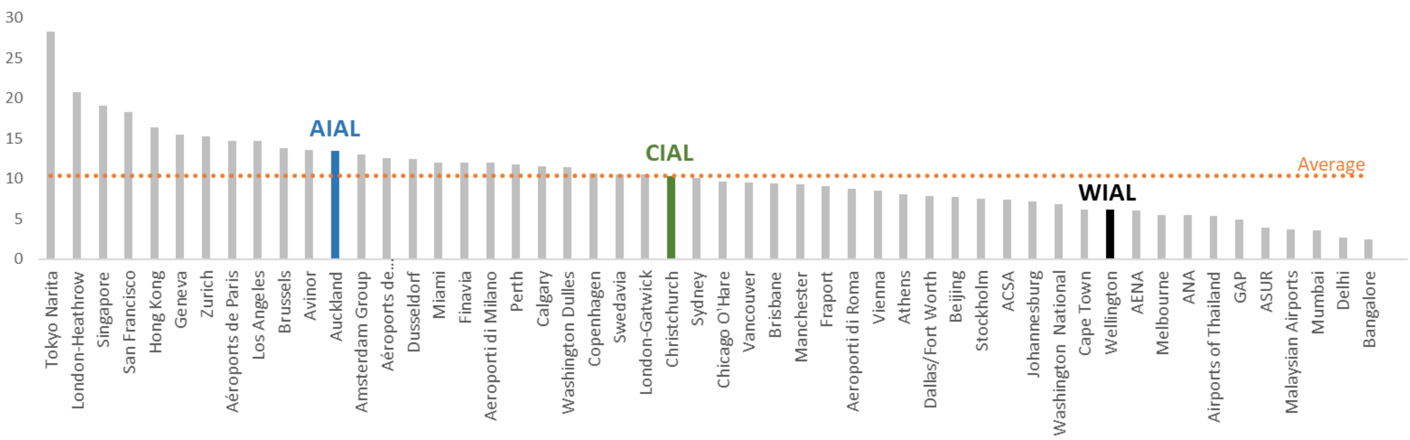
Real Operating Costs per Passenger FY2020 - 2029



90. WIAL considers that our PSE5 forecast is reasonable and demonstrates our commitment to operational efficiency whilst maintaining a high standard of airport with commensurate high quality of service.

91. As noted in the IPP, the last available global study by Jacobs UK shows that WIAL compares favourably to other airports in per-passenger costs for the 2021 year:

Airport Costs per Passenger (Currency = SDR)



Note: CIAL and WIAL do not participate in this survey. The outcomes for these airports have been calculated on the same basis as the calculation for AIAL.

92. We are proud of our track record on managing our operating costs and grateful for airlines' feedback which has been broadly supportive.

Approach for FPD

93. No new feedback was received on operating expenditure between the RPP and FPD. Qantas reiterated its call for efficiency and cost savings, while Air NZ considered the RPP forecast appropriate and BARNZ did not comment.

94. WIAL's previous commentary in the IPP stands. We consider opex per passenger is tightly controlled and flat in real terms over time, other than unavoidable increases in a small number of areas.

95. WIAL's opex forecast remains consistent with the RPP, updated for the latest CPI.

PART G: CPI FORECAST UPDATE

96. The IMs do not prescribe a specific approach for estimating CPI. WIAL set out our method for forecasting CPI in PSE4 consultation, and reiterated this approach in the IPP. We have not received feedback from airlines on the CPI rate or method.

97. We have updated our CPI forecast based on latest breakeven data (per HoustonKemp), and updates in RBNZ and NZIER forecasts based on data at 1 January 2024. The final CPI forecast applied for PSE5 is:

Year ended	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**
RBNZ	2.36	2.00	2.00	2.00	2.00
NZIER	2.50	2.10	2.10	-	-
Breakeven	2.79	1.88	1.69	1.67	1.49
Average %	**2.55**	**1.99**	**1.93**	**1.84**	**1.75**

98. This CPI assumption is used wherever CPI indexation is required (opex and revaluations), other than for construction cost indexing which uses NZIER construction market forecasts.

PART H: TARGET REVENUE (BUILDING BLOCK MODEL)

Changes for FPD

99. 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 8.61%, down from the RPP WACC of 8.94%.

Price path

100. WIAL invited airline feedback on a smoothed price path option which resulted in a higher FY29 charge but smaller step up in FY25. Airlines were supportive of a smoothed path to ease the transition into PSE5, and this is what we have adopted for the FPD.

FPD outcomes

101. Nominal pricing revenues and average charges are shown below.

	FY25 $000	FY26 $000	FY27 $000	FY28 $000	FY29 $000	PSE5 Total $000
Total Nominal Pricing Revenue	$118,034	$136,131	$157,257	$171,208	$186,095	$768,725
Average Charge per Passenger	$21.28	$22.43	$23.64	$24.92	$26.27	$23.86

102. The revenues and charges above result in a forecast IRR of 8.61% on the pricing asset base over PSE5 (in line with the target WACC of 8.61%). This excludes revenue carried forward to PSE6, which is dependent on the outcome of appeals.

103. The forecast IRR for the total asset base over PSE5 is 8.40%, below the target WACC of 8.61%. This reflects a lower return on leased assets compared to pricing assets.

104. The net impact of adopting a smoothed price path and changes to inputs/assumptions from the RPP is minimal with a $2.1 million increase in total nominal revenue over PSE5, but a $0.89 reduction in the average charge per passenger for FY25.

PART I: PRICING METHODOLOGY

Growth incentives

105. Incentives accelerate the introduction of new services, generate passenger growth and ultimately reduce the unit costs to airlines over the longer term. Published growth incentives were incorporated in the PSE2 and PSE3 price structure but were paused during PSE4 as demand was impacted by Covid19. The PSE5 IPP and RPP consulted on the reintroduction of international and domestic growth incentives with BARNZ supporting this approach.

106. In the RPP, WIAL consulted on a change to the domestic growth incentive whereby the base year for growth would change to pre-Covid FY19 rather than the prior year which was used in PSE2/3 and included in the IPP. WIAL's rationale for changing the base year was that the underperforming of FY24 (primarily due to Air NZ's P&W engine issue and subsequent recovery as the issue was resolved), would lead to higher incentives applied for increases that were not market growth.

107. Qantas was the only party to submit on the domestic growth incentive change. In their submission, the airline noted that a change to FY19 as the base year would disincentivise growth, and requested WIAL reconsider.

108. WIAL has given the domestic growth incentive careful consideration and has looked to balance the benefits of market growth, with short-term fleet constraints and the cost of incentives. The domestic growth incentive in the FPD reverts back to the original prior year for calculation, but with lower discounts applied for growth (25% in year 1 and 10% in year 2 if the growth is maintained, rather than 50%/25% in the IPP/RPP).

Transfer charges

109. WIAL proposed in the RPP a discount for passengers transferring services at Wellington Airport. A transferring passenger is 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 less than 24 hours. To avoid price shocks, for airlines that did not have a significant proportion of transferring passengers, the RPP proposed a phasing in of the discount over the period of PSE5 and PSE6 starting at 5% in FY25 and reaching 50% by the end of PSE6.

110. Air NZ was the only party to provide feedback on the suggested introduction and implementation of transfer discounts, and they were supportive. WIAL also asked for feedback on airlines' ability to provide transfer passenger numbers for the purpose of discounting; no feedback was provided,

111. The FPD retains the RPP discounts for passengers transferring at Wellington Airport.

Incentives for Sustainable Aircraft and Fuels

112. After receiving no IPP feedback from airline customers on incentives to support the introduction of sustainable aircraft and/or fuel, WIAL proposed in the RPP a 100% rebate for electric/hybrid/hydrogen aircraft during PSE5 (forecasts assume the introduction of electric/hybrid scheduled passenger movements in FY28).

113. Air NZ was the only party to provide feedback, which was in support of the introduction.

114. The FPD retains the RPP support for the introduction of electric/hybrid/hydrogen aircraft. Hybrid aircraft are defined as aircraft that use both battery and fuel energy sources to power propulsion, either in tandem or alternately.

Unscheduled Charges

115. The IPP outlined the pricing methodology for unscheduled aircraft movements, where it was proposed the same methodology used in PSE4 with one minor change regarding aircraft with greater than 100 tonnes MCTOW, would be retained. No comments were provided by submitters on unscheduled aircraft charges.

116. Unscheduled airfield charges are based on a MCTOW per tonne charge that is equivalent to the airfield charges for a similar weight scheduled aircraft assuming an 80% load factor. For unscheduled aircraft with MCTOW greater than 100 tonnes, the charge for tonnage over 100 tonnes is charged at 10% of the standard charge. This methodology was previously included in PSE3 prior to the move to the simplified per passenger structure for scheduled aircraft. The airfield charges component (71% of total charges) includes an upweight for peak/shoulder flying and is disaggregated into an international and three domestic weight bands. General aviation (aircraft less than two tonnes) is charged a fixed movement charge grown at CPI, with a higher charge during the peak.

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	$22.66	$24.03	$25.83	$27.06	$28.73
Domestic Prop ≥10 Tonnes	$15.29	$16.66	$18.46	$19.69	$21.36
Domestic Prop <10 Tonnes	$14.28	$15.65	$17.45	$18.68	$20.35
International	$32.23	$33.85	$35.90	$37.38	$39.30
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)

	1 April 2024	1 April 2025	1 April 2026	1 April 2027	1 April 2028
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	$61.06	$62.27	$63.48	$64.64	$65.77
Domestic Prop	After 60 mins	$48.84	$49.82	$50.78	$51.71	$52.62
International	After 120 mins	$85.48	$87.18	$88.86	$90.49	$92.08

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.

Table: Unscheduled Airlines Airfield Charges

		1 April 2024	1 April 2025	1 April 2026	1 April 2027	1 April 2028
Per MCTOW Tonne Movement (Note 2)	**Period (Note 1)**					
Domestic Prop ≥30 Tonnes	**Peak**	$31.78	$33.49	$35.89	$37.56	$39.85
	Shoulder	$31.64	$33.35	$35.75	$37.42	$39.71
	Offpeak	$31.50	$33.21	$35.61	$37.28	$39.57
Domestic Prop 2-30 Tonnes	**Peak**	$20.71	$22.63	$25.33	$27.20	$29.77
	Shoulder	$19.74	$21.66	$24.36	$26.23	$28.80
	Offpeak	$18.77	$20.69	$23.39	$25.26	$27.83
International	**Peak**	$45.05	$47.02	$49.60	$51.53	$54.01
	Shoulder	$44.92	$46.88	$49.47	$51.39	$53.88
	Offpeak	$44.78	$46.75	$49.33	$51.26	$53.74
General Aviation <2 Tonnes	**Note 3**	$12.21	$12.46	$12.70	$12.93	$13.16

Notes:
1) 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
2) Aircraft with a MCTOW greater than 100 tonnes will be charged the full charge to 100 tonnes and 10% of the full charge for the incremental tonnage over 100 tonnes
3) 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 $55 per month (increased by CPI) applies.

Table: Unscheduled 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						
All Aircraft	After 120 mins	$24.43	$24.91	$25.39	$25.86	$26.31

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

117. 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	$22.54	$23.32	$24.73	$25.98	$27.44	34%
	Shoulder	$20.46	$22.48	$23.26	$24.67	$25.92	$27.38	34%
	Offpeak	$20.41	$22.42	$23.20	$24.61	$25.86	$27.33	34%
A320	**Peak**	$20.55	$22.57	$23.35	$24.76	$26.01	$27.47	34%
	Shoulder	$20.48	$22.49	$23.28	$24.68	$25.94	$27.40	34%
	Offpeak	$20.41	$22.42	$23.20	$24.61	$25.86	$27.33	34%
ATR	**Peak**	$15.40	$15.42	$16.20	$17.61	$18.86	$20.32	32%
	Shoulder	$15.22	$15.24	$16.02	$17.42	$18.68	$20.14	32%
	Offpeak	$15.03	$15.05	$15.83	$17.24	$18.49	$19.95	33%
Q300	**Peak**	$15.53	$15.55	$16.33	$17.74	$18.99	$20.45	32%
	Shoulder	$15.28	$15.30	$16.08	$17.49	$18.74	$20.20	32%
	Offpeak	$15.03	$15.05	$15.83	$17.24	$18.49	$19.95	33%
C208	**Peak**	$16.11	$16.13	$16.91	$18.31	$19.57	$21.03	31%
	Shoulder	$15.07	$15.08	$15.87	$17.27	$18.53	$19.99	33%
	Offpeak	$14.03	$14.04	$14.82	$16.23	$17.48	$18.95	35%
PC12	**Peak**	$16.80	$16.82	$17.60	$19.01	$20.26	$21.72	29%
	Shoulder	$15.41	$15.43	$16.21	$17.62	$18.87	$20.33	32%
	Offpeak	$14.03	$14.04	$14.82	$16.23	$17.48	$18.95	35%

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	$31.25	$33.28	$32.01	$32.84	$32.95	9%
	Shoulder	$30.03	$31.19	$33.22	$31.95	$32.78	$32.89	10%
	Offpeak	$29.98	$31.13	$33.17	$31.89	$32.72	$32.83	10%
A320	**Peak**	$30.12	$31.28	$33.31	$32.04	$32.87	$32.98	9%
	Shoulder	$30.05	$31.20	$33.24	$31.96	$32.80	$32.90	9%
	Offpeak	$29.98	$31.13	$33.17	$31.89	$32.72	$32.83	10%
B738	**Peak**	$30.12	$31.27	$33.31	$32.03	$32.87	$32.97	9%
	Shoulder	$30.05	$31.20	$33.24	$31.96	$32.79	$32.90	9%
	Offpeak	$29.98	$31.13	$33.17	$31.89	$32.72	$32.83	10%
A359	**Peak**	$30.07	$31.23	$33.26	$31.99	$32.82	$32.93	9%
	Shoulder	$30.02	$31.18	$33.21	$31.94	$32.77	$32.88	10%
	Offpeak	$29.98	$31.13	$33.17	$31.89	$32.72	$32.83	10%

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

118. 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 3.0% of total aeronautical revenue.

Table: Aeronautical Revenue by Component ($m)

Category	FY25	FY26	FY27	FY28	FY29	Total	% of Total
Airfield Fixed	0.307	0.321	0.333	0.329	0.325	1.615	0.2%
Airfield Pax	82.787	97.399	116.425	127.155	140.517	564.282	73.4%
Airfield Unscheduled	1.967	2.111	2.311	2.451	2.642	11.483	1.5%
Airfield Parking	0.155	0.165	0.175	0.177	0.180	0.852	0.1%
Airfield Incentives	-0.821	-1.941	-5.055	-4.300	-5.277	-17.395	-2.3%
Airfield Transfer	-0.592	-1.402	-2.537	-3.699	-5.119	-13.348	-1.7%
Next Gen Aircraft Incentives	0.000	0.000	0.000	-0.554	-1.140	-1.694	-0.2%
Airfield TOTAL	83.804	96.653	111.653	121.558	132.128	545.796	71.0%
Terminal Pax	34.740	40.930	48.498	52.572	57.627	234.367	30.5%
Terminal Incentives	-0.265	-0.871	-1.848	-1.403	-1.568	-5.955	-0.8%
Terminal Transfer	-0.245	-0.581	-1.045	-1.518	-2.091	-5.480	-0.7%
Terminal TOTAL	34.230	39.478	45.605	49.651	53.969	222.932	29.0%
TOTAL	118.034	136.131	157.257	171.209	186.097	768.728	100.0%