Wellington International Airport Limited

Price Setting Event Disclosure for the Pricing Period 1 June 2014 to 31 March 2019

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

20 August 2014

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Provided Under Separate Cover

Telfer Young MVAU Land Valuation effective 31 March 2013, issued 26 June 2014

Glossary

AAA	Airport Authorities Act 1966
AFS	Airport Fire Service
Air NZ	Air New Zealand Limited and subsidiary companies
ASQ	Airport Service Quality
ATM	Air Traffic Movements
Avsec	Aviation Security Service
BARNZ	Board of Airline Representatives New Zealand Inc
CAA	Civil Aviation Authority
Beca	Beca Engineering
Boffa Miskell	Boffa Miskell Urban Planners
CAPM	Capital Asset Pricing Model
CPI	Consumer Price Index
CPP	Customised Price Path
DPP	Default Price Path
FPD	Final Pricing Document
GSE	Ground Service Equipment Storage
HBAU	Highest and Best Alternative Use
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
ID	Information Disclosure
IM	Input Methodologies
IP1	Information Package 1
IP2	Information Package 2
IPP	Initial Pricing Proposal
IRR	Internal Rate of Return
KID	Key Issues Document
Ldn	Day-Night Average Sound Level
LUMINS	Land Use Management and Insulation for Airport Noise Study
MAGS	Movement Area Guidance Signs
MEL	Market Economics Limited
MCTOW	Maximum Certified Take Off Weight
MTB	Main Terminal Building
MVAU	Market Value Alternative Use
MVEU	Market Value Existing Use
NBS	New Building Standard
NERA	NERA Economic Consulting
NPV	Net Present Value

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

1. Executive Summary

1.1. Wellington Airport

Wellington International Airport Limited (WIAL) is delivering world class service and quality to its airline partners, travellers, and the many businesses and agencies that work at the airport. WIAL's success is intertwined with the Wellington region's growth and economy. To further this growth WIAL is investing in promoting airlines services, and in the appropriate infrastructure that provides quality facilities at prices that represent sound value for money.

Access to affordable air travel linking New Zealand internally and with the rest of the world is critical to the Wellington, and the New Zealand economy. Airports play a major role in facilitating efficient competition between airlines, which is one of the most important drivers to air travel affordability. The Information Disclosure Regime (ID Regime) implemented by the Commerce Commission (Commission) in late 2010 has enhanced the visibility of investment, efficiency, service quality and pricing outcomes for WIAL. This has been achieved through both the Information Disclosure (ID) process itself and the Commission's review of the effectiveness of the ID Regime. WIAL has also responded by voluntarily publishing its pricing consultation material.

1.2. Consultation Outcomes

The Commission stated, in its review of ID regulation, that while WIAL was performing well in most areas, it was not limited in its ability to earn excessive profits in the future. This was despite WIAL's actual annual disclosures (since the start of the ID Regime) falling below the annual return benchmarks published by the Commission.

WIAL has however addressed the Commission's concern by re-opening its consultation on pricing to apply from 1 June 2014 to 31 March 2019 (PSE3 or Pricing Period). WIAL considers this action demonstrates how the Airport Authorities Act 1966 (AAA) and ID Regime are providing an appropriate collective influence on airports, and which also shows that the regulatory system is operating effectively.

Feedback from WIAL's airlines partners was very supportive of re-opening consultation. WIAL has concluded its consultation with substantial customers which enabled new prices to be reset with effect from 1 June 2014, and WIAL confirms the new pricing detailed in this document. In carrying out the consultation process WIAL has taken into account its substantial customers views, including the following:

- Reducing charges by approximately 7% for the 10 month period ending 31 March 2015 and keeping prices relatively flat over the Pricing Period despite this being a period of forecast high capital investment;
- Adopting approaches consistent with the Commission's asset valuation and cost of capital Input Methodologies (IMs);
- Forecasting expenses that are efficient, such that the Board of Airline Representatives of New Zealand Inc (BARNZ) acknowledged WIAL's cost efficiency; and
- Perhaps most importantly, obtaining support from substantial customers for the required $112 million capital investment programme over the five years to 31 March 2019.

While there are still some areas where differences of opinion exist between WIAL and its substantial customers, these have been substantially narrowed and reflect the natural situation where the different organisations are seeking their own commercial objectives.

The Commission is required to analyse and report on airport IDs and WIAL encourages the Commission to evaluate WIAL, and the other New Zealand airports, within the international market. This will demonstrate that WIAL and the New Zealand airports:

- Provide high quality services to consumers;
- Charge prices that are competitive compared to international airports; and
- Incur low operating costs, again by international standards.

WIAL provides the full rationale for its pricing decision in this Price Setting Event Disclosure Document (PSE Disclosure). Other consultation documents prepared by WIAL, BARNZ and WIAL's substantial customers are available on WIAL's website www.wellingtonairport.co.nz.

1.3. WIAL's Historic Regulatory Returns

Prior to the completion of the consultation for PSE3, WIAL had published three years of annual IDs under the ID Regime. For each of these years WIAL's actual return was below the Commission's benchmark return on capital set under the ID Regime:

WIAL Annual Disclosure Returns for Year Ended 31 March	**PSE1 2011**	**PSE1 2012**	**PSE2 2013**	**Total (Nominal)**
Cash Earnings $000	$20,134	$22,179	$22,381	
Revaluations $000	$4,455	$6,308	$3,526	
Regulatory Profit $000	$24,589	$28,487	$25,907	
Regulatory Investment Value $000	$398,873	$412,211	$415,821	
Annual Return from Information Disclosures	**6.16%**	**6.91%**	**6.23%**	
Composition of Annual Return:				
Cash Earnings	5.04%	5.38%	5.38%	
Revaluations	1.12%	1.53%	0.85%	
Comparison to Commission 75th Percentile WACC Determination				
75th Percentile WACC Determinations	9.18%	8.73%	8.04%	
Shortfall in Regulatory Profit from WACC Determinations				
Revaluations shortfall from WIAL forecast $000	($6,898)	($9,182)	($6,870)	
Shortfall in cash earnings $000	($5,129)	$1,683	($655)	
Shortfall in Regulatory Profit from WACC Determinations $000	**($12,028)**	**($7,499)**	**($7,525)**	**($27,052)**

WIAL considers that it is clearly evident that, under the ID Regime, it has not historically earned excessive profits.

1.4. WIAL's Forecast Regulatory Returns

WIAL is forecasting a post-tax return of 8.02% over PSE3, using the Commission's Internal Rate of Return (IRR) calculation. This has been calculated using a Weighted Average Cost of Capital (WACC) for WIAL as at 1 June 2014 of 8.36%, which is consistent with the Commission's IMs at the 75th percentile. The return is lower than the Commission's WACC as it reflects a commercial arrangement that WIAL established for "The Rock" terminal development in the Price Setting Period from 1 April 2012 to 31 March 2017 (PSE2).

WIAL has also calculated its expected return from the start of the ID Regime on 1 April 2010 to the end of PSE3 on 31 March 2019, as 6.62%, on a post-tax basis. This expected return is below even the lowest mid-point WACC determined by the Commission since commencement of the ID Regime.

WIAL considers that this is evidence that it has not earned excessive returns in the past, and is not seeking to earn excessive returns in the future.

Achievement of the other Commerce Act 1986 (Commerce Act) Part 4 objectives has also been enhanced during the consultation as demonstrated by:

- Incentives to innovate and invest – WIAL has forecast capital expenditure of $112 million over PSE3 which includes a major project to expand the Main Terminal Building (MTB) to the south and improvement of the South and South West Pier (SWP). WIAL's substantial customers support the proposed capital expenditure programme. WIAL also introduced a Specific Project Charging (SPC) mechanism for identified capital projects which have been excluded from pricing until such time as parties consider that it is appropriate to advance these projects.
- Incentives to improve efficiency and share efficiency gains including through lower prices – WIAL has reduced real operating costs per passenger over the long term and BARNZ has acknowledged WIAL's efficiency achievements. The lower costs are included in WIAL's pricing calculations and have in part enabled the 7% reduction from WIAL's PSE2 prices.

These outcomes demonstrate that the ID Regime is effective, and, in conjunction with the requirements of the AAA, provides appropriate economic regulation for New Zealand's major airports.

2. Introduction

WIAL has prepared this PSE Disclosure in respect of charges for specified airport services for the period 1 June 2014 to 31 March 2019. The PSE Disclosure is required by Clause 2.5 of the Airport Information Disclosure Determination (the Determination) issued by the Commission pursuant to Part 4 of the Commerce Act consolidating all amendments as of 1 March 2012.

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

The contact person for this disclosure is:

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Email: mharrington@wellingtonairport.co.nz

2.1. Context of this Disclosure

In providing this PSE Disclosure WIAL wishes to inform interested persons of the following matters:

- The information contained in this PSE Disclosure has been extracted from information prepared in consultation with WIAL's substantial customers, and BARNZ who were a nominated representative of Virgin Australia. In this document references to "airlines" may refer to one or more of WIAL's substantial customers and BARNZ but not necessarily all of them. A description of the key documents referred to by WIAL in preparation of this PSE Disclosure is set out in Section 5 of this document.

- The consultation began in July 2013 and was completed upon issuance of WIAL's Final Pricing Document (FPD) on 30 June 2014. The FPD included the Schedule of Charges for the Pricing Period. The consultation involved the exchange of substantial amounts of information and numerous meetings, and WIAL has collated and disclosed the relevant information in this PSE Disclosure.

- The consultation participants agreed that the consultation documents should be published on WIAL's website and these are available at www.wellingtonairport.co.nz.

- An extensive process has been undertaken by WIAL to prepare this PSE Disclosure. The underlying information and assumptions applied by WIAL in determining the charges to airlines and passengers for the Pricing Period have been confirmed to relevant supporting information. The PSE Disclosure however has not been, and is not required to be audited by an external party.

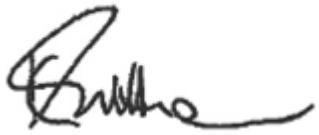
3. Directors Certification

The Determination requires this PSE Disclosure to be certified by WIAL's directors in the form prescribed in Schedule 21 of the Determination.

SCHEDULE 21 CERTIFICATION FOR FORECAST TOTAL REVENUE REQUIREMENTS AND PRICING DISCLOSURES

Clause 2.7(2)

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



Tim Brown
Director

Keith Sutton
Director

20 August 2014

4. Regulatory Background

4.1. Commerce Act ID Regime

Following an extensive consultation period with the relevant industry parties the ID Regime was implemented by the Commission with publication of the IM and ID Determinations in December 2010.

Since then, WIAL has invested considerable resource to engage with the Commission, and other interested parties, to respond to the ID Regime through the publication of the required IDs. WIAL has gone beyond the ID requirements by publishing consultation documentation used to set prices for PSE2 and PSE3.

Since the implementation of the ID Regime two significant reviews have evaluated the effectiveness or appropriateness of the ID Regime.

- Section 56G review by the Commission – the final report for WIAL was released by the Commission in February 2013 and while the Commission considered WIAL was performing well in certain areas, and WIAL's actual returns on the Regulated Asset Base (RAB) were below the Commission's regulatory benchmark, the Commission expressed concern that WIAL was not limited in its ability to earn excessive profits in the future[1].
- High Court Merits Appeal – the High Court judgment upheld in the main the IMs established by the Commission and that there were no materially better IMs.

WIAL considers its decision to re-open consultation is consistent with the current regulatory environment, and that it demonstrates how the AAA and ID Regime are providing an appropriate collective influence on airports, and that the regulatory regime is operating effectively.

4.2. Historic Regulatory Returns

Prior to the completion of consultation for PSE3, WIAL published three years of annual information disclosures under the ID Regime. For each of these years its actual return was below the Commission's benchmark return on capital set under the ID Regime:

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[1] Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Wellington Airport, Commerce Commission, 8 February 2013, paragraph E7, page 75.

It is clearly evident that within the ID and IM framework WIAL has not historically earned excessive profits.

4.3. WIAL's Price Setting Conduct under the AAA

WIAL has consulted with its substantial customers in accordance with section 4A and 4B of the AAA to determine the pricing set out in this PSE Disclosure.

A review of past consultations shows that the AAA has facilitated considerable engagement and compromise from both airports and airlines.

WIAL also considers that it is evident, (as was demonstrated in the Commission's section 56G reviews), that future price setting under the AAA will continue to be influenced by the ID Regime. The AAA has enabled pricing, and other key decisions, to be made by airports which is necessary for the on-going success of the aviation industry in New Zealand. In particular:

- Airports are incentivised, and retain the flexibility, to establish pricing structures or commercial arrangements, that encourage and facilitate competition between airlines. Competition amongst airlines provides a critical driver for airfares, airline schedules and services to passengers. As detailed below, WIAL has implemented commercial arrangements with a number of airlines over many years.
- Airline or external scrutiny of airport costs incentivises airports to seek cost efficiencies, and the sharing of efficiency benefits with consumers though price resets with airlines.
- Encouraging airports to promote passenger growth, which results in lower costs to passengers through reduced airfares, and to cost efficiencies being achieved from the spreading of airport costs over a higher passenger base. WIAL sets out its cost efficiency achievements in the operating cost section of this document.
- Airports determine the investment that is required in facilities after consultation with airlines. Airports must ensure that investment is justified and efficient but fundamentally must also ensure that the requirements of all airlines and passengers are met.

The interests of airlines and passengers are not always aligned. For example:

- Airlines may be incentivised to oppose investment where it could foster greater competition between airlines; and
- Airlines may not always have the same service quality objectives as passengers for airport facilities.

Examples of investments undertaken by WIAL in recent years which were not supported by all airlines include the Runway End Safety Areas (RESAs) and expansion of the North Pier. In the absence of these investments, the operations of some of the airlines are likely to have been constrained and consequently airline competition and growth in passenger numbers likely to have been reduced.

The AAA therefore provides airports with an important role to ensure the needs of the various parties are appropriately met. The process also encourages airports and airlines to consider innovative investments.

- Airports determine the pricing structure that is most appropriate to encourage efficient use of airport facilities and which is economically efficient for passengers.

The basis and rationale for the airport decisions must be sound and the ID Regime ensures that this information can be publicly scrutinised, in addition to the airline scrutiny enabled by the AAA consultation process.

4.4. Commercial Agreements

WIAL has historically sought to undertake commercial approaches to consultation wherever possible, such as through mechanisms to incentivise airlines to achieve passenger growth, as well as via revaluation or capital expenditure wash-ups. WIAL's preferred approach has been to seek commercial agreements with airlines wherever possible.

Over time this has led to a number of commercial agreements, or arrangements, with airlines as listed below:

1997-2002

- Deed signed by WIAL and substantial airline customers that enabled a new MTB to be constructed, established starting prices and provided a price adjustment path throughout the period.

2003-2007

- Passenger growth agreement with Air New Zealand (Air NZ) that resulted in rebates of $15 million to Air NZ over the duration of the agreement.
- Agreement implemented with Pacific Blue to incentivise the implementation of domestic and international services by Pacific Blue.

2008-2012

- Capital expenditure wash-up arrangement included in pricing decision for the new Rock terminal development.
- Risk sharing arrangement for unforecast revaluation gains included in pricing decision.

2013-2014

- Incentive arrangement included in pricing structure that reduces landing fees for airlines providing growth in passenger numbers.
- Capital expenditure and revaluation wash-ups implemented.

4.5. Summary for PSE3 Consultation

During the PSE3 consultation WIAL was therefore mindful that:

- The ID Regime had been implemented;
- The Commission, in undertaking a review of the effectiveness of the ID Regime concluded that WIAL was not limited in its ability earn excessive profits in the future;
- WIAL's actual regulated outcomes have been below the Commission's ID thresholds since the commencement of the ID Regime; and
- WIAL has demonstrated its commercial approach to consultation over a long period of time.

5. Consultation Process

5.1. Consultation for Prices for Identified Airport Activities for the Period 1 June 2014 to 31 March 2019

WIAL has undertaken consultation with its substantial customers to enable it to reset prices charged for identified airport activities which are subject to consultation obligations under the AAA. WIAL has determined pricing to apply for the period 1 June 2014 to 31 March 2019. A Schedule of Charges for this Pricing Period is attached at Appendix F.

During consultation, WIAL's substantial customers requested that WIAL defer the increases in charges that were scheduled to occur from 1 April 2014. WIAL agreed to this request and consequently the amendments to charges proposed for 1 April 2014, included in WIAL's Schedule of Charges for the period 1 April 2012 to 31 March 2017, were not implemented. As a result, prices were held constant (or frozen) from 31 March 2014 to 31 May 2014.

5.2. AAA Consultation Requirements

Under the AAA WIAL must consult with its substantial customers and set prices at least once every 5 years. The prices that must be consulted on are:

- All charges payable by substantial customers for identified airport activities excluding those subject to existing agreements (e.g. leases or licenses) that extend beyond 31 May 2014; and
- All direct charges payable by passengers for identified airport activities.

Substantial customers are defined in the AAA as being:

> *"any person that paid or was liable to pay that airport company in relation to identified airport activities in that airport company's last accounting period an amount that exceeded 5% of the revenue paid or payable to that airport company during that accounting period in relation to those activities."*

WIAL's substantial customers for the PSE3 consultation were:

- Air New Zealand
- Air Nelson
- Qantas Airways
- Jetstar
- Virgin Australia

BARNZ participated in the consultation process as the nominated representative of Virgin Australia.

5.3. Consultation Objectives

WIAL's primary objectives in undertaking the consultation were to provide its substantial customers with:

- Comprehensive information, including disclosure of the building block model and the detailed calculations that supported WIAL's revenue requirements.
- The calculations used to determine the prices for PSE3.
- Sufficient time and opportunity to consider and respond to WIAL's proposals during the consultation.
- Direct access to those involved in the consultation at WIAL's to gain complete understanding of the material provided by WIAL.

The consultation was undertaken in accordance with WIAL's obligation under the AAA, which also meant it must act as a commercial undertaking and in accordance with WIAL's shareholders' objective of receiving an appropriate return on the fair value of WIAL's aeronautical assets over the longer term.

5.4. Consultation Timetable and Approach

The consultation commenced with WIAL's substantial customers in July 2013 and included an initial briefing on the proposed consultation process and timetable. The consultation timetable was finalised following this initial briefing session and it incorporated suggestions from substantial customers and BARNZ.

The consultation process required WIAL to:

- Provide substantial customers with information on its proposed revenue and pricing inputs, as well as its pricing methodology;
- Provide substantial customers with the opportunity to fully consider, and make submissions on, the information provided by WIAL;
- Engage directly with substantial customers through meetings and correspondence to ensure substantial customers were fully informed;
- Fully consider the submissions and views expressed by substantial customers and to make appropriate amendments to its proposals.

The consultation was undertaken in the manner proposed to substantial customers, subject to the parties amending proposed milestone dates throughout the consultation process.

5.5. Release of Consultation Material

All participants (WIAL, its substantial customers and BARNZ) agreed to continue WIAL's approach to transparency and openness in the consultation process.

The consultation resulted in the parties preparing a number of key documents during the consultation. The main consultation documents WIAL referred to in preparing this PSE Disclosure are listed below:

- WIAL's FPD dated 30 June 2014;
- WIAL's Building Block Model (in Microsoft Excel format);
- WIAL's Pricing Model (in Microsoft Excel format)
- WIAL's Noise Mitigation Model (in Microsoft Excel format); and
- Asset valuation and capital expenditure files providing input to the Building Block Model.
- An updated Market Value Alternative Use (MVAU) Land Valuation Report prepared by Telfer Young.

WIAL also had regard to a number of other documents in preparing the detailed comments on the key capital expenditure projects. These documents included:

- WIAL's master and business planning documents;
- WIAL capital expenditure presentations and communications with the airlines;
- Supplementary documents including reports from external advisors regarding capacity, utilisation and development options for key WIAL facilities.

All key consultation documents were made publicly available on WIAL's website as the consultation progressed. WIAL and its substantial customers agreed that the parties could identify components of these documents as confidential, should they wish to do so, with explanation for any confidentiality to be provided to the other consultation participants. This option was not taken by any of the consultation parties.

The consultation documents are available at www.wellingtonairport.co.nz.

6. Outcomes from Consultation

6.1. Building Block Model

In order to enable the determination of appropriate pricing WIAL was first required to establish the revenue required to ensure sustainable operations of the airport. To do this, WIAL utilised the building block model, consistent with prior consultations and the Commission's approach to evaluating the ID Regime.

The building block model uses inputs, such as: land and other asset values, expected investment, cost of capital and forecast operating expenditure, and calculates the required revenue from aeronautical activities as shown in the formula below:

Revenue Required =	*Return on Capital*
	+ Operating Costs
	+ Depreciation on Assets
	+ Taxation
	+/– Expected Revaluation of Assets
WHERE	*Return on Capital = Assets Employed * WACC*

WIAL obtained independent expert advice on various inputs, including the valuation of land that WIAL occupies, WACC and traffic forecasts.

6.2. Key Inputs to Building Block Model

WIAL ensured that it met AAA consultation requirements, as described above, but further to this WIAL also wished to ensure that it responded to the Commission's application of the ID Regime.

The table below summarises the approach taken by WIAL for the key building block inputs and also demonstrates the changes in WIAL's approaches from that taken for PSE2.

WIAL's Approaches for PSE	**Key Changes in WIAL's Pricing Approach From PSE2**
Land Valuation WIAL commissioned an updated land valuation as at 31 March 2013 as follows: ✈ WIAL's land holding was independently valued by Telfer Young. Land was valued using a MVAU valuation methodology which takes account of the Commission's IMs. This valuation methodology required WIAL to identify, and value, the Highest and Best Alternative Use (HBAU) of the land as if it were not used as an airport i.e. its alternative use value. ✈ Assistance on planning aspects for the valuation was commissioned from Property Economics Limited (PEL) and Boffa Miskell. PEL provided market supply and demand analysis while Boffa Miskell produced the land use master plan underpinning the valuation. Development costs used in the valuation were provided by Opus International Consultants Limited (Opus). ✈ The land valuation for the airport site is $130 million. This represented a reduction of $11 million from that applied in WIAL's PSE2 consultation. The reduction is primarily due to a revision in the alternative land use allocations and updated market conditions.	WIAL has adopted an MVAU land valuation approach consistent with the IMs. This has resulted in a reduction in WIAL's land valuation for pricing by $75.7m from its previous MVEU approach. WIAL obtained market demand advice to underpin its land valuation.

Valuation of other Specialised Assets

The values adopted for non-land assets were obtained by rolling forward the asset base from WIAL's 2013 annual information disclosures.

WIAL adopted a valuation approach consistent with the IMs.

Commencing Asset Valuation

The commencing value of aeronautical pricing assets included in the building block calculation was established at 31 March 2013 as follows:

Asset Category	Pricing Assets (millions)
Land	$99.3m
Civil Works	$120.2m
Buildings	$125.4m
Plant and Equipment	$13.9m
Total Fixed Assets	**$358.8m**

Investment in New Facilities

WIAL strives to provide a high quality experience for airlines and customers, where appropriate standards of customer service and safety are maintained. To that end WIAL has forecast investments in PSE3 to:

- Maintain and improve its infrastructure, thereby maintaining appropriate customer service levels as well as addressing service quality concerns raised by customers and/or congestion of facilities; and
- Ensure that the airport remains up to date with developing safety standards, particularly in relation to the adoption of ICAO (International Civil Aviation Organisation) requirements.

WIAL actively engaged with its substantial customers over proposed investment in the airport, through meetings both before and after the release of WIAL's Initial Pricing Proposal (IPP).

WIAL introduced additional discussions with its airlines to determine investment priorities and provided an enhanced opportunity for consultation and feedback.

WIAL has forecast aeronautical capital expenditure for the pricing activities in PSE3 to be $112 million (in 2014 dollars), excluding the SPC for projects identified below.

The most significant capital project over PSE3 is the southern extension of the MTB, named the Terminal South Extension (TSE) with an aeronautical cost of $44 million, which includes associated apron works. This project is crucial to WIAL and its customers to provide infrastructure to accommodate forecast traffic growth. Consultation on the TSE progressed over the last 2 years and has involved numerous workshops and meetings with various stakeholders.

Other key capital projects include:

- Main taxiway overlay of $7 million scheduled for 2018; and

Southern apron stage 2 works of $28 million which are scheduled to commence in PSE3 but are not scheduled for completion until 2022.

WIAL's substantial customers expressed support for WIAL's forecast capex.

WIAL has introduced an SPC methodology for certain projects in PSE3 where identified capital projects are excluded from the initial building block calculation. SPC projects identified for PSE3 are: ✈ North Terminal Expansion project ($17 million). Detailed planning and costing work has not yet been undertaken for this project and consequently sufficient uncertainty exists over the expenditure required. ✈ Prospective additional fire appliance should the category for rescue and firefighting purposes (ICAO standard) be increased to level 8.	WIAL's substantial customers expressed agreement with the SPC mechanism and the projects identified as SPCs.
Forecast Depreciation WIAL has forecast depreciation on existing assets from RAB asset model used for information disclosure.	WIAL's approach to its depreciation forecast is consistent with the IMs.
Forecast Asset Revaluations WIAL has forecast asset revaluations in accordance with Consumer Price Index (CPI) and has included all forecast revaluation gains as a credit against income. No wash-up arrangement was agreed, but WIAL will consider the treatment of actual revaluations at the end of PSE3 and any variation to forecast. This does not impact prices in PSE3.	Revaluation forecast at CPI takes account of the IMs. WIAL will consider the treatment of actual revaluations at the end of PSE3 after consulting with its substantial customers.
Cost of Capital WIAL adopted a WACC consistent with the Commission's WACC IM and adopted the 75th percentile, updated as at 1 June 2014 to 8.36%. This reflects the latest market data dated 1 June 2014 risk free rate and debt premium.	WIAL has adopted a WACC which takes account of the WACC IM.
Operating Costs WIAL has forecast that operating costs per passenger will decrease marginally over the Pricing Period from $2.70 in 2014 to $2.64 per passenger in 2019 in real terms. Like any business, WIAL is likely to continue to be exposed to cost increases outside its control, such as insurance and regulatory cost increases seen in recent years. WIAL has however sought cost efficiencies to offset this where possible.	WIAL is forecasting efficiencies through a reduction in real costs per pax. BARNZ acknowledged the efficiencies achieved by WIAL with forecast costs per pax being comparable to 2007 levels
Demand Forecast WIAL commissioned Pricewaterhouse Coopers (PwC) to provide a forecast of passenger and aircraft movements for 2015 to 2024. After considering the responses received from airlines, principally following release of Information Package 1 (IP1), PwC revised the forecasts to take account of new information including the following: ✈ The availability of actual aircraft and passenger movement information for WIAL's entire 2014 financial year; ✈ Network changes occurring during 2014 e.g. international capacity adjustments; ✈ Airline schedules for 2014 Northern Summer scheduling season (NS14), and assessment of seasonality to reassess 2015 activity; and ✈ A review of aircraft movements following Air NZ's announced fleet deployment plans at Wellington (e.g. fewer ATR services on the Wellington to Christchurch route than previously anticipated). In accordance with the PwC revision, WIAL has forecast international passengers to grow at 6.5% per annum on average and domestic passengers to grow at 2.1%, resulting in an overall passenger growth rate of 2.7% per annum over PSE3.	

6.3. Required Revenue and Forecast Return

WIAL utilised the building block model in previous consultations. In PSE3 however, WIAL amended how it demonstrates the outputs from the model such that:

- ✈ The building block required revenue summary is consistent with the information required to be published in Schedule 18 of the PSE Disclosure; and
- ✈ An IRR calculation is provided which is also consistent with the Commission's approach in its section 56G review.

WIAL adopted an approach that seeks to recover the WACC for each year of the Pricing Period as shown in the building block summary, subject to minor annual smoothing adjustments noted below:

Revenue Requirement	Pricing to Airlines				
	2015 (10 months from 1 June 2014)	2016	2017	2018	2019
Forecast value of assets employed	371,010	406,104	437,191	444,628	446,482
Forecast cost of capital	8.36%	8.36%	8.36%	8.36%	8.36%
Forecast return on assets employed[(1)]	25,847	33,950	36,549	37,171	37,326
Forecast operational expenditure	12,929	17,165	17,791	17,801	17,976
Forecast depreciation	10,543	13,195	15,945	16,993	17,764
Forecast tax	8,964	11,231	12,128	12,234	12,963
Forecast revaluations	(6,063)	(9,442)	(9,994)	(8,753)	(7,981)
Forecast other income	170	209	214	218	222
Prior Period Wash Ups	*(1,732)*	*(2,253)*	*(2,441)*	*0*	*0*
Forecast total revenue requirement	50,317	63,638	69,764	75,227	77,825
Revenue smoothing adjustment[(1)]	(174)	117	22	22	22
Forecast revenue for services applicable to PSE	**50,143**	**63,755**	**69,786**	**75,249**	**77,847**
[(1)] *Pro-rated for 10 months of year in 2015*					

WIAL and its substantial customers agreed that the new charges will be backdated to, and therefore be effective from, 1 June 2014. After allowing for PSE2 forecast revenues of $12.0 million for April and May 2014, WIAL forecast a decrease in required revenue for the year to 31 March 2015, below that forecast for the 2014 financial year. This decrease is despite the fact that WIAL has achieved returns below IM benchmarks since the commencement of the ID Regime.

The forecast IRR for PSE3 is shown below. This has been prepared in the same manner as the Commission's section 56G review to enable a consistent assessment of WIAL's forecast performance and returns.

	31/05/2014	31/03/2015	31/03/2016	31/03/2017	31/03/2018	31/03/2019	31/03/2019
Opening asset value	(359,873)						
Revenue		50,313	63,964	70,000	75,467	78,069	
Allowance for terminal wash up as income		-	-	-	-	-	
Opex		(12,929)	(17,165)	(17,791)	(17,801)	(17,976)	
Value of commissioned assets	(11,138)	(39,574)	(34,840)	(13,388)	(10,094)	(3,110)	
Cash received from disposals		-	-	-	-	-	
Tax		(8,964)	(11,231)	(12,128)	(12,234)	(12,963)	
TCSD		-	-	-	-	-	
Closing asset value							439,810
Total	**(371,010)**	**(11,153)**	**728**	**26,693**	**35,338**	**44,021**	**439,810**
IRR post tax	**8.02%**						
(tax calculation reflects post tax WACC)							

The targeted post-tax return for PSE3 is 8.36% which equates to a return of 8.02% after allowing for "the Rock" wash-up credit from PSE2. These outcomes demonstrate that WIAL is seeking to achieve

a cost of capital over the Pricing Period in a manner consistent with the WACC IM and which adopts the 75th percentile.
The charge per passenger over PSE3 is relatively flat, increasing in nominal terms from $12.14 in 2014 to $12.71 in 2019 (equivalent to a 0.9% increase per annum) or a reduction in real terms from $12.14 in 2014 to $11.44 in 2019 (equivalent to a 1.2% decrease per annum).

6.4. Considerations in Setting Prices

In assessing the components of the building block model and considering final prices, WIAL was guided by the following considerations:

- Continuing to operate efficiently while providing service quality at levels sought by passengers and airlines;
- Maintaining a strong commitment to operational safety;
- Continuing to invest in efficient facilities to meet increases in demand and respond to customer feedback;
- Sharing efficiency gains with consumers; and
- Achieving a fair rate of return for WIAL's shareholders.

These considerations were appropriate given the requirement for airports to operate as a commercial undertaking under section 4 of the AAA and to meet the Part 4 objective in the Act.

Further detailed comment on WIAL's pricing methodology is provided below in the required statutory disclosures.

7. Forecast Performance under ID Regime

When undertaking the section 56G review the Commission took a forward looking approach and calculated WIAL's expected IRR from its forecast outcomes for PSE2. This is demonstrated above for the activities consulted on with substantial customers.

However, an important consideration for any party evaluating WIAL's performance under the ID Regime is WIAL's performance since commencement of the ID Regime. WIAL has therefore calculated the IRR, in the manner used by the Commission, that represents the actual returns achieved in published information disclosures and the returns forecast to be achieved in PSE3. The outcomes shown represent the total achievements for all regulated activities (the statutory disclosures below detail the components of regulated activities and what they comprise).

IRR Calculation from Commencement of ID Regime											
	31/03/2010	31/03/2011	31/03/2012	31/03/2013	31/03/2014	31/03/2015	31/03/2016	31/03/2017	31/03/2018	31/03/2019	31/03/2019
Opening asset value	(379,566)										
Revenue (excluding gain/loss on sale)		57,057	61,220	67,217	72,453	66,498	71,213	77,225	81,750	84,790	
Opex		(14,648)	(15,587)	(19,605)	(16,320)	(18,448)	(20,143)	(20,062)	(20,124)	(19,488)	
Value of commissioned assets	(20,606)	(28,357)	(18,455)	(6,786)	(15,328)	(41,441)	(36,753)	(14,854)	(11,591)	(3,110)	
Cash received from disposals		-	-	-	-	1,867	1,913	1,466	1,496	-	
Tax		(8,777)	(8,487)	(9,864)	(13,301)	(11,553)	(12,352)	(13,455)	(13,294)	(14,383)	
TCSD		(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	
Closing asset value											467,794
Total Annual Cashflow	**(400,172)**	**5,272**	**18,688**	**30,959**	**27,501**	**(3,080)**	**3,875**	**30,318**	**38,235**	**47,806**	**467,794**
IRR Post Tax	**6.62%**										
(tax calculation reflects post tax WACC)											

The forecast return of 6.62% for the period from the commencement of the ID Regime, on 1 April 2010, to the end of PSE3 clearly demonstrates that WIAL is not seeking to achieve excessive returns on its regulated activities. This is evident from comparison to the Commission's annual WACC determinations for WIAL which have shown the following ranges for the years ended 31 March 2011 to 31 March 2015:

	Highest Post Tax WACC	**Lowest Post Tax WACC**
75th percentile	9.18%	7.67%
50th percentile	8.19%	6.69%

WIAL's expected return following application of the Commission IM's falls below even the lowest mid-point threshold return since commencement of the ID Regime.

8. Price Setting Event Disclosures

Determination Reference	WIAL Comment
Clause 2.5(1)(a)(i) Disclosure of Forecast Total Revenue Requirements	The Determination requires the publication of forecast financial information for the Pricing Period, and in some cases for a subsequent five year period. This information is required in the form set out by the Commission in the Determination. The Commission's Schedule 18 is attached at Appendix A. Explanatory comments on several aspects of the schedules are provided below. **Composition of Forecast Revenue Requirement** WIAL's forecast revenue requirement for specified airport services comprises income from three sources, namely: ➢ Airfield and specified terminal services. These charges were consulted on with substantial customers as part of the PSE. ➢ Income from charges for noise mitigation. These charges were consulted on with substantial customers as part of the PSE. ➢ Income from property rentals established though commercial negotiation. These are not part of the consultation for the PSE but are separately negotiated upon lease renewal or as required. WIAL illustrates the outcomes from each of these sources of income below and outlines how WIAL combined these outcomes to produce the forecast total revenue requirement as shown in Schedule 18. ***1. Airfield and specified terminal services consulted on with substantial customers*** ***Building Block Model*** WIAL utilised a building block model to calculate its forecast required revenue. The building block model determines the revenue required as follows: *Revenue Required = Return on Capital* *+ Operating Costs* *+ Depreciation on Assets* *+ Taxation* *+/– Expected Revaluation of Assets* *WHERE Return on Capital = Assets Employed * WACC*

Determination Reference	WIAL Comment
	WIAL prepared forecasts for each of the inputs to the model and also sought advice from expert advisers in respect of a number of the key inputs. WIAL consulted with its substantial customers in respect of all inputs and in respect of the detailed application of the model (this was undertaken by providing the detailed calculation model to substantial customers). In addition to calculating the required revenue for PSE3, WIAL also considered the wash-ups required to be carried over from PSE2 (further explanation provided on pages 21 and 22. **Pricing Period for Consultation** WIAL consulted on prices for the period 1 June 2014 to 31 March 2019, a 4 year 10 month period and the building block model outcomes are shown for this period (these have also been adjusted to provide results for a five year period commencing 1 April 2014). Further comment is provided on pages 22 and 23. **Presentation of Outcomes from Model** Presentation of the outcomes from the building block model has been changed from previous consultation periods so that, for PSE3, WIAL outlines the calculation of revenue in the format required by Schedule 18, which is consistent with the Commission's IRR approach used in its section 56G review. WIAL has taken this approach to make it easier for the Commission, and other interested persons, to evaluate WIAL's results in a consistent manner.

Determination Reference	WIAL Comment

Schedule 18 Building Block Outcome

Revenue Requirement	Pricing to Airlines				
	2015 (10 months from 1 June 2014)	2016	2017	2018	2019
Forecast value of assets employed	371,010	406,104	437,191	444,628	446,482
Forecast cost of capital	8.36%	8.36%	8.36%	8.36%	8.36%
Forecast return on assets employed[1]	25,847	33,950	36,549	37,171	37,326
Forecast operational expenditure	12,929	17,165	17,791	17,801	17,976
Forecast depreciation	10,543	13,195	15,945	16,993	17,764
Forecast tax	8,964	11,231	12,128	12,234	12,963
Forecast revaluations	(6,063)	(9,442)	(9,994)	(8,753)	(7,981)
Forecast other income	170	209	214	218	222
Prior Period Wash Ups	*(1,732)*	*(2,253)*	*(2,441)*	*0*	*0*
Forecast total revenue requirement	50,317	63,638	69,764	75,227	77,825
Revenue smoothing adjustment[1]	(174)	117	22	22	22
Forecast revenue for services applicable to PSE	**50,143**	**63,755**	**69,786**	**75,249**	**77,847**
[1] *Pro-rated for 10 months of year in 2015*					

IRR calculation

	31/05/2014	31/03/2015	31/03/2016	31/03/2017	31/03/2018	31/03/2019	31/03/2019
Opening asset value	(359,873)						
Revenue		50,313	63,964	70,000	75,467	78,069	
Allowance for terminal wash up as income		-	-	-	-	-	
Opex		(12,929)	(17,165)	(17,791)	(17,801)	(17,976)	
Value of commissioned assets	(11,138)	(39,574)	(34,840)	(13,388)	(10,094)	(3,110)	
Cash received from disposals		-	-	-	-	-	
Tax		(8,964)	(11,231)	(12,128)	(12,234)	(12,963)	
TCSD		-	-	-	-	-	
Closing asset value							439,810
Total	**(371,010)**	**(11,153)**	**728**	**26,693**	**35,338**	**44,021**	**439,810**
IRR post tax	**8.02%**						
(tax calculation reflects post tax WACC)							

WIAL's applied a WACC for the period of 8.36% (further comment is provided on pages 42 to 44. WIAL's target return for the 4 year and 10 month period consulted on is below this WACC because WIAL reduced its required revenue by The Rock terminal wash-up continued from PSE2.

Determination Reference	WIAL Comment
	Net Present Value WIAL has also sought to achieve a Net Present Value (NPV) of zero over the Pricing Period by achievement of a return equal to WACC for each year, and for the 10 month period in 2015. This can be demonstrated, subject to immaterial rounding differences, by calculating the discounted total of the smoothing adjustments shown in the Schedule 18 Building Block Outcome above.

Net Present Value of Smoothing Adjustment	2015	2016	2017	2018	2019
Discount factor	1.084	1.174	1.272	1.379	1.494
Discounted smoothing adjustments	(160)	100	17	16	15
Total NPV of Smoothing Adjustment	(13)				

The total is not exactly zero due to complexities in the calculations however the total for the period, and for each year within it, is not materially different from zero.

Schedule 18a - Other Factors – Rock Terminal Wash Up

WIAL provided a wash-up adjustment in respect of The Rock terminal for PSE2. As WIAL has undertaken the PSE3 consultation prior to the end of PSE2, WIAL has continued to apply the terminal wash-up for a further three years in PSE3, resulting in the wash-up being spread over the originally proposed five year period. The wash-up adjustment is further explained below:

- WIAL forecast capital expenditure for The Rock terminal expansion to be completed by March 2009. Under the terms of the wash-up, if the project completion was delayed by more than 12 months, WIAL would provide compensation to its substantial customers in the subsequent Pricing Period. The project was not commissioned until the end of October 2010 and was therefore delayed by more than 12 months.

Determination Reference	WIAL Comment

The value of this wash-up dispensation for PSE2 was determined as follows:

Calculation of Terminal Wash-Up	**$000**
Benefit WIAL derived from delayed capital spending over the 2008-2012 pricing period	9,062
Adjustment at WIAL's WACC to establish the nominal amount at 1 April 2012 (the commencement of the PSE2 Pricing Period)	2,283
Total Terminal Wash-Up at 1 April 2012	**11,345**

The remainder of this wash-up to be applied in PSE3 was calculated as follows:

Post Tax	**2015**[1] **$000**	**2016 $000**	**2017 $000**	**Total $000**
Un-indexed valuation wash up per year	1,891	2,269	2,269	6,807
Index factor	1.272	1.379	1.494	N/A
Reduction in Required Revenue[1] Pre Tax	2,405	3,129	3,390	9,406
Reduction in Revenue Post Tax	**1,732**	**2,253**	**2,441**	**6,426**

Note 1: 10 month period

Conversion of Outcomes for PSE3 to 5 Year Period for this Price Setting Disclosure

WIAL was cognisant that forecasts provided in the PSE Disclosure are used to evaluate the actual performance outcomes in annual information disclosures. Adoption of a 4 year 10 month period for the first year of PSE3 would make the annual analysis for the duration of PSE3 more complex if the annual, and period to date, assessments were continually required to make adjustment for the initial 10 month period.

Determination Reference	WIAL Comment

WIAL proposed to substantial customers during consultation that it would remove this complexity by including full year forecasts for a five year period in the PSE Disclosure. This would be achieved by providing a full year forecast for the 2015 financial year which would comprise 2 months of the PSE2 forecast for 2015 and 10 months of the PSE3 forecast. WIAL's substantial customers did not provide any response to the proposal and WIAL has therefore proceeded with this approach. The Disclosure for PSE3 will therefore include outcomes for the 2015 year that are determined as follows:

Revenue Requirement	2015 PSE3 Consultation (10 Months)	PSE2 Full Year (i.e., to 31 March 2015)	Calculation of Two Months from PSE2 for April and May 2014 for PSE3 Consolidation	Consolidated PSE3 Outcome for 2015 (12 months)
Forecast value of assets employed	371,010	495,062	495,062	371,010
Forecast cost of capital	8.36%	9.51%	1.58%	9.08%
Forecast return on assets employed	25,847	47,070	7,845	33,692
Forecast operational expenditure	12,929	17,721	2,954	15,882
Forecast depreciation	10,543	15,441	2,573	13,116
Forecast tax	8,964	11,669	1,945	10,909
Forecast revaluations	(6,063)	(11,914)	(1,986)	(8,049)
Forecast other income	170	215	36	206
Prior Period Wash Ups	*(1,732)*	*(6,788)*	*(1,131)*	*(2,864)*
Other factors	(1,732)	(6,788)	(1,131)	(2,864)
Forecast total revenue requirement	**50,317**	**72,984**	**12,164**	**62,481**
Revenue smoothing adjustment	(174)	(1,066)	(178)	(351)
Forecast revenue for services applicable to PSE	**50,143**	**71,918**	**11,986**	**62,129**

2. Noise mitigation activity

WIAL has endeavored to establish, with its substantial customers, a 10 year commercial agreement for airport noise mitigation activities (previously termed Land Use Management and Insulation for Airport Noise Study (LUMINS) activities). These activities relate to the removal of certain noise affected properties close to the airport and the noise insulation of other properties in the surrounding area.

As an agreement was not achieved as at the date of setting charges for PSE3, WIAL has included noise mitigation charges separately in the Schedule of Charges for PSE3. Inclusion of these charges in the pricing schedule also enables WIAL to recover

Determination Reference	WIAL Comment

charges from smaller airline operators that may not be party to a commercial agreement.

WIAL remains hopeful that a commercial agreement for noise mitigation activities can be achieved with its substantial customers. This would allow an arrangement to enable the annual adjustment of charges in response to any variations in revenue and costs from forecast over the term of the agreement.

WIAL utilised a stand-alone building block model to determine the revenue required, and subsequent pricing, for the noise mitigation activities. The stand-alone model allows a discrete charge to be maintained for this activity such that a NPV=0 is achieved over the life of the project. The model was provided to substantial customers during consultation.

The outcomes from the stand-alone model are:

Revenue Requirement	Noise Mitigation Activities				
	2015	2016	2017	2018	2019
Forecast value of assets employed	0	0	0	0	0
Forecast cost of capital	8.36%	8.36%	8.36%	8.36%	8.36%
Forecast return on assets employed	0	0	0	0	0
Forecast operational expenditure	2,449	2,462	1,738	1,774	948
Forecast depreciation	0	0	0	0	0
Forecast tax	(65)	(69)	28	29	274
Forecast revaluations	0	0	0	0	0
Forecast other income	0	0	0	0	0
Forecast total revenue requirement	2,383	2,393	1,766	1,803	1,222
Revenue requirement not applicable to PSE	0	0	0	0	0
Revenue smoothing adjustment	(168)	(177)	72	74	704
Forecast revenue for services applicable to PSE	**2,216**	**2,216**	**1,839**	**1,877**	**1,926**

These outcomes do not produce an NPV=0 for the five year period with a small NPV surplus achieved as shown in the following table.

Net Present Value of Smoothing Adjustment	2015	2016	2017	2018	2019
Discount factor	1.084	1.174	1.272	1.379	1.494
Discounted smoothing adjustments	(155)	(151)	57	54	471
Total NPV of Smoothing Adjustment	276				

Forecasting of an NPV surplus for this period is due to three factors:

- ✈ WIAL is seeking an NPV=0 over the forecast 10-year life of the project, with the model used to forecast revenue

Determination Reference	WIAL Comment

demonstrating this (the model is available on WIAL's website www.wellingtonairport.co.nz);

- ✈ WIAL incurred a significant NPV deficit in the initial year (year ending 31 March 2013) of the project due to upfront costs; and
- ✈ WIAL has implemented a pricing approach recommended by Virgin Australia where WIAL has retained the charge applicable as at 1 April 2014 for the period until 31 March 2016, before reducing the charge to the level necessary to achieve the project NPV=0. Virgin Australia proposed this approach as the costs for the activity are higher in the early years of the project. Virgin considered it reasonable that WIAL should receive higher revenues during this period.

3. Income from property rentals (of specified airport services assets)

Property rental income is derived from commercial negotiations with tenants. Rental levels are generally established following reference to the property market, rather than through the use of a model such as the building block model.

Nonetheless WIAL is required to present the outcomes from leased properties in the building block format for inclusion in Schedule 18. In preparing this information WIAL has determined the key building block inputs as follows:

- ✈ Asset values – land is valued at MVAU and other assets at the annual information disclosure rolled forward values.
- ✈ WACC – the cost of capital recommended by WIAL's adviser for consultation.
- ✈ Expenses – costs allocated from WIAL's expense base as part of the allocation process for consultation.

The building block outcomes for lease properties for inclusion in Schedule 18 are:

Revenue Requirement	Other Regulated Activities				
	2015	2016	2017	2018	2019
Forecast value of assets employed	29,934	29,548	29,294	28,957	28,510
Forecast cost of capital	9.08%	8.36%	8.36%	8.36%	8.36%
Forecast return on assets employed	2,718	2,470	2,449	2,421	2,383
Forecast operational expenditure	485	516	533	549	564
Forecast depreciation	989	994	1,016	1,026	1,040
Forecast tax	921	957	993	1,024	1,052
Forecast revaluations	(604)	(739)	(680)	(579)	(513)
Other factors	(210)	209	198	159	156
Forecast total revenue requirement	4,300	4,408	4,510	4,600	4,683
Revenue requirement not applicable to PSE	(4,300)	(4,408)	(4,510)	(4,600)	(4,683)
Revenue smoothing adjustment	0	0	0	0	0
Forecast revenue for services applicable to PSE	**0**	**0**	**(0)**	**0**	**0**

Determination Reference	WIAL Comment

As the revenue outcomes are not determined with reference to the building block model the revenue outcomes in each year do not equal WIAL's WACC. The "other factors" show that WIAL has forecast a deficit, when compared to WACC, in the first year of the Pricing Period with surpluses achieved thereafter.

4. Total Schedule 18 Outcomes

The total outcomes shown in Schedule 18 (attached at Appendix A) are derived from the addition of the three activities above. The total forecasted outcomes for the period from 1 April 2014 to 31 March 2019 are:

Revenue Requirement	Total for Commission Schedule 18				
	2015	2016	2017	2018	2019
Forecast value of assets employed	400,944	435,653	466,484	473,585	474,993
Forecast cost of capital	9.08%	8.36%	8.36%	8.36%	8.36%
Forecast return on assets employed	36,410	36,421	38,998	39,592	39,709
Forecast operational expenditure	18,816	20,143	20,062	20,124	19,488
Forecast depreciation	14,105	14,189	16,961	18,018	18,803
Forecast tax	11,764	12,119	13,150	13,287	14,289
Forecast revaluations	(8,652)	(10,180)	(10,674)	(9,332)	(8,494)
Forecast other income	206	209	214	218	222
Prior Period Wash Ups	(2,864)	(2,253)	(2,441)	0	0
Other Regulated Activity Earnings Below Cost of Capital	(210)	209	198	159	156
Total Other factors	(3,073)	(2,043)	(2,243)	159	156
Forecast total revenue requirement	69,164	70,438	76,040	81,630	83,730
Revenue requirement not applicable to price setting event	(4,300)	(4,408)	(4,510)	(4,600)	(4,683)
Revenue smoothing adjustment	(519)	(103)	86	89	719
Forecast revenue for services applicable to PSE	**64,345**	**65,928**	**71,616**	**77,118**	**79,765**

The consolidated building block outcome produces an IRR consistent with the Commission section 56G approach as follows:

Determination Reference	WIAL Comment

	31/03/2014	31/03/2015	31/03/2016	31/03/2017	31/03/2018	31/03/2019	31/03/2019
Opening asset value	(389,223)						
Revenue		68,851	70,588	76,348	81,944	84,678	
Allowance for terminal wash up as income		-	-	-	-	-	
Opex		(18,816)	(20,143)	(20,062)	(20,124)	(19,488)	
Value of commissioned assets	(11,138)	(39,574)	(34,840)	(13,388)	(10,094)	(3,110)	
Cash received from disposals		-	-	-	-	-	
Tax		(11,764)	(12,119)	(13,150)	(13,287)	(14,289)	
TCSD		-	-	-	-	-	
Closing asset value							467,794
Total	**(400,361)**	**(1,303)**	**3,486**	**29,748**	**38,439**	**47,791**	**467,794**
IRR post tax	**8.23%**						
(tax calculation reflects post tax WACC)							

Clause 2.5(1)(a)(ii) Disclosure of Report on Demand Forecasts	WIAL commissioned PwC to provide forecast passenger and aircraft movements for the 11 years commencing from 2014. The forecast was provided to substantial customers in consultation and updated in response to feedback on new information regarding future network changes, and the outcome of 2014 during the consultation period. The PwC report provided to substantial customers is available on WIAL's website. In conjunction with the consultation forecast, PwC were requested to provide the forecast information required by Schedule 19. Schedule 19 requires a 10 year forecast of passenger and aircraft movement volumes shown in several categories. It also provides forecasts of expected peak period passenger numbers and aircraft movements. Growth in peak demand was an important factor for WIAL in establishing its pricing structure for the runway and in considering the investment in facilities required during the Pricing Period. Further detailed comment is provided in this PSE Disclosure.
Clause 2.5(1)(c) Description of Components of Forecast Revenue Requirements	Clause 2.5(1)(c) requires comment on how each of the building block inputs to Schedule 18 have been determined including an explanation of: *"(vii) the rationale for the basis of preparing these components, and any related assumptions;* *(ix) the extent to which each component is used to determine the forecast total revenue requirement; and* *(x) the differences (if any) between the preparation of each component and the most recent corresponding historical financial*

Determination Reference	WIAL Comment
	information disclosure in accordance with clause 2.3 [Annual Disclosure Relating to Financial Information].” WIAL provides comment on each of these requirements for the building block inputs in the sections that follow.
Clause 2.5(1)(c)(i) Forecast Value of Assets Employed	WIAL’s forecast value of assets employed for PSE3 was derived from the following key steps: ✈ Completion of an updated MVAU land valuation at 31 March 2013. ✈ Adoption of the RAB disclosed in the 2013 Annual Information Disclosure for non-land assets. ✈ Allocation of assets to pricing and non-pricing activities. ✈ Calculation of WIAL’s starting asset base for PSE3 (at the end of year commencing from 31 March 2013). ✈ Calculation of WIAL’s forecast value of assets employed (for use in the building block calculation illustrated in Schedule 18). WIAL comments on each of these steps below. ***1. Completion of an updated MVAU land valuation at 31 March 2013*** WIAL engaged independent valuers Telfer Young to undertake an updated land valuation as at 31 March 2013. WIAL advised Telfer Young that it required a valuation that took account of the requirements for a land valuation as set out in the IMs for ID regulation. In addition, WIAL also requested that: ✈ PEL undertake a market analysis assessment of the prospective alternative land uses for the airport site. This was undertaken to ensure the feasibility of the alternative land uses provided by Boffa Miskell, and that the land uses were based on robust market analysis; and ✈ Telfer Young have regard to the reports from Darroch Limited in respect of WIAL’s 2009 and 2011 MVAU valuations provided to the Commission during its completion of the section 56G review of WIAL. The MVAU valuation adopted by WIAL for PSE3 has taken these reports and their analysis into account. The valuation report[2], including accompanying market and land planning advice, was provided to substantial customers during the consultation and was subject to exchanges of views between WIAL’s and the substantial customers’ expert advisers. WIAL referred its substantial customers, and their advisers comments to Telfer Young during the consultation and substantial

[2] The valuation report, and accompanying expert reports have been published in conjunction with this PSE Disclosure.

Determination Reference	WIAL Comment

customers were in turn advised of Telfer Young's responses to the feedback received. The exchanges of views in respect of valuation are available on WIAL's website. There were several areas where the WIAL and airline advisers offered different opinions. Comments on these areas and the respective parties positions is noted below.

1.1 Allocation of Land for Retail Use

Both WIAL and its substantial customers, via BARNZ, received advice from external economists assessing the demand for land use in the airport locale and from professional land planners. The recommended land use allocations from each of the land planners following consideration of the economic advice, and the remaining differences, are shown below.

It is evident that there is agreement over the demand and land use allocation for much of the land uses but some differences still exist.

Type of Land Use	Boffa Miskell (ha)	Zomac (ha)	Difference (ha)
Town Centre	7.3	3.0	4.3
Large format retail	5.4	3.0	2.4
Business park	7.3	6.3	1.0
Community	2.2	4.0	-1.8
Light industrial	8.5	8.5	0
Apartments/ retirement	4.1	4.1	0
3-4 story apartments	19.7	19.7	0
Townhouses	7.9	7.9	0
Detached family housing	11.4	12.9	-1.5
Headland park/ open space	9.6	14.0	-4.4
Roads	21.0	21.0	0
Total	**104.4**	**104.4**	**0**

In considering whether WIAL should adopt advice, or land areas, that differed from its advisers WIAL noted that:

- ✈ WIAL's advisers maintain the view that their recommended land use plan is appropriate.
- ✈ The advisers have provided their assessment for a hypothetical situation, the exercise of which involves professional judgment.

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There is unlikely to be a single correct answer to many of the issues raised and a range of outcomes may be feasible.
In WIAL's view the differences between the respective advisers are not so substantially different that would indicate either recommendation is inappropriate.
This was acknowledged by Market Economics Limited (MEL) in their response to Information Package 2 (IP2) when they commented:
"Overall in our opinion the land areas indicated by PEL and applied in Boffa Miskell's masterplan and the valuation report are close to the areas that we would independently assess. The most significant difference is in the amount of retail land assessed, which is in our opinion overstated by 5-8 ha.[3]"

WIAL did not receive any feedback during consultation that indicated that the land use plan recommended to it was not founded on reasonable assumptions. Furthermore in such a hypothetical exercise it is not unexpected that there will be different opinions between advisers. As noted above, it is in fact unrealistic to presume, as BARNZ infers, that there is only one right answer. Its own adviser, MEL, acknowledges the respective professional judgments are close.

WIAL also notes the advice it received from Telfer Young[4] which shows the dramatic change in land uses recommended by BARNZ's advisors as part of the PSE2 consultation versus its current PSE3 recommendations. A summary of the change in land use from 2011 to 2013 is as follows:
<table>
<tr><th>Land Use</th><th>2011 (Ha)</th><th>2013 (Ha)</th><th>Difference (Ha)</th></tr>
<tr><td>Commercial</td><td>7.0</td><td>24.8</td><td>17.8</td></tr>
<tr><td>Residential</td><td>66.2</td><td>44.6</td><td>(21.6)</td></tr>
<tr><td>Reserves/Roads</td><td>30.0</td><td>35.0</td><td>5.0</td></tr>
<tr><td>Total</td><td>103.2</td><td>104.4</td><td>1.2</td></tr>
</table>

As noted by Telfer Young "If we compare the net land area allocation the commercial component has increased from 10% to 36% and the residential component has reduced from 90% to 64%."[5] This demonstrates that there is a range in opinion and judgment that can be applied and that Boffa Miskell's plan broadly applies similar ratios to what BARNZ's advisors now suggest.
</td></tr>
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[3] Wellington International Airport MVAU Land Valuation Review, Prepared for BARNZ by Market Economics Limited, December 2013, page 13
[4] Response to Key Issues Document, Prepared by Telfer Young in its letter to WIAL dated 24 June 2014, page 6
[5] Ibid

Determination Reference	WIAL Comment
	WIAL consequently considers that it is reasonable for it to rely on the advice provided by its advisors PEL and Boffa Miskell and consequently adopted the land use plan recommended by Boffa Miskell. ***1.2 Planning Period*** In further evaluating the planning period required for establishment of an alternative land use scenario it is evident that WIAL's and its substantial customers' views are founded on different starting assumptions. ✈ **Basis for WIAL's View** An MVAU valuation conducted under ID regulation for airports is intended to provide a valuation as if the land was in its Highest and Best Alternative Use (HBAU).[6] Schedule A of the IMs defines an MVAU valuation as the value of the land in its HBAU, which is equal to the likely market price paid for the land by a developer or investor.[7] The HBAU is defined in the IMs as meaning: "the most probable use of airport land, other than for supplying specified airport services, or a use to the extent that it is influenced by specified airport services which is physically possible, appropriately justified, legally permissible, financial feasible, and results in the highest valuation of the land in question."[8] It is apparent from this, (as is borne out by the requirements for conducting an MVAU valuation), that the MVAU valuation is to be conducted as if the land is not used as an airport and is free from any influence from that use. Instead, the land is to be treated as aggregated and notionally vacant[9] and the likely HBAU for the land is considered to be limited to a: *"predictable set of alternate uses due to existing and possible zoning and district plan requirements, contour and land area, surrounding land uses, as well as existing linkages and current market supply and demand."*[10] Indeed, the IMs further explain that the physical characteristics, existing title and easement arrangements, the zoning and adjoining land use are all likely to influence the HBAU of the land so as to maximize the value in the land's alternate use.[11] These all need to be taken into account to determine what is "*physically possible, appropriately justified, legally permissible*

[6] Clause A1(2) of the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010, 22 December 2010
[7] Ibid, Clause A2(1)
[8] Ibid, Clause A2(3)
[9] Clause A9(a) of the Airport IMs
[10] Clause A2(11) of the Airport IMs
[11] Clause A9(3) of the Airport IMs

Determination Reference	WIAL Comment
	and financially feasible to provide the highest value of the land in question." In WIAL's view it is therefore reasonable to assume that in the absence of supplying airport services the zoning of the land area would be broadly consistent with the surrounding area mixed uses including retail, commercial, light industrial and mixed residential. In the case of the alternative land use for Wellington airport, the Boffa Miskell HBAU uses very similar zoning to, and influenced by, the surrounding land use and zoning. The existing surrounding land uses are, therefore, consistent with WIAL's alternative land use plan which is a mixture of commercial and residential land use[12]. The alternative view, advanced by the airlines, is that the land either continues to be zoned as an airport or that no zoning exists. As discussed further below, this is unrealistic and does not fit the requirements for an MVAU valuation as set out in Schedule A of the IMs. This would essentially treat the land as at its scrap value and does not generate an MVAU valuation designed to assess the HBAU which results in the highest value of the land. Indeed providing for an extensive planning period to enable conversion from airport use to alternative use results in a reduction of the land valuation akin to a "remediation cost" as excluded under the IMs. In reality, if the airport was to be converted to an alternative use the zoning and plan changes would be sought before the airport land became vacant. This would be done to both ensure that the alternative use was ultimately approved and to ensure continued revenue in the interim. ✈ **Basis for Substantial Customer View** The airline advisers continue to express the view that a 2-3 year planning period should be provided for. Property Advisors Limited (PAL) utilise a 2 year period in calculating a proposed reduction in WIAL's MVAU valuation. WIAL's fundamental concern with this approach is that it is founded on the assumption that the land use must be converted from its airport use to its HBAU including zoning. This incorrect (in WIAL's view) starting position is evident in the advisor reports provided to BARNZ. For example: *"The third option briefly referred to in the consultation documents is the use of the existing Wellington District Plan provisions. However, should the Wellington Airport become obsolete and close and the underlying land revert to alternative uses, it is unlikely that the Council would allow development of the 100 (plus) hectares of land in reliance on the existing plan*

[12] This is quite different to, say, the use of surrounding land around Christchurch airport, which is largely used for farming

Determination Reference	WIAL Comment
	provisions. The plan has not been designed in contemplation of alternative land uses as it assumes the continuing functioning of the airport infrastructure.[13]*"* It is on this basis that the WIAL's substantial customer's stated that the land valuation is overstated by $41 million largely due to: "*insufficient allowance being provided for the time necessary to obtain the required planning changes from its current airport zone to the zones which would enable the envisaged mixed use subdivision.*[14]*"* The airlines point to clause A9(4) of the IMs and the phrase "*the valuer should also consider the likelihood of the designation being uplifted or the land rezoned, and costs (if any) likely to be involved in this*" to support their position. ✈ **Position WIAL Has Reached** In light of the submissions WIAL has received on this matter WIAL has taken further advice from its experts. They have confirmed that while there is some ambiguity as to how the IMs are to be interpreted as some of the terminology is unclear, WIAL's interpretation of the MVAU requirements is appropriate. In terms of clause A(9)(4) it is considered that this is to be read as relating to the assessment that the valuer must do to determine what is practically and financially feasible. On this basis, it would be valid for WIAL to not include any costs associated with re-zoning and plan changes given Boffa Miskell's plan is consistent with the surrounding zoning and Wellington City Council's (WCC) urban development strategy. It also does not require holding costs to be taken into account. Even if the airlines interpretation is correct, this would not result in an allowance for holding costs given that the airport would be likely to continue in operation while zoning changes are made. The only costs then incurred would be those associated with the planning process itself. However, WIAL appreciates that Telfer Young has previously provided a valuation with a nine month planning period in its

[13] Letter from Gillian Chappell, Barrister, to Board of Airline Representatives, Hypothetical Wellington Airport Redevelopment – Planning Timeframes, 31 March 2014, page 4
[14] BARNZ's submission to WIAL's KID, adopted by WIAL's substantial customers, page 8

Determination Reference	WIAL Comment
	MVAU valuation to be used for PSE3 and WIAL has included this in its previous consultation documents. Therefore, as a matter of commercial concession, WIAL has included a 9 month planning process in the MVAU it has adopted for PSE3. This provision effectively allows for a planning period in case some resource management process might be needed to fully achieve the HBAU for the land. WIAL further notes that even if the airlines view is correct (which it does not accept for the reasons set out above), it would not have the quantitative effect that the airlines contend it would. As stated in its advice to WIAL, Telfer Young confirm that an interest rate of 7.5% is more appropriate than the 25% used by PAL[15]. In addition, Telfer Young has reached its valuation by comparing the results determined by four different approaches. Only two of those approaches involve an allowance for a planning period. Even after allowing for a longer period of 2 years, the economic block and block zonal approaches remain unchanged and the Telfer Young valuation of $130 million remains within the range of valuation outcomes. BARNZ also refer to the peer review of airport valuations undertaken by Darrochs as part of the Commission's section 56G reviews. The reviews by Darrochs reported that zoning costs had been incorrectly excluded by WIAL. WIAL notes that it subsequently asked its valuers Telfer Young to reassess its approach to zoning costs in light of the comments by Darrochs. Telfer Young responded that they considered that their approach was still valid and this advice was provided to the Commission. WIAL has not received any subsequent response from the Commission on this matter. WIAL notes that its annual disclosures for the years ended 31 March 2011 to 2013 have been prepared on a basis consistent with the valuation advice provided by Telfer Young, which WIAL considers is correct and valid. ***1.3 Seawall*** In the course of commenting on the planning period the airline's advisers also started from the premise that a seawall consistent with the structure required for airport use would be required in the alternative land use scenario. Again WIAL considers that this is not a reasonable approach and conflicts with the IM requirement that the alternative use valuation should not be influenced by the current airport use. Indeed, clause A9(13) of the IMs explicitly requires airport development costs for the seawall or other coastal protection systems for airport use to be excluded. The airlines approach therefore does not reflect: ✈ The current seawall is an extensive structure required to support the movement of heavy aircraft. On-going costs are forecast to preserve this use and do not reflect the cost that might be incurred in the absence of airport use.

[15] Response to Key Issues Document, Prepared by Telfer Young in its letter to WIAL dated 24 June 2014, page 2

Determination Reference	WIAL Comment
	BARNZ attach a letter from PAL dated 26 May 2014 to their assessment of the Key Issues Document (KID). In this letter PAL effectively dismiss WIAL's comments that the maintenance requirements for a seawall that is required to accommodate landings by heavy aircraft would be greater than those required to protect residential use. PAL comments that WIAL has not provided costings, and this is correct, however WIAL does not wish to incur this cost for a hypothetical situation and where WIAL expected common sense would prevail. It is simply not credible to contend that the same level of seawall, and on-going maintenance, would be required in the absence of on-going landings of large aircraft. This view has been supported by WIAL's advisors Telfer Young who confirm that the approach by PAL is flawed [16]. They note that: *"The current seawall is an extensive structure required to support the movement of heavy aircraft. WIAL incur significant ongoing costs to preserve this use and this does not reflect the cost that might be incurred under the MVAU scenario with the most likely alternative use of this area of land under an MVAU approach would be to become coastal reserve similar to other Wellington coastal reserve land owned by Wellington City Council.* *As with other locations around Wellington the Wellington City Council would be obliged to maintain the land. This would come at a cost however would be relatively minimal as the costs would be to prevent erosion not for the support and protection of a runway and airport use.* *The plan prepared by Boffa Miskell provides that the area currently subject to sea wall protection would become a Headland Reserve. As such we do not believe it is appropriate to make a lump sum deduction as adopted by PAL.*[17]*"* ✈ WCC would be obligated to maintain the land however this would occur at a minimal standard to prevent erosion, as for other coastal land. It is not credible for it to be argued that WCC would not accept the land protection cost, as the airline advisers have done, without properly contextualising the scenario as outlined above. Accordingly WIAL has concluded that it is not appropriate to make a deduction from the land valuation in respect of a future obligation for seawall maintenance.

[16] Ibid, page 4
[17] Ibid, page 3

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<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
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2. Adoption of the RAB disclosed in the 2013 Annual Information Disclosure for non-land assets.

WIAL valued its specialised or non-land assets using a rolled forward asset base as at 31 March 2013, consistent with the Commission's IMs. WIAL's substantial customers confirmed their agreement to this approach during the PSE3 consultation. The asset base for the PSE3 building block calculation therefore commences with the RAB reported in WIAL's annual IDs for the year ended 31 March 2013. Consistent with previous consultations, the aircraft and freight and leased assets included in the reported RAB are excluded for pricing consultation purposes.

3. Allocation of assets to aeronautical and commercial activities

WIAL maintains a detailed regulated asset register to enable it to meet its annual ID requirements. This register contains all assets used for regulated activities, including those that have a common use with unregulated activities. In accordance with the IMs, WIAL then undertakes an allocation process for the common or shared assets. WIAL's asset allocation process for the 2013 disclosure year, the commencing asset base for non-land assets, was as follows:

- ✈ WIAL allocates a business code to each asset which attributes the asset to an identified business activity or to a shared or common use grouping.
- ✈ Total assets attributable to identified (or specified) airport activities are determined by:
  - ➢ Aggregating directly attributable assets from the relevant business codes;
  - ➢ Allocating terminal common assets to specified terminal and commercial activities using the following allocations:

	Based for Allocation	**Aeronautical %**
Land	Allocated between terminal aeronautical and commercial areas based on floor areas for directly allocated assets	79.5%
Other Assets	Allocated between terminal aeronautical and commercial areas based on asset values for directly allocated assets[1]	86.8%

Note 1: Based on analysis of WIAL's fixed asset register for all assets

  - ➢ Allocating other common or shared assets (e.g. roading used by all users of the airport and corporate office assets used by WIAL for management of the business) to identified (or specified) airport activities and commercial activities using the following allocations:

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Determination Reference	WIAL Comment

	Basis for Allocation	Aeronautical %
Land	Based on share of land area directly allocated to activities	73.8%
Other Assets	Based on value of assets directly allocated to activities[1]	66.1%

Note 1: Based on analysis of WIAL's fixed asset register for all assets

- The asset base for the PSE is therefore an addition of the direct, allocation of terminal common and allocation of other shared assets.

4. Calculation of WIAL's starting asset base for PSE3

The asset base for PSE3 commenced from asset values that are established at 31 March 2013. These values were then rolled forward as is explained in the next section on calculation of WIAL's forecast asset base.

The pricing asset base asset values at 31 March 2013 were as follows:

- Land

Following the allocation process to attribute land valuation to aeronautical and commercial activities the share of this land to be included in the pricing asset base was:

MVAU land valuation recommended by Telfer Young	$130 million
Total land available for MVAU valuation	104.48ha
Value of Land per square metre	$124.43
Total land area in pricing asset base	**79.86 hectare**
Value of Land to Include in Pricing Asset Base & Calculation of Required Revenue	**$99.3 million**

Determination Reference	WIAL Comment

- Non Land Assets

Asset Base	2013 Annual Disclosure $000	Less Assets for Leased Activities $000	Pricing Asset Base $000
Airfield	129,359	(669)	128,690
Specified Terminal	142,938	(12,139)	130,799
Aircraft and Freight	10,599	(10,599)	0
Total Non-Land Assets	**282,896**	**(23,407)**	**259,489**

These assets comprised:

Asset Base by Category	Pricing Asset Base $000
Buildings and Infrastructure	125,339
Civil Works	120,217
Plant and Equipment	13,933
Total Non-Land Assets	**259,489**

5. Calculation of WIAL's forecast asset base

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

Annual forecast asset base = allocated share of asset valuation at 31 March 2013 plus capital expenditure less asset disposals less depreciation plus forecast revaluation gains.

Each of the components of this formula is discussed below.

Determination Reference	WIAL Comment
	✈ The addition of forecast capital expenditure A detailed capital expenditure forecast was prepared for the 2014-2024 period. The forecast commenced in the 2014 year because the starting valuation was at the end of the 2013 year and this value was rolled forward to the commencement of the Pricing Period. Comments on the key capital expenditure projects are provided in Appendix D. ✈ The deduction of forecast depreciation Refer to comments on clause 2.5(1)(c)(iv) below. ✈ The forecast of revaluation gains / (losses). Refer to comments on clause 2.5(1)(c)(vi) below. ✈ Allocation of assets, depreciation, capital expenditure and revaluations to the asset base. The allocation of depreciation for commencing assets is undertaken in the same manner as for the commencing asset base, as detailed above. The allocation of capital expenditure is considered for each forecast item or project. Depreciation and revaluation of these assets is calculated for the aeronautical asset values using assumptions in WIAL's pricing model. Further comment is provided in comments on clauses 2.5(1)(c)(iv) and (vi). ✈ Forecast Asset Base The forecast asset base comprises assets used for the PSE, other aeronautical assets for leased facilities and assets for the noise mitigation activities. The movement in forecast asset base is set out below:

Determination Reference	WIAL Comment

	Total Assets Commissioned Schedule 18					
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Forecast asset base—previous year	389,223	390,702	407,216	460,081	466,601	471,882
Forecast depreciation	(13,259)	(13,640)	(14,189)	(16,961)	(18,018)	(18,803)
Forecast revaluations	6,357	7,879	10,180	10,674	9,332	8,494
Assets commissioned	8,381	24,143	58,786	14,273	15,464	6,221
Asset disposals	0	(1,867)	(1,913)	(1,466)	(1,496)	0
Forecast asset base	**390,702**	**407,216**	**460,081**	**466,601**	**471,882**	**467,794**
Assets for airfield and terminal services subject to PSE	360,769	377,668	430,787	437,643	443,372	439,810
Other assets for leased facilities	29,934	29,548	29,294	28,957	28,510	27,984
Forecast asset base	**390,702**	**407,216**	**460,081**	**466,601**	**471,882**	**467,794**

6. Calculation of WIAL's forecast value of assets employed (for use in the building block calculation illustrated in Schedule 18)

The annual forecast asset base is determined following application of standard accounting practices and incorporates all asset transactions that are forecast to occur in each financial year.

However, in order to be consistent with the reporting of annual returns in WIAL's annual IDs, WIAL elected to establish the forecast value of assets employed in a similar manner to the calculation of the Regulatory Investment Value in the annual IDs. For this PSE Disclosure asset depreciation and revaluations are assumed to be end of year transactions and are not included in the asset base for calculation of a return on assets for the year.

The forecast value of assets employed therefore equals the opening asset base for the year plus 50% of the value of the additions and disposals for the year. The forecast value of assets for each year is set out below:

Determination Reference	WIAL Comment

	Total for Commission Schedule 18				
	2015	**2016**	**2017**	**2018**	**2019**
Opening RAB for Year	390,702	407,216	460,081	466,601	471,882
Plus 50% Assets Commissioned	12,071	29,393	7,137	7,732	3,110
Plus 50% Asset Disposals	-934	-956	-733	-748	-
IRR calculation adjustments for 2015 RAB[1]	-896	-	-	-	-
Forecast Value of Assets Employed	**400,944**	**435,653**	**466,484**	**473,585**	**474,993**

Note 1: This adjustment was included in the IRR calculation for 2015 to adjust the opening asset base to a commencing value on 1 June 2014, the start of the 10 month period. The adjustment reflects the difference between a share of depreciation and revaluations for the two month period which was not included in the consultation period.

7. Differences between the Valuation Approaches Adopted for Pricing Consultation and Information Disclosure for the Year Ended 31 March 2013

WIAL adopted valuation methodologies for pricing consultation that are consistent with the IM's, and therefore with the 2013 annual IDs.

Note that that land valuation for pricing was established as at 31 March 2013 to enable roll forward of the pricing asset base within the PSE3 consultation. This valuation was not completed until consultation was completed and consequently after publication of the 2013 annual IDs. Changes to the land value will be included in WIAL's 2014 annual IDs.

Determination Reference	WIAL Comment
Clause 2.5(1)(c)(ii) Cost of Capital	***1. Methodology Adopted by WIAL*** WIAL advised its substantial customers in its IPP that it proposed to adopt a WACC for price setting consistent with the Commission's 75th percentile WACC IM. WIAL's reasons for adoption of the 75th percentile, rather than another point on the WACC range were: ✈ It is consistent with the Commission's approach to setting the WACC IM as a reasonable method for dealing with estimation uncertainty and consistent with the WACC applied by the Commission for regulated entities under Default Price Path(DPP)/Customised Price Path (CPP); ✈ Evidence that that the Brennan-Lally Capital Asset Pricing Model (CAPM) may understate the cost of equity, especially in the period following the global financial crisis and the prevailing low risk-free rate environment; and ✈ The adoption of a five-year term for debt that may understate the debt financing costs of infrastructure businesses. WIAL also noted the Commission's comment in its final section 56G report for WIAL that "the 75th percentile cost of capital allows for the uncertainty of estimating the true cost of capital and in light of the direct consequences of estimation error on pricing and investment[18]." ***2. Calculation of WACC for PSE3*** WIAL commissioned economic advisors NERA Economic Consulting (NERA) to calculate an IM compliant WACC as at 1 June 2014 - the commencement of PSE3. WIAL's substantial customers advised their agreement to this approach. NERA's report detailing the calculation was provided to substantial customers with WIAL's FPD. The WACC applied by WIAL for PSE3, as recommended by NERA, was determined as follows:

[18] Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Wellington Airport, Commerce Commission, 8 February 2013, paragraph E31

Determination Reference	WIAL Comment

Table 8.1 Parameters used to calculate the WACC for WIAL at 1 June 2014[19]

Risk free rate (5-year)	4.09%	Debt premium (5-year)	1.18%
Equity beta	0.72	TAMRP	7.0%
Average corporate tax rate	28%	Average investor tax rate	28%
Debt issuance costs	0.35%	Leverage	17%
Standard error of debt premium	0.0015	Standard error of WACC	0.015
Cost of debt (pre-corporate tax)	5.62%	Cost of equity	8.01%
Vanilla WACC (mid-point)	5.62% x 0.17 + 8.01% x (1 - 0.17) = 7.60%		
Post-tax WACC (mid-point)	5.62% x 0.17 x (1 -0.28) + 8.01% x (1 - 0.17) = 7.33%		
75th Percentile			
Vanilla WACC (75th percentile)	**8.62%**		
Post-tax WACC (75th percentile)	**8.36%**		

3. Differences between Preparation of the WACC Adopted for the Pricing Consultation and Information Disclosure for the Year Ended 31 March 2013

The WACC disclosed in this PSE Disclosure is for the 4 year 10 month Pricing Period commencing on 1 June 2014. The WACC disclosed in WIAL's 2013 annual IDs was determined by the Commission as a mid-point WACC for the period commencing 1 April 2013.

[19] NERA Economic Consulting, Estimation of the Weighted Average Cost of Capital, 30 June 2014, page 4

Determination Reference	WIAL Comment
	In both cases, the WACC was determined from application of the Brennan-Lally simplified version of the CAPM. A significant distinction however is that the Commission developed its WACC IM for application to the three large New Zealand airports (being Auckland, Wellington and Christchurch). WIAL's WACC is derived specifically for WIAL to apply in the consultation. Revenues from leasing activities are obtained following commercial negotiation and a WACC was not applied in the negotiations. The WACC established for the PSE (i.e. 8.36% per annum) is however applied to these revenues and assets to enable completion of Schedule 18.
Clause 2.5(1)(c)(iii) Forecast Operational Expenditure	WIAL established a combined operating cost forecast for the PSE and aeronautical leased facilities with a separate cost forecast established for the noise mitigation activities. These forecasts are addressed separately below. ***1. Operating Expenditure for the Price Setting Event and Other Aeronautical Services (excluding Noise Mitigation)*** WIAL utilised its budgeted expenses for the 2014 financial year as the base for forecasting its operational expenditure for the Pricing Period. Preparation of the cost forecast included several specific steps: ✈ Amending the budget where updated information had been received (such as for insurance costs which had reduced by approximately $600,000 due to unexpected premium reductions achieved in the 2013 renewal); ✈ Allocating costs to identified airport activities using methodologies consistent with the Commission's annual ID requirements (these are set out at Appendix C); ✈ Making adjustments for real cost changes that were expected in PSE3; and ✈ Indexing each year's costs by: • forecast movements in CPI; and/or • for certain variable costs by the forecast change in passenger numbers. This cost forecast was included in the building block model for the determination of pricing.

Determination Reference	WIAL Comment
	2. *Operating Expenditure for Noise Mitigation Activity* Costs for the noise mitigation activities for Wellington Airport Noise Treatment Limited (WANT Limited) have been forecast in four categories. ✈ Removal of houses – WIAL will be required to remove houses exposed to noise levels exceeding 75Ldn. The houses include properties already owned by WIAL and additional residential properties that WIAL will need to acquire. These costs reflect the value of the buildings and were determined with reference to the ratable values of the properties. ✈ Noise treatment costs – other identified properties exposed to noise levels below 75Ldn will be treated to achieve noise levels not exceeding 45Ldn with windows closed. Cost estimates were provided by engineering consultants Beca and WIAL has estimated the expected take up of the noise treatment offer by residents (who will also be expected to make a contribution towards the cost). This is based on WIAL's preliminary view of the form of the noise treatment scheme. ✈ Landscaping costs – these are costs incurred to reinstate land to an acceptable state following the removal of buildings. ✈ Administration costs for the scheme – these were estimated at $200,000 in the first year increasing by inflation thereafter. These costs have been included in a separate Noise Mitigation model to determine the stand alone charges for the noise mitigation activity. **3. *Differences between Preparation of Forecast Operating Costs for the Pricing Consultation and Information Disclosure for the Year Ended 31 March 2013*** Aside from the costs representing different time periods WIAL has used consistent cost structure and allocation methodologies in recording actual costs for the 2013 ID year, and establishing the forecast expenses for PSE3.
Clause 2.5(1)(c)(iv) Forecast Depreciation	The Forecast Depreciation comprises depreciation on existing assets plus an allowance for depreciation on new assets commissioned during the Pricing Period. **1. *Forecast Depreciation on Established Asset Base*** WIAL forecast annual depreciation using the RAB included in the 2013 annual IDs. The forecast was determined in the manner required by the IMs for annual IDs with the calculation using the asset values and asset lives from the 2013 RAB. This approach was also taken to establish a forecast for tax depreciation.

<table>
<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
<tr><td></td><td>
2. Forecast Depreciation on Assets Commission During the Period
WIAL forecast deprecation for new assets by applying the actual average deprecation rate from the 2013 information disclosure RAB for the main asset classes of new assets.

The deprecation rates applied to additions in the building block model are:
<table>
<tr><th>Asset Class</th><th>Average Depreciation Rate from 2013 Information Disclosure</th></tr>
<tr><td>Buildings and Infrastructure</td><td>4.4%</td></tr>
<tr><td>Civil Works</td><td>3.8%</td></tr>
<tr><td>Plant and Equipment</td><td>15.5%</td></tr>
</table>
3. Allocation of Depreciation to Regulated Activities
Allocation of depreciation to regulated activities was undertaken using the allocation approach for assets consistent with the annual IDs and the Commission's IMs.
For existing assets this was achieved by utilising the allocations established in the RAB ID model.
For new assets this was achieved by calculating expected depreciation on the capital expenditure values allocated to the RAB.
4. Differences between Preparation of the Forecast Depreciation Adopted for Price Consultation and Information Disclosure for the Year Ended 31 March 2013
The depreciation forecast for pricing was established in a consistent manner with the calculation methodology for the 2013 annual IDs.
</td></tr>
<tr><td>Clause 2.5(1)(c)(v) Forecast Tax</td><td>
1. WIAL Methodology
WIAL determined its tax forecast by applying a tax payable approach which calculates tax cash flows following the recognition of asset tax depreciation rather than accounting book depreciation. WIAL also made provision for other small (tax) timing adjustments. WIAL's tax expense was therefore determined form the following formula:
Tax expense = (earnings before depreciation, revaluations and wash-ups less forecast tax depreciation and forecast timing differences) * corporate tax rate where the corporate tax rate is 28%.
The forecast tax expense was included as an input to the building block model.
</td></tr>
</table>

<table>
<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
<tr><td></td><td>2. Differences between Preparation of the Forecast Tax Adopted for Price Consultation and Information Disclosure for the Year Ended 31 March 2013
WIAL's tax calculation is consistent for the pricing consultation and information disclosure calculations.</td></tr>
<tr><td>Clause 2.5(1)(c)(vi) Forecast Revaluations</td><td>1. Recognition of Forecast Revaluations
WIAL and its substantial customers agree that forecast asset revaluations should be included as income during the Pricing Period. WIAL included forecast revaluations using forecast CPI assumptions. These assumptions, which were established from collation of both private and Government agency statistics, were as follows:
<table>
<tr><th>CPI Forecasts %</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>Source</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>ANZ</td><td>2.10</td><td>2.50</td><td>2.40</td><td>2.10</td><td></td><td></td></tr>
<tr><td>Westpac</td><td>1.50</td><td>1.80</td><td>2.60</td><td>2.70</td><td>2.00</td><td>1.80</td></tr>
<tr><td>BNZ</td><td>1.50</td><td>2.00</td><td>3.00</td><td></td><td></td><td></td></tr>
<tr><td>RBNZ</td><td>1.70</td><td>1.90</td><td>2.10</td><td>2.10</td><td></td><td></td></tr>
<tr><td>Treasury</td><td>1.50</td><td>1.80</td><td>2.50</td><td>2.30</td><td>2.00</td><td></td></tr>
<tr><td>NZIER</td><td>1.50</td><td>2.10</td><td>2.40</td><td>2.40</td><td></td><td></td></tr>
<tr><td>Average</td><td>1.63</td><td>2.02</td><td>2.50</td><td>2.32</td><td>2.00</td><td>1.80</td></tr>
</table>
WIAL's substantial customers initially agreed that it was appropriate to forecast revaluations using the CPI assumptions but proposed an alternate approach when WIAL reconsidered its approach to variations from forecast.
2. Recognition of Variations form Forecast Revaluations (or Unforecast Revaluations)
WIAL determined that it would consider how to treat any actual revaluation variations from forecast at the end of PSE3 and consult with substantial customers at that time. WIAL noted that this approach did not impact prices for PSE3. WIAL advised that it adopted this approach for several reasons:
✈ WIAL considered that it (as property owner) should receive the benefits or losses of future revaluations above and below forecast;
✈ Revaluation risk is asymmetric with any downturn in valuation usually offset over the longer term by a rise in valuation, but this may not be incorporated in a five year pricing period;</td></tr>
</table>

Determination Reference	WIAL Comment
	✈ Airlines may change over time and in practice it may prove difficult to charge an airline in a future pricing period an amount which reflects an unforeseen revaluation adjustment from a prior period, which took place whilst that airline was not operating at WIAL. WIAL noted that it had in the past adopted risk sharing approaches to address potential views that it may "game" revaluation forecasts. However for PSE3, and for PSE2, WIAL applied revaluation forecasts in line with forecast CPI, which is generally consistent with the Commission's IMs for annual IDs. This approach was undertaken to eliminate any differences in opinion and judgment that may arise from different external advisors for asset revaluation forecasts. **Substantial Customer Views** The substantial customers stated that all changes in asset valuations should be reflected in future pricing. However, on the basis that WIAL retained its proposed approach, the BARNZ assessment of the KID, (and supported by the substantial customers), proposed an increase in the land revaluation forecast assumption. They proposed that this assumption should be increased to 4.5% annually, which was founded on advice from PAL. BARNZ commented that their former acceptance of the CPI assumption was on the basis that all variations would be included in income. Given that this may not occur, the substantial customers considered that the higher assumption was appropriate. WIAL sought advice in respect of the prospective land valuation forecast movement. Telfer Young advised WIAL that there were no available indices for price movements in non-residential land. Residential section sales in the Wellington region had been static in volume with little, if any, price growth over the last 2 years. The recent 'Loan to Value Ratio' restrictions had impacted on residential property – for land, new homes and existing dwellings in most regions. Recent commercial land sales in the general airport location have been static at best. The most recent rating valuations in September 2012 resulted in land values decreasing from 2009 levels. Telfer Young advised that based on historic property performance, projecting forward CPI growth for development land represented a reasonable approach. In its advice to WIAL, Telfer Young noted the following:

Determination Reference	WIAL Comment
	"Based on this comparison PAL has come to the conclusion that they would anticipate that residential land would appreciate at 4.5% per annum. Of particular relevance is that over the last five years the average section price rise is 0.5% as opposed to the average CPI of 2.7%. In our opinion this reflects the reality of residential land growth in Wellington under a low inflationary economy." [20] "*In the Wellington region the average growth over the last three years for industrial land, on PAL's analysis, is 3.06% however over the last five years it is 0.36%. A similar situation arises with Wellington office accommodation where the 10 year average is 3.80% however over the last five years it is -0.85%. In our opinion this analysis does not support a projection of 3.0% to 4.0% per annum growth in industrial and town centre land in Wellington.*" [21] Furthermore, Telfer Young also noted that: "*The current and previous MVAU valuations [undertaken by PAL] do not support growth anywhere near the projections provided by PAL.*" [22] WIAL therefore concluded that the CPI growth assumptions were reasonable. ***3. Asset Revaluations Since Start of ID Regime*** The IMs have established a new base or "line in the sand" for WIAL's asset valuations under the ID Regime. However, WIAL has not taken advantage of the "line in the sand" approach for pricing purposes for PSE3 and will review its approach at the end of PSE3. This actually disadvantages WIAL at this time given that it has incurred a significant shortfall in actual revaluation gains versus forecast of $49 million[23] since the introduction of the ID Regime i.e. WIAL has over estimated forecast annual asset revaluation movements. WIAL is not seeking to recover these deficits in PSE3. WIAL accepts that this deficit has a number of components, including land and specialised asset variations. It also comprises variations from both CPI forecasts and changes in the underlying MVAU valuation of land.

[20] Response to Key Issues Document, Prepared by Telfer Young in its letter to WIAL dated 6 June 2014, page 6
[21] Ibid, page 6.
[22] Ibid, page 6.
[23] Shortfall of actual versus forecast revaluations (for land and specialised assets) per WIAL's published annual disclosures for years ended 2010, 2011 and 2012 and 2013 forecast used in PSE3

Determination Reference	WIAL Comment

However, even looking solely at the variation in specialised assets (which have not been an area of contention in consultation), the shortfall in forecast against actual revaluations is substantial at $23.9 million as shown below:

(All $ in $000)	2011	2012	PSE1 Total	2013	2014 Forecast	PSE2 Total	Total Since Start of ID
Opening RAB for Revaluations from Published Disclosures	$258,945	$287,867		$293,817	$282,896		
Less Fully Depreciated Assets and Disposals	($1,958)	($5,368)		($4,728)			
RAB to be Revalued	$256,987	$282,499		$289,089	$282,896		
PSE1/ PSE2 Forecast %	5.00%	5.00%		2.50%	2.50%		
Actual CPI %	2.42%	1.57%		0.86%	1.51%		
PSE1/ PSE2 Forecast $000	$12,849	$14,125	$26,974	$7,227	$7,072	$14,300	**$41,274**
Actual CPI $000	$6,215	$4,438	$10,653	$2,483	$4,267	$6,750	**$17,403**
Total Deficit $000	**($6,634)**	**($9,687)**	**($16,321)**	**($4,744)**	**($2,805)**	**($7,550)**	**($23,871)**

4. PSE2 Valuation Wash-up

WIAL's pricing calculation for PSE2 included a commercial concession for a valuation wash-up arrangement proposed in PSE1. As WIAL changed the methodology it used to value its assets (specifically the change in land valuation from Market Value Existing Use (MVEU) to MVAU) it did not consider that the rationale for the wash-up remained. Consequently WIAL proposed that the wash-up would not be applicable in the pricing calculation for PSE3.

Virgin Australia (by way of letter from BARNZ dated 20 December 2013) confirmed that it recognised that WIAL's change to an MVAU valuation for land meant that the unforecast revaluations adopted by WIAL in PSE2 no longer existed and consequently the valuation wash-up was no longer applicable.

Determination Reference	WIAL Comment
	5. Differences between Preparation of Forecast Revaluations in Pricing Consultation and Information Disclosure for the Year Ended 31 March 2013 The pricing consultation calculation commences with the asset valuations at 31 March 2013 and includes ex-ante revaluations based on expected annual movements in CPI. This enables the future revenue requirement to be established for the Pricing Period. The 2013 annual information disclosure includes the ex-post recognition of the actual CPI change in asset values[24]. Consequently while the pricing and ID recognition of revaluations are both founded on CPI they are not comparable due to the different time periods being considered in each forum.
Clause 2.5(1)(c)(vii) Any Other Components	These have been explained in the comments provided in respect of clause 2.5(1)(a)(i) above.
Clause 2.5(1)(d) Valuation to Determine Forecast Value of Assets Employed	The asset valuation methodologies adopted by WIAL for pricing purposes are consistent with the Commission's Asset Valuation IM. Comments on WIAL's methodologies are provided above in respect of clause 2.5(1)(c)(i). The updated valuation report for land provides more comment on the methodologies and assumptions applied for the land valuation. The report prepared by Telfer Young, including the supporting market analysis and land planning advice, accompanies this PSE Disclosure.
Clause 2.5(1)(e) Forecast Capital Expenditure by Category and Key Capital Expenditure	***1. Consultation on Forecast Capital Expenditure*** Section 4C of the AAA requires WIAL to consult with every substantial customer on capital expenditure projects that exceed 20% of the value of its identified airport activity assets. While none of WIAL's forecast individual capital expenditure projects exceeded this threshold, WIAL has sought the input of substantial customers and other relevant parties in planning further capital expenditure requirements. These views have been sought in three particular forums:

[24] The updated land MVAU valuation as at 31 March 2013 commissioned to establish a starting land valuation for consultation was prepared after publication of the 2013 annual information disclosure and was not finalised until consultation was complete. Changes in this valuation will be included in the 2014 annual information disclosure.

Determination Reference	WIAL Comment
Projects	✈ Master Planning – WIAL issued its updated 20 year Master Plan in 2010. Prior to completion of the Plan WIAL consulted with airlines and other interested parties. The Master Plan is available on WIAL's website at www.wellingtonairport.co.nz. ✈ Consultation on pricing required by the AAA – as part of consultation for the Pricing Period WIAL provided a detailed 10 year capital expenditure forecast to its substantial customers. WIAL responded to substantial customer comments during consultation and made amendments to the forecast. ✈ Consultation on design and operational requirements for specific capital projects as commented in Appendix D. ***2. WIAL's Forecast Capital Expenditure*** WIAL has forecast aeronautical capital expenditure of $112m for the Pricing Period. WIAL's forecast is summarised as follows: **2014 $'000** / **2014** / **PSE3** / **PSE4** / **Total** Airside: 4,106 / 29,464 / 16,983 / 50,553 Other Operational Capex: 2,091 / 14,492 / 7,330 / 23,913 Key Capital Expenditure Projects Runway Capacity Utilisation Improvements: 2,014 / 2,650 / 4,664 Southern Apron Development Stage 2: 7,500 / 20,622 / 28,122 Terminal South Extension (TSE): 2,244 / 42,112 / 44,356 North Terminal Development - International Expansion: 17,000 / 17,000 Main Terminal Building - TSE Stage 2: 15,827 / 15,827 Earthquake Strengthening: 20,000 / 20,000 Other Projects: 4,468 / 20,735 / 2,500 / 27,702 **Total Capex Forecast**: **12,908** / **133,317** / **85,911** / **232,137** Less Projects not Included in Pricing Less SPC - Northern Terminal: (17,000) / (17,000) Less SPC - Fire Appliance: (1,200) / (1,200) Less Runway Extension (excluded from Pricing): (3,000) / (3,000) **Capex Forecast included in Building Block**: **12,908** / **112,117** / **85,911** / **210,937** Detailed comments on each of the key projects are provided in Appendix D including outlining the disclosure requirements required by clauses 2.5(1)(e) and (f).

<table>
<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
<tr><td></td><td>

3. SPC Mechanism

In IP2 WIAL proposed a SPC mechanism to its substantial customers to offer a risk sharing approach for projects where the requirement for the expenditure still needed further justification. The substantial customers supported WIAL's proposal and WIAL consequently implemented the mechanism for PSE3.

Methodology

The terms of the mechanism are:

<table>
<tr><th>Issue</th><th>Comment</th></tr>
<tr><td>Identification of projects</td><td>• WIAL and substantial customers to identify specific projects for inclusion in a SPC approach during pricing consultation (as has been done for PSE3).
• WIAL to advise airlines of any potential projects arising during a pricing period (which shall not include renewal or reasonably predictable capex) – as has been done for PSE3;
• Other projects that may be included within a pricing period are:
o Projects requested by airlines that were not advised to WIAL during consultation; and
o Projects required due to changes in regulatory requirements (e.g. security or safety requirements).</td></tr>
<tr><td>A price adjustment mechanism to be established as part of price setting consultation</td><td>• Mechanism to apply the building block approach with a return on SPC projects of NPV=0.
• WACC for SPC projects to be as set during the most recent price reset consultation i.e. in this instance as set for PSE3. This applies for any SPC project in PSE3 and hence WIAL bears the risk of any movement in WACC during PSE3.
• Other items to be included in pricing calculation to be considered (e.g. depreciation, revaluations, life of asset, allocation, changes in operating costs, changes in forecast passenger numbers).
• At the next price reset consultation (i.e., PSE4) the SPC project would become part of the aeronautical asset base.</td></tr>
<tr><td>Consultation on projects</td><td>WIAL to undertake consultation with substantial customers for SPC projects demonstrating matters such as:
• Demand requirements;
• Service quality and performance requirements;</td></tr>
</table>

</td></tr>
</table>

Determination Reference	WIAL Comment

	• Project design; and • Project costing. In common with other capex consultation airlines would have the option to comment on the efficiency of project costs.
Adjustment of base prices	Undertaken in accordance with established price adjustment mechanism.

Projects to be included as SPC's in PSE3

Two projects have been retained in WIAL's PSE3 capex forecast but will be excluded from the pricing calculations as SPC's. The projects, and forecast expenditure are:

- North terminal development forecast (2019) $17.0 million
- Additional fire appliance for increase in AFS category (2019) $1.2 million

4. Airlines Response to WIAL's Capital Expenditure Forecast Consultation

WIAL reconsidered its consultation process for capital expenditure at the commencement of the PSE3 consultation and initiated earlier discussions with its substantial customers concerning the proposed capital expenditure projects. This was in addition to the on-going discussions occurring in respect of the TSE project.

The revised consultation approach proved beneficial with substantial customers who expressed support for WIAL's capital expenditure forecast.

- Air NZ confirmed that they were *"generally comfortable with the proposed capital expenditure forecast…"*
- Virgin noting that "*the majority of forecast capex appears justified*[25]" and
- Virgin commented that "*While the majority of forecast capex appears justified and related to the pricing asset base, [Virgin] considers that it is questionable whether the $3m to reorganise the main entranceway to the terminal in FY19 (part of the $4.3m optimisation project) is an essential spend or one that will increase passenger processing capacity. Its inclusion as justified expenditure is debatable*[26]*".*

[25] BARNZ Assessment of WIAL's Initial Pricing Proposal dated 11 April 2014, page 7
[26] Assessment by BARNZ of WIAL's Updated Pricing Proposal dated 29 May 2014, page 9

Determination Reference	WIAL Comment
Clause 2.5(1)(f) Future Key Capital Expenditure Projects	The key capital expenditure projects forecast for the Pricing Period are explained in detail in Appendix D.
Clause 2.5(1)(g) Assumptions or Justifications for Forecast Operational Expenditure by Category	WIAL has disclosed its operational costs in the manner required by the Determination. WIAL has not historically summarised costs in this way, and consequently it does not have historical records of costs classified in the manner as required by the Determination. Similarly there is only a few years' data available to enable comparison between airports. Further, a comparison between airports is difficult as the operations of each airport are different and there is little detail on how each airport has formed these costs. Note - WIAL does not consider further detail is necessary, and that it is sufficient to compare total operating costs. WIAL therefore considered the justification for its forecast operating costs by considering the change in its total cost efficiency and comparison of total costs to other airports as described below. WIAL's operational expenditure forecast comprises costs from three separate activities. These are addressed separately below. ***1. Justification of Costs for Price Setting Event (excluding Noise Mitigation Activities)*** WIAL provided details of how its cost forecasts were derived in its comments in respect of clause 2.5(1)(c)(iii) above. WIAL's cost forecasts were provided to substantial customers during consultation including: ✈ A detailed breakdown of WIAL's 2014 budget cost base by cost centre and expense line item. ✈ Commentary on changes to actual costs incurred by WIAL since the most recent audited annual information disclosures for the year ended 31 March 2013 (2013 was used as the base because it was the last publicly disclosed and audited information on costs for the aeronautical business). ✈ Commentary on the rationale for the forecast movements in expenses over the Pricing Period. ✈ Commentary on WIAL's efficiency achievements.

Determination Reference	WIAL Comment

The operating expenses summarised into the Determination's cost categories are as follows:

$000	2015	2016	2017	2018	2019
Corporate overheads	3,365	3,522	3,745	3,822	3,632
Asset management and airport operations	10,300	10,982	11,315	11,683	11,993
Asset maintenance	2,217	2,661	2,731	2,296	2,351
Forecast operational expenditure	**15,882**	**17,165**	**17,791**	**17,801**	**17,976**

1.1. *Cost Efficiencies*

WIAL prides itself on its operating cost efficiency, and intends to preserve this efficiency in future pricing periods. For PSE3 WIAL considers it is demonstrating cost efficiencies in three ways:

- Real forecast costs per passenger have declined over the long term. WIAL's opex per passenger is forecast to decrease in real terms by 0.4% per annum during PSE3:

	2014	2015[1]	2016	2017	2018	2019
Total Forecast Expenses for Specified Airport Services ($000)	14,667	15,514	17,165	17,791	17,801	17,976
Nominal Expenses per Passenger	$2.70	$2.82	$3.05	$3.09	$3.01	$2.93
Real Expenses per Passenger	$2.70	$2.77	$2.92	$2.89	$2.76	$2.64
Annual Change in Real Costs per Passenger 2014 to 2019	**(0.4%)**					

Note 1: Note adjusted for the combined PSE2 and PSE3 forecast for 2015. The expenses in this table are the actual annual nominal forecasts presented to substantial customers.

- Real costs per passenger have fallen from 2007 to 2019 (a period addressed by BARNZ in its submission on IP1), despite the fact that WIAL has been required to accommodate a number of large cost increases:

Determination Reference	WIAL Comment

Change in Real Costs	2007-2019	2014-2019
Uncontrollable Costs	(1.2)%	(0.8)%
Controllable Costs	0.0%	(0.3)%
Total Costs	**(0.3)%**	**(0.4)%**

- ✈ Real costs per passenger have fallen 1% per annum since WIAL was corporatised in 1998, as set out on page 16 of the opex forecast paper in IP1.

WIAL's forecast for PSE3 also demonstrates that WIAL is sharing the benefit of efficiencies with consumers. In the FPD, WIAL commented on several examples which include:

- ✈ The reduction in real costs per passenger achieved over a long period of time;
- ✈ WIAL demonstrated in IP1 that its base 2014 forecast for PSE3 is considerably below the 2014 forecast used for PSE2;
- ✈ The reduction in the cost of insurance which has been included in the 2014 expense base to set the PSE3 forecast;
- ✈ The reduction in WIAL's forecast for consultation and regulation costs for PSE3, from the actual costs levels in PSE1 and PSE2; and
- ✈ WIAL not allowing for volume growth in some terminal operating costs for the existing terminal area.

Despite the fact that WIAL has experienced substantial real cost increases in some areas, real costs per passenger have been preserved over the long term which is evidence of an improvement in operational efficiency and these efficiency gains have been shared with WIAL's customers, though reduced operating cost forecasts being included in building block calculations.

1.2. *Comparison to Other Airports*

WIAL also compared its 2013 published costs to other airports in Australasia. As shown in the chart below for 2013 WIAL achieved the lowest cost per passenger of the major Australasian airports.

Determination Reference	WIAL Comment
	 On the basis of the forecast change in WIAL's costs over the Pricing Period, and the comparison to other airports in Australasia, WIAL concluded that its total forecast costs were reasonable. **1.3. *Airport Service Quality*** WIAL's considers its opex forecast will enable WIAL to continue to deliver an acceptable standard of airport services which meets the highest safety standards while operating efficiently for the benefit of airlines and passengers. The Airport Service Quality (ASQ) survey outcomes achieved by WIAL, as disclosed in its annual IDs, demonstrate that WIAL is currently providing a high quality of service to passengers. This is reflected in the comparative scores compared to the range of airports participating in the ASQ survey and through improvements that WIAL has achieved over time. WIAL has averaged 4.1 out of a score of 5 in the last three years from 2011 to 2013 and has been placed between second and fourth across all Australasian airports over this period. WIAL intends to preserve and improve the current service standards and will achieve this through: ✈ Ensuring its operating cost forecast is sufficient to enable the on-going provision of current service levels; ✈ Working with airlines and other stakeholders in the operational meeting forums to consider disruptions in service quality

Determination Reference	WIAL Comment

or identify prospective enhancements, which typically will be funded by WIAL; and

- ✈ In conjunction with WIAL's capital expenditure planning achieve improvements in areas where ASQ survey outcomes indicate improvement is required and is achievable at a reasonable cost.

2. *Justification for Noise Mitigation Activity Costs for Price Setting Event*

The basis for the forecast costs for the noise mitigation activity is explained in the comments in respect of clause 2.5(1)(c)(iii) above. This is a separate activity from those reflected in airfield and terminal charges and the noise conditions and costs of treatment are specific to WIAL's location and surrounding properties. The scope of the noise mitigation activity is specific to WIAL and therefore WIAL does not consider it is appropriate for these costs to be compared with other airports.

A summary of these costs categorised in the required manner is:

$000	2015	2016	2017	2018	2019
Corporate overheads	210	215	220	224	229
Asset management and airport operations	2,238	2,246	1,518	1,549	719
Asset maintenance	0	0	0	0	0
Forecast operational expenditure	**2,448**	**2,461**	**1,738**	**1,773**	**948**

WIAL has demonstrated the rationale and justification for these costs to substantial customers during the PSE2 and PSE3 consultations. The most significant of the costs being house write-offs following removal, and the expected cost for noise treatment of affected properties, based on advice from Beca.

On-going management of the noise mitigation programme will be undertaken in conjunction with substantial customers with actual costs incurred subject to further review as the programme develops. WIAL has stated that it is willing to establish a long term contractual arrangement with substantial customers for this activity which could include wash-ups for variations between actual and forecast costs.

3. *Justification for Costs for Other Aeronautical Activities not part of Price Setting Event*

These costs comprise expenses incurred by WIAL to administer and maintain premises leased by WIAL to airlines and other parties for the provision of specified airport services.

These costs are not included in the cost base to establish aeronautical pricing and rental income is established by commercial negotiation. The costs are therefore not recovered through the aeronautical pricing mechanism, and are not a driver for rental

<table>
<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
<tr><td></td><td>
levels which are set with reference to property market rates.

A summary of these costs categorised in the required manner is:

<table>
<tr><th>$000</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>Corporate overheads</td><td>31</td><td>32</td><td>33</td><td>34</td><td>35</td></tr>
<tr><td>Asset management and airport operations</td><td>280</td><td>303</td><td>314</td><td>324</td><td>332</td></tr>
<tr><td>Asset maintenance</td><td>175</td><td>180</td><td>186</td><td>192</td><td>198</td></tr>
<tr><td>Forecast operational expenditure</td><td>486</td><td>515</td><td>533</td><td>550</td><td>565</td></tr>
</table>
Information on these costs was included in the cost forecasts provided to substantial customers in consultation and therefore subject to the same base assumptions and relevant growth assumptions, as explained in the comments in respect of clause 2.5(1)(c)(iii).
</td></tr>
<tr><td>Clause 2.5(1)(h) Services not Included in Price Setting Event</td><td>
1. Description of the Service
WIAL leases land and facilities to airlines and other parties providing services that are incorporated in the definition of specified airport services). WIAL negotiates rental agreements with individual tenants and the revenues and costs for leased property are excluded from the price setting event to set aeronautical charges.
2. Forecast Revenue
<table>
<tr><th>$000</th><th>Actual</th><th colspan="5">Forecast</th></tr>
<tr><th></th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>Annual revenue from leased properties</td><td>4,215</td><td>4,300</td><td>4,408</td><td>4,510</td><td>4,600</td><td>4,683</td></tr>
</table>
3. Reference to Any Price Setting Event that the Service has been Applicable
Negotiation of commercial lease terms is undertaken individually with the property tenants. WIAL has forecast rentals for over 30 commercial tenants with some of these having multiple tenancies.
The timing of the negotiations for individual leases is determined by the terms of the lease arrangements.
</td></tr>
<tr><td>Clause 2.5(2)(a) Summary of Pricing Methodology for Price Setting</td><td>Determination of aeronautical prices was undertaken in two parts. Firstly, determination of required revenue for the Pricing Period that would produce an NPV=0. Secondly, specific prices were developed which would be economically efficient. Both parts were put together with substantial customers and expert advisor input through the consultation process and by commercial concessions intended to encourage airline support, to reflect past practices and the on-going evolution of the regulatory environment.</td></tr>
</table>

Determination Reference	WIAL Comment
Event	***1. Determination of Required Revenue*** WIAL determined its revenue requirements from application of the building block methodology as set out in the following formula: *Revenue Required = Return on Capital* *+ Operating Costs* *+ Depreciation on Assets* *+ Taxation* *+/– Expected Revaluation of Assets* *Where Return on Capital = Assets Employed * WACC* WIAL's objective in applying the building block model for the Pricing Period was to identify revenue, and pricing, that would ensure that WIAL forecast a NPV for the Pricing Period of zero. Required revenue from aeronautical pricing was determined by applying the building block calculation to inputs for the airfield and specified terminal activities, but excluded aeronautical services where revenue was derived outside of the price setting event, i.e. lease income. A summary of the outcomes from WIAL's building block model for the Pricing Period is shown in the comments in respect of clause 2.5(1)(a)(i) above. The assumptions applied by WIAL in determining its building block components, are detailed in the information required by clause 2.5(1)(c) above. ***2. Pricing Methodology for Airfield and Specified Terminal Activities*** WIAL undertook a comprehensive development and consultation process in PSE2, including commissioning expert advice from Sapere Research Limited[27] to derive the existing price structure. Key features of the structure included: ✈ Aircraft movement charge comprising a Maximum Certified Take Off Weight (MCTOW) component with differential pricing for different weight bands and a passenger component; ✈ Congestion pricing; ✈ Aircraft parking charges for parking time beyond the nominated turnaround periods for different types of operations; ✈ Passenger charges for the specified terminal activity; ✈ Check-in facility charges;

[27] Pricing Review of Wellington Airport's Aeronautical Services, Sapere Research Group, 2011

Determination Reference	WIAL Comment
	✈ Provision for Ground Service Equipment Storage (GSE) charges; and ✈ Incentives for new capacity. The principles which underpin this pricing structure remain valid and appropriate for the setting of aeronautical prices for PSE3. In particular, WIAL has observed from PSE2 that: ✈ The implementation of a parking charge has been useful for addressing the scarcity of apron space. Applying a charge to the use of apron space has assisted to maximise the efficient use of this resource and thereby delay the need for costly expansion; ✈ The check-in facility charge has also assisted in promoting the efficient use of check-in counters to assist to maximise potential utilisation; ✈ An obvious trend or pattern indicating behavioural changes arising from the congestion charge has not yet emerged as the charges have only been in operation for a short period of time; ✈ The specified terminal activity charges remain appropriate in the airport's common user terminal environment; ✈ It is appropriate to gradually introduce aircraft movement charges which bring the price per passenger to a comparable level across different aircraft types to reflect that small aircraft have a comparable opportunity cost for use of the runway slot as large aircraft; ✈ While it is too soon to assess the effectiveness of the incentives provided for new capacity, the early indications are that volume has increased at a greater rate than forecast and that these incentives may have been a contributing factor to the additional growth. WIAL also notes that the Commission recently concluded that the pricing methodology adopted for PSE2 was more likely to promote efficiency, than the previous pricing approach, and that the revised methodology incorporated greater consideration of[28]: ✈ Seeking the optimal use of scarce resources at Wellington Airport; ✈ The price sensitivity of consumers with price elements designed to reflect this; ✈ The transparency provided by disclosing our pricing methodology would assist to strengthen incentives to set prices that promote efficiency.

[28] Commerce Commission *Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the Purpose of Part 4 for Wellington Airport*, *Section 56G of the Commerce Act 1986* (8 February 2013), [D5] and [D10] and [D12].

Determination Reference	WIAL Comment

The structure of WIAL's charges is therefore as follows:

	WIAL Approach for Pricing Period
Airfield Activities	
Aircraft movement services	Congestion pricing applying differential charges to movements occurring in shoulder and peak periods along with a separate fixed charge for these movements.
	Aircraft movement charges based on aircraft weight supplemented by passenger charges to produce the required revenue.
Aircraft stands and apron services	Aircraft parking charges for stand use above specified turnaround times during peak periods for international, domestic jet and domestic propeller aircraft.
Specified Terminal	
Check-in facilities	Time based charges for use of check in counters.
Gate lounges	Included in charge per passenger, no differentiation by location or airline.
Circulation areas and terminal facilities	Included in charge per passenger.

3. Incentive Arrangement

WIAL has continued with the incentive arrangement first introduced in PSE2. The incentive will provide airlines delivering additional passengers or new services with a discount applicable to the incremental activity.

The incentive is forecast to deliver a higher rate of passenger growth than would have otherwise occurred. Additional traffic enables fixed costs to be spread over a larger volume of passengers in the Pricing Period, reducing the average cost payable per passenger.

WIAL considers it appropriate to offer published incentives that are available to all airlines for the development of new routes and growth in capacity. The incentives apply to domestic and international routes with the incentives detailed in the table below:

Determination Reference	WIAL Comment

	Qualifying Capacity		Discount on Standard Charges		
			YR1	YR2	YR3
Domestic	All pax growth over previous years		50%	25%	0%
International – Short Haul	Minimum additional 3 services per week	Additional capacity	50%	25%	0%
	Minimum 3 services per week	New route to/from WLG	100%	50%	25%
International – Long Haul	All services	Additional capacity	50%	25%	0%
	Minimum 3 services per week	New route to/from WLG	100%	100%	100%

Further information on the incentive arrangements is provided in Appendix E.

Comments on how the specific charges were determined are provided below in the comments for clause 2.5(2)(b)(v).

4. Pricing Methodology for Noise Mitigation Activity

WIAL has established a separate company, WANT Limited, to administer WIAL's noise mitigation obligations. Separation of this activity allows WIAL to use a stand-alone building block model with the revenue required determined in the same manner as for other charges.

WIAL seeks to achieve a long term commercial agreement with its substantial customers for the noise mitigation activity and remains hopeful that this can be achieved. It is expected that a 10 year period will be required to enable WIAL's noise management obligations to be fulfilled and consequently proposed to the substantial customers that WIAL would seek to achieve an NPV=0 over the full term of the project.

Substantial customers supported this approach although Virgin Australia proposed, and WIAL implemented, a pricing approach that sees WIAL retain the PSE2 charge applying at 31 March 2014 at the same level for a further two years before reducing the charge to a constant level for the remaining duration of the project. Virgin's rationale was that WIAL would be incurred higher costs in the first two years of PSE3. As a result of the approach for the noise mitigation activity the separate building block model shows:

Determination Reference	WIAL Comment
	✈ WIAL achieved an NPV deficit in the first two years of the project (WIAL's 2013 and 2014 financial years); ✈ WIAL will achieve a small NPV surplus for the duration of PSE3; and WIAL will achieve an NPV=0 over the life of the project.

Determination Reference	WIAL Comment
Clause 2.5(2)(b)(i) Description of Charged Services	WIAL's charges for scheduled airline operators apply to all relevant services to airlines and passengers. The list of services provided is set out below. ***1. Airfield services*** ✈ Runway and taxiways including all entrances and exits. ✈ Aprons including parking stands and aircraft maneuvering areas. ✈ Airport fire services. ✈ Airside safety services. ✈ Asset management of airfield services including planning and repairs and maintenance. ***2. Terminal services*** ✈ Check-in hall. ✈ Landside areas for passengers and visitors. ✈ Secure airside areas for passengers following security screening and gate lounges for passengers not requiring security screening. ✈ Egresses throughout terminal for arriving and departing passengers. ✈ Baggage collection area and facilities for airlines and Aviation Security Service (Avsec) to process baggage. ✈ Terminal systems required for processing or administration of passengers including security, flight display system, public address system, building fire system, closed circuit television system and communication systems. ✈ Non-leased facilities required by for the operation of border control services for international passengers. ✈ Non-leased facilities required for the operation of security and police services. ✈ All building infrastructure to provide passenger utility and comfort including washroom facilities, heating and air conditioning, electricity and lighting. ✈ Operations staffing and management to facilitate effective daily operation of the terminal building and interaction with airlines. ✈ Asset management of terminal services including planning and repairs and maintenance. ***3. Air bridge services (for jet aircraft only)*** ✈ Use of air bridges for departing and arriving passengers.

Determination Reference	WIAL Comment
	✈ Asset management of air bridge services including planning and repairs and maintenance. ***4. Corporate costs*** ✈ Company overheads allocated to other activities for corporate functions including executive management, finance, human resources, information technology, property management and marketing and communications. ✈ Company management overhead costs such as directors' fees, non-activity attributable insurances and office administration costs. ***5. Noise mitigation activity*** ✈ Specific noise management obligations to be met following the Environment Court proceedings in 1997 and subsequent LUMINS study and consultation undertaken with the airlines, WCC and residents. Charges to aircraft operators that do not provide scheduled passenger services are for the airfield services and noise mitigation activity detailed above together with a share of allocated corporate costs.
Clause 2.5(2)(b)(ii) Relationship between Quality of Service and Cost for Each Charged Service	In providing airport facilities, WIAL is required to comply with safety, operational and security requirements set by the Civil Aviation Authority (CAA), Avsec and border agencies. The objectives of meeting passenger and airline growth and complying with regulatory requirements are key drivers for WIAL's management and development of the airport. WIAL's intention was to set prices to reflect the provision of a consistent quality of services to airlines and passengers and which are provided at an efficient level of operating costs. The terminal facilities at Wellington airport are relatively new, with the MTB commissioned in 1999 and The Rock Northern Pier terminal expansion which opened in 2010. WIAL has forecast to achieve service quality improvements from a number of capital projects which are explained in detail in Appendix D and which include the following: ➢ Expansion of the South and SWP to achieve improved waiting areas for passengers; ➢ Construction of passenger bypass facilities for the SWP to achieve separation of arriving and departing passengers thereby enabling reconsideration of the location of security screening and achievement of further gate lounge efficiencies and amenity for passengers; and ➢ Expansion of MTB to the south for additional waiting areas and washroom facilities for passengers. WIAL intends to maintain and enhance, where this can be achieved at an appropriate cost, the operational services provided. The following key support functions are forecast to be provided:

Determination Reference	WIAL Comment
	➢ Operations – a monitoring centre and support staffing provided 24 hours per day to enable the prompt resolution of minor service interruptions; ➢ Maintenance – undertaking preventative maintenance programmes and responding to breakdowns in facilities; ➢ Airside – a monitoring team for compliance and safety issues for all aircraft movement areas; and ➢ Airport Fire Service – emergency response service required by CAA regulations. Consistent with the Australasian airport comparison referenced in clause 2.5(1)(g) above, WIAL considers it delivers its services on a cost efficient basis.
Clause 2.5(2)(b)(iii) Methodology Used to Allocate Costs to Particular Charged Services	A description of WIAL's asset and cost allocation processes are provided in the comments regarding clauses 2.5(1)(c)(i) and 2.5(1)(c)(iii).
Clause 2.5(2)(b)(iv) Significant Changes to, or Rebalancing of Prices from the Previous Pricing Period	WIAL's pricing methodology has been designed to recover the cost of providing specified aeronautical services through charges which incentivise the efficient use of, and investment in, WIAL's assets in accordance with expert advice. This is consistent with the methodology WIAL adopted for PSE2 but with some enhancements to the methodology made to incorporate substantial customer feedback. Feedback was particularly relevant regarding the new charges implemented in PSE2 such as peak/shoulder charges and aircraft parking charges. While the same overall price structure has been retained, modifications adopted for PSE3 are: ➢ A more gradual approach to the intensification of peak/shoulder charges; ➢ A reduction in the charges for check-in counter usage; ➢ A more gradual movement toward comparable charges per passenger across different aircraft types; and ➢ A relaxation of the times during which aircraft parking is to be payable. These changes preserve WIAL's objective to encourage efficient use of facilities but now also reflect the experience and learnings from PSE2 by incorporating modifications put forward by substantial customers to simplify the application of the price structure.

Determination Reference	WIAL Comment
Clause 2.5(2)(b)(v) Methodology for Determining Pricing for Charged Services and How These Were Reconciled With the Forecast Revenue Requirement	***1. Charges Excluding Noise Mitigation Activity*** Appendix 10 to WIAL's FPD provided detailed comment on pricing methodology and how each of the specific charges was determined. This appendix is reproduced and attached at Appendix E. In addition the Pricing Model provided to substantial customers during consultation shows the composition of the revenue forecast by the main categories of charges, and the reconciliation to revenue required calculated by the building block model. The following table was included in the Pricing Model provided to substantial customers: ***2. Charges for Noise Mitigation Activity*** Charges for the noise mitigation activities were determined from a separate building block calculation in order to establish charges to achieve a NPV=0 for the project. Charges were established as follows: ✈ Charges for operators of scheduled passenger services. Passenger based charges were established: • From 1 June 2014 to 31 March 2016 – the charge of 40c per passenger applying prior to 1 June 2014 has been retained until 31 March 2016 following a proposal from Virgin Australia. • From 1 April 2016 to 31 March 2019 – a charge of 32c per passenger. The level of this charge is the sum required to result in WIAL achieving an NPV=0 over the duration of the noise mitigation project.

Revenue ($000)		FY15	FY16	FY17	FY18	FY19	Total
Airfield	ATM/MCTOW	11,051	14,496	15,002	15,492	15,944	71,985
	Pax	18,772	24,515	26,573	28,548	31,124	129,530
	Parking	138	163	158	156	152	767
	Incentive	- 178	- 1,468	- 1,022	- 887	- 1,953	- 5,508
	Airfield Total	29,782	37,705	40,711	43,309	45,267	196,774
Terminal	International Pax	2,793	3,776	4,366	4,875	5,344	21,154
	Domestic Pax	17,221	22,378	24,736	27,168	27,877	119,381
	Check-in	486	553	515	472	429	2,456
	Incentive	- 139	- 656	- 543	- 575	- 1,070	- 2,983
	Terminal Total	20,361	26,051	29,075	31,940	32,580	140,007
Total		50,143	63,756	69,786	75,249	77,847	336,781

Determination Reference	WIAL Comment
	✈ Charges for operators of aircraft not carrying passengers or using terminal facilities: • Fixed charges were determined to apply over the Pricing Period in three aircraft weight categories; aircraft less than 2 tonne, aircraft between 2 and 30 tonne and aircraft over 30 tonne. The charges were determined to be equivalent with those payable by airlines operating scheduled passenger services. A goal seek approach was used to calculate the required charge per passenger from 1 April 2016 with this ensuring that the pricing reconciles to the revenue required.
Clause 2.5(2)(b)(vi) Terminal Access Charges	WIAL has no terminal access charges for the Pricing Period. WIAL's airfield and specified terminal charges are inclusive of the terminal access services and facilities provided by WIAL.
Clause 2.5(2)(c) Explanation of the Extent to Which WIAL Considers the Airport Pricing Methodology Will Lead to Efficient Prices including whether there are any Cross Subsidies	***1. Historical Pricing Approach*** Prior to PSE2 prices were mainly determined to achieve a NPV=0 outcome for each period, subject to commercial arrangements or concessions developed during consultation, and the main pricing "structural" feature was the relative weighting of prices for international, domestic jet and domestic propeller services. There were only modest departures from this relatively simple three class model in areas such as the leases or licences applied to dedicated airport facilities (such as check-in desks and lounges) and where incentive arrangements were negotiated outside of consultation to encourage and support airline growth. ***2. Development of Pricing Structure for PSE2*** Emerging airfield, and other facility, congestion and the analysis of future airfield and passenger demand forecasts required for WIAL's 2030 Master Plan indicated that WIAL should reconsider the pricing of its services to evaluate the role that prices could play in optimising the use of WIAL's constrained facilities. WIAL commissioned a report by Sapere ("Pricing Review of WIAL's Aeronautical Services" dated 15 April 2011) to provide the basis for the PSE2 consultation with substantial customers. Over the course of that consultation a further three reports were tabled (for BARNZ, Future Consultants Limited "WIAL Aeronautical Services Pricing Review: Analysis of Risks and Benefits for Airlines" dated 13 May 2011, for Air NZ, New Zealand Institute of Economic Research " WIAL congestion charging - Issues of congestion pricing and possible effects on airline network connectivity" dated 1 June 2011, and for WIAL, Leigh Fisher "Pricing

Determination Reference	WIAL Comment
	Review of Aeronautical Services at Wellington Airport - International Pricing Practices" 14 July 2011). These reports and the other documents tabled over the consultation were made available on WIAL's website. The Sapere report recommended that: ✈ Differentiated (peak and off-peak) charges for runway usage should be considered; ✈ Aircraft movement services and other airfield services (principally aprons and stands) should be priced on the basis of aircraft, not passenger numbers; ✈ Aircraft parking charges should be considered; and ✈ Separate pricing should be also considered for items such as check-in desk usage and equipment storage. WIAL addressed the Sapere conclusions and considered the responses received from substantial customers, and their additional expert reports, in its development of the price structure. The issues WIAL considered most significant, including those raised by substantial customers, are addressed in the comments below. ***3. Congestion Pricing*** WIAL considered that there were two key objectives and benefits of congestion pricing: ✈ The allocation of scarce capacity to those who value it most and (care of the NPV=0 rebalancing) lower off-peak charges for airport users likely to be more price sensitive. ✈ Collecting a greater proportion of fixed costs from services that are less price-sensitive assists overall efficiency by lowering any distortion of demand. On Wellington's highest capacity route (Wellington-Auckland), which for the most part has a flight every 30 minutes, airline pricing models appeared to incorporate Ramsay pricing to allocate peak time capacity to those with the highest willingness to pay. For example, when booking next day travel on Tuesday 8 November 2011 (from airline internet booking site), a peak travel time 7am departure was priced at $403 one way versus the off-peak 1pm travel option on the same day which was priced at $102 one-way. The change in price structure meant that WIAL's charges would lift the airlines costs by approximately $2 for the peak-time traveller while providing a similar reduction for the off-peak passenger. WIAL therefore intended the new pricing structure to

Determination Reference	WIAL Comment
	signal to airlines that WIAL was seeking to encourage the efficient use of its facilities but did not expect the new pricing structure to have a material influence on airfares. Air NZ and BARNZ commented that WIAL should look to methods other than pricing to increase effective runway capacity, such as working with Airways Corporation of New Zealand Limited (Airways) to optimise runway utilisation. WIAL agreed that such initiatives are worthwhile and was already engaged in several projects, namely: ✈ Traffic Capacity Forum where WIAL, a number of airlines and Airways review the Air Traffic Control system performance and discuss opportunities and initiatives for improvement in areas across the airways network. ✈ A Runway Capacity Workshop undertaken on 12 July 2011. WIAL, a number of airlines, Airways and other service providers undertook a comprehensive review of runway capacity issues following the 2007 runway capacity study undertaken by Airways, and development of WIAL's 2030 Master Plan, both of which were conducted in consultation with WIAL's stakeholders. ✈ The Airways/WIAL collaborative partnership which includes matters such as the location of the aerodrome circuit, and more efficient management of aircraft on the ground through gate allocation and apron management. ✈ Airport slot management at New Zealand's three main airports (for international services) as well as Queenstown Airport (all services) care of a separate company has been implemented by New Zealand Airports Association (NZAA) and BARNZ. There is a mechanism within the agreement for a possible future move to full international and domestic coordination following a capacity study and stakeholder engagement. WIAL's engagement in these initiatives was consistent with WIAL's preferred approach to work on increasing the utilisation of the facility along with progressively introducing congestion pricing to ensure that capacity is efficiently used. ***4. Demand and Capacity Conditions*** The Commission's information disclosure measure of Wellington Airport's runway utilisation (the 30th busiest hour in the year) was 32 movements per hour in the year ended 31 March 2014 (as assessed by Airbiz). In conditions of low visibility (required aircraft instrument conditions) the declared capacity of the runway is as low as 26 movements per hour, meaning that depending on the meteorological conditions on the day and the runway used (both of which are outside the control of the

<table>
<tr><th>Determination Reference</th><th>WIAL Comment</th></tr>
<tr><td></td><td>
airport), the 30th busiest hour could already exceed the declared runway capacity as shown in the table below.

Table: Runway Utilisation

<table>
<tr><th></th><th colspan="2">Declared Capacity</th><th colspan="2">30th Busy Hour</th></tr>
<tr><td>Runway</td><td>Met Conditions</td><td>Movements per Hour</td><td>Movements</td><td>Date and Time</td></tr>
<tr><td>16</td><td>VMC</td><td>38</td><td rowspan="4">32</td><td rowspan="4">18/09/2013
08:00-09:00</td></tr>
<tr><td></td><td>IMC</td><td>29</td></tr>
<tr><td>34</td><td>VMC</td><td>36</td></tr>
<tr><td></td><td>IMC</td><td>26</td></tr>
</table>

VMC – Visual Meteorological Conditions

IMC – Instrument Meteorological Conditions

Air traffic movements were forecast to increase by above 8% over PSE2. Assuming the increase in movements is uniform across the day and year, a 30th busy hour of 32 movements would be expected to increase to 35 movements by the end of PSE2. This would significantly exceed both WIAL's runway 16 and runway 34 capacities during poor meteorological conditions, and would be close to the capacity of runway 34 in good visibility.

Air NZ commented that any introduction of a congestion pricing regime "should be done in an orderly manner over a period of time". WIAL considered that the pricing structure is consistent with Air NZ's comment. WIAL's pricing for the period incorporated a gradual introduction of a congestion pricing such that, as aircraft movements continue to increase over the Pricing Period, price signals increase to reflect the greater need to encourage non-time sensitive services to operate outside the peak when the runway capacity is under pressure.

For PSE3 WIAL has responded to further airline comments by slowing the intensification of congestion pricing versus the PSE2 price path.

5. MCTOW Charging

In WIAL's view the passenger based charging structure in place prior to PSE2 created an incentive to operate smaller aircraft by applying a lower fixed charge per passenger for these aircraft. Under this previous structure an airline would pay less in airport fees to operate ten 19 seat aircraft than to operate a single 190 seat aircraft even though the former activity uses approximately ten times the runway capacity. The price structure implemented for PSE2 included the gradual re-introduction of MCTOW charges, following advice from Sapere, such that at the end of PSE2 the average per passenger charge for passengers carried on
</td></tr>
</table>

Determination Reference	WIAL Comment
	different aircraft types would be similar. This was intended to address the potential incentive for airlines to carry passengers on a greater number of small aircraft movements, instead of fewer large aircraft, and thereby reduce efficient use of WIAL's airfield facilities. Sapere recommended in its review of WIAL's pricing structure that based on efficiency principles WIAL should consider MCTOW based charges for use of the runway. In considering this approach WIAL noted that the runway and taxiway system is the major airfield asset by value and also scarcity. While arguably, the most efficient pricing structure from an economic allocation perspective would be a flat runway charge per aircraft a MCTOW charging approach is an acknowledgement of elements of facility use and capacity to pay, for different aircraft types, through increasing charges with aircraft weight. ***6. Disaggregated charges*** Sapere recommended that WIAL considered establishing separate charges for particular discreet services, such as check-in desks and equipment storage areas. BARNZ supported this approach[29] by noting the trend toward the unbundling of charges for airport services, citing airlines moves to charging structures that allow passengers to select product combinations depending upon their willingness to pay. WIAL consequently established an hourly counter charge and a process to institute a ground rental arrangement for GSE (as referred to earlier in this PSE Disclosure). WIAL considered that the disaggregated charges that WIAL included in PSE2 for check-in counters, and aircraft parking have the common characteristic of sending signals for the efficient use of WIAL's scarce facilities. They are also areas where users of these assets have options to consume more or less of this resource. Encouraging fast turnarounds of aircraft and efficient management of equipment will extend the capacity of the existing infrastructure and ultimately extend the capacity of the current constrained site. ***7. Terminal Charges*** WIAL has a single common-use terminal and, as identified in the recent 2030 Master Plan, it is WIAL's intention to retain this configuration in the medium to long term. WIAL considers that this configuration has substantial benefits for customers. Travellers have short connection distances with the terminal, airlines are able to achieve efficiencies from aircraft and staff and

[29] Assessment by BARNZ of WIAL IPP, 10 October 2011, page 34.

Determination Reference	WIAL Comment
	assets can be utilised more intensively than if they were dedicated to either a type of use (international or domestic) or a specific airline customer. WIAL concluded that a single common user charge for all passengers using the terminal is appropriate. ***8. Cross Subsidies*** Cross subsidies arise where a service is priced below marginal cost. Given the high fixed costs and low marginal costs of WIAL's aeronautical business, WIAL considers that it is unlikely that material cross subsidies arise despite the price structure for the Pricing Period not being based on average cost per individual activity. ***9. Pricing Structure for PSE3*** The comments in respect of clause 2.5(2)(b)(iv) above confirm that, subject to some modifications, the pricing structure implemented in PSE2 has been retained. The efficiency considerations that were addressed in developing the structure for PSE2, and as detailed above, remain relevant for PSE3.
Clause 2.5(3) Standard Prices	WIAL's Schedule of Charges for the Pricing Period is attached at Appendix F.

Appendix A – Schedule 18: Report on the Forecast Total Revenue Requirement

Regulated Airport	**Wellington International Airport Limited**
Pricing Period Starting Year Ended	**31 March 2015**

SCHEDULE 18: REPORT ON THE FORECAST TOTAL REVENUE REQUIREMENTS

ref *Version 2.0*

18a: Revenue Requirement

Overview of the methodology used to determine the revenue requirement

Aeronautical Charges

Section 4A of the Airport Authorities Act 1966 (the Act) provides for WIAL to set charges for use of the airport services or facilities. Section 4B of the Act mandates that WIAL must consult with every substantial customer in respect of any charge payable by every substantial customer or passengers at least every 5 years.

WIAL applied the building block model to achieve NPV not exceeding zero over the pricing period. This ensures that the required revenue is smoothed over the pricing period, but as a result NPV may not equal zero for individual years within the pricing period.

The building block approach provides for required revenue to be established from the following formula:
Revenue Required = Return on Capital + Operating Costs + Depreciation on Assets + Taxation +/– Expected Revaluation of Assets
Where:
Return on Capital = Weighted Average Cost of Capital * Capital Employed

Other Revenues

Other income rental revenues were subject to commercial negotiation.

Further comment is provided in the attached document Disclosure Following Price Setting Event for Pricing Period 1 June 2014 to 31 March 2019.

	($000)	for year ended	Pricing Period Starting Year 31 Mar 15	Pricing Period Starting Year + 1 31 Mar 16	Pricing Period Starting Year + 2 31 Mar 17	Pricing Period Starting Year + 3 31 Mar 18	Pricing Period Starting Year + 4 31 Mar 19
	Forecast value of assets employed		400,944	435,653	466,484	473,585	474,993
	Forecast cost of capital		9.08%	8.36%	8.36%	8.36%	8.36%
	Forecast return on assets employed		36,410	36,421	38,998	39,592	39,709
plus	Forecast operational expenditure		18,816	20,143	20,062	20,124	19,488
plus	Forecast depreciation		14,105	14,189	16,961	18,018	18,803
plus	Forecast tax		11,764	12,119	13,150	13,287	14,289
plus (less)	Forecast revaluations		(8,652)	(10,180)	(10,674)	(9,332)	(8,494)
less	Forecast other income		206	209	214	218	222
plus (less)	Other factors		(3,073)	(2,043)	(2,243)	159	156
	Forecast total revenue requirement		69,164	70,438	76,040	81,630	83,730
less	Revenue requirement not applicable to price setting event		4,300	4,408	4,510	4,600	4,683
plus (less)	Revenue smoothing adjustment		(519)	(103)	86	89	719
	Forecast revenue for services applicable to price setting event		64,345	65,928	71,616	77,118	79,765
	Forecast total revenue requirement for the following regulated activities						
	Airfield activities		40,400	40,419	42,869	45,512	46,896
	Aircraft and freight activities		2,014	2,064	2,112	2,154	2,193
	Specified passenger terminal activities		26,750	27,955	31,059	33,964	34,641
	Forecast total revenue requirement		69,164	70,438	76,040	81,630	83,730

Description of any other factors that are considered in determining the forecast total revenue requirement

Refer to the attached document Disclosure Following Price Setting Event for Pricing Period 1 June 2014 to 31 March 2019.

Regulated Airport: **Wellington International Airport Limited**
Pricing Period Starting Year Ended: **31 March 2015**

SCHEDULE 18: FORECAST TOTAL REVENUE REQUIREMENTS (cont)

ref *Version 2.0*

Year of most recent annual disclosure (year ended): 31 March 2013

	($000) for year ended	Pricing Period Starting Year – 1 * 31 Mar 14	Pricing Period Starting Year 31 Mar 15	Pricing Period Starting Year + 1 31 Mar 16	Pricing Period Starting Year + 2 31 Mar 17	Pricing Period Starting Year + 3 31 Mar 18	Pricing Period Starting Year + 4 31 Mar 19
18b(i): Forecast Asset Base							
	Forecast asset base—previous year	389,223	390,702	407,216	460,081	466,600	471,882
less	Forecast depreciation	13,259	13,640	14,189	16,961	18,018	18,803
plus	Forecast revaluations	6,357	7,879	10,180	10,674	9,332	8,494
plus	Assets commissioned	8,381	24,143	58,786	14,273	15,464	6,221
less	Asset disposals	–	1,867	1,913	1,466	1,496	–
plus (less)	Forecast adjustment resulting from cost allocation	–	–	–	–	–	–
	Forecast asset base	390,702	407,216	460,081	466,600	471,882	467,793
18b(ii): Forecast Works Under Construction							
	Works under construction—previous year	4,947	9,475	23,748	4,947	4,947	8,509
plus	Capital expenditure	12,908	38,415	39,985	14,273	19,026	13,164
less	Assets commissioned	8,381	24,143	58,786	14,273	15,464	6,221
	Works under construction	9,475	23,748	4,947	4,947	8,509	15,453

** Disclosure for pricing period starting year – 1 is only required if no disclosure has been made pursuant to clause 2(3) in respect of the year directly preceding the pricing period starting year.*

Regulated Airport: **Wellington International Airport Limited**
Pricing Period Starting Year Ended: **31 March 2015**

SCHEDULE 18: FORECAST TOTAL REVENUE REQUIREMENTS (cont 2)

ref *Version 2.0*

18b(iii): Forecast Capital Expenditure

($000) for year ended	Pricing Period Starting Year 31 Mar 15	Pricing Period Starting Year + 1 31 Mar 16	Pricing Period Starting Year + 2 31 Mar 17	Pricing Period Starting Year + 3 31 Mar 18	Pricing Period Starting Year + 4 31 Mar 19	Pricing Period Starting Year + 5 31 Mar 20	Pricing Period Starting Year + 6 31 Mar 21	Pricing Period Starting Year + 7 31 Mar 22	Pricing Period Starting Year + 8 31 Mar 23	Pricing Period Starting Year + 9 31 Mar 24	Total
Capital Expenditure by Category											
Capacity growth	15,337	28,664	–	3,562	8,943	19,890	9,857	6,967	5,601	2,808	
Asset replacement and renewal	23,079	11,321	14,273	15,464	4,221	4,768	13,958	11,294	10,016	1,756	
Total capital expenditure	38,415	39,985	14,273	19,026	13,164	24,658	23,815	18,260	15,616	4,564	
Capital Expenditure by Key Capital Expenditure Project											
Marine Protection	842	518	1,053	900	550	373	386	116	512	909	6,158
Gates	797	201	412	55	61	–	95	232	230	100	2,182
Aprons	926	949	1,234	336	37	162	127	129	–	–	3,899
Movement Areas	4,619	1,041	824	10,559	183	187	–	12,893	328	401	31,034
Operational Compliance Works	2,909	–	1,423	–	367	2,289	380	–	–	–	7,367
Other Airside Works	109	99	101	79	61	–	–	–	–	–	449
Other Airfield (including Clearway)	1,751	–	–	–	–	–	–	–	–	–	1,751
Relocation AFS/ Airside Operations	–	–	4,769	–	–	–	–	–	–	–	4,769
MAGS / Guard Lights	–	2,081	–	–	–	–	–	–	–	–	2,081
Runway Capacity Utilisation Improvements	–	–	–	2,198	–	2,997	–	–	–	–	5,195
Southern Apron Development (Stage 2)	–	–	–	1,364	6,944	14,841	7,196	1,465	–	–	31,809
Terminal South Extension - Terminal	11,787	20,138	–	–	–	–	–	–	–	–	31,925
Terminal South Extension - Southern Apron	4,570	7,132	–	–	–	–	–	–	–	–	11,702
Main Terminal Building - Central Hall	–	1,394	–	–	–	–	–	–	–	–	1,394
Main Terminal Building - Building Flow	–	–	–	–	3,333	–	–	–	–	–	3,333
North Terminal Development - Domestic Passenger Facilitation	2,040	–	–	–	–	–	–	–	–	–	2,040
North Terminal Development - International Expansion	–	–	–	–	18,887	–	–	–	–	–	18,887
Terminal South Extension (Stage 2)	–	–	–	–	–	2,053	2,662	5,502	5,601	2,808	18,625
Earthquake Strengthening Existing Terminal Buildings	–	–	–	–	–	–	11,513	11,721	–	–	23,234
Noise Mitigation Works	2,383	2,491	1,569	1,633	–	–	–	–	–	–	8,076
											–
Less Projects included in SPC Mechanism:											–
North Terminal Development - International Expansion	–	–	–	–	(18,887)	–	–	–	–	–	(18,887)
Additional Fire Appliance for Category 8	–	–	–	–	(1,333)	–	–	–	–	–	(1,333)
Statutory Planning - Runway Extension	(3,061)	–	–	–	–	–	–	–	–	–	(3,061)
											–
											–
											–
											–
											–
Other capital expenditure	8,744	3,942	2,888	1,902	2,962	1,758	4,391	1,899	1,606	1,817	31,909
Total Capital Expenditure	38,415	39,985	14,273	19,026	13,164	24,658	26,749	33,956	8,276	6,034	224,537

Regulated Airport: **Wellington International Airport Limited**
Pricing Period Starting Year Ended: **31 March 2015**

SCHEDULE 18: FORECAST TOTAL REVENUE REQUIREMENTS (cont 3)

ref *Version 2.0*

Basis for Cost Allocation

Operating Costs:
The process for WIAL's allocation of operating costs was consistent with the Commerce Commission's input methodology. For each operating cost item WIAL:
- Allocated direct costs to identified airport activities; and
- Allocated other costs using cost allocators (either proxy or causal) that were deemed appropriate for that cost item.

Fixed Assets:
WIAL maintains a detailed fixed asset register recording approximately 10,000 individual assets. Each asset is allocated a business code that attributes the asset to an identified business activity or to a common asset grouping. WIAL establishes the total assets attributable to identified airport activities by applying the following allocation process:
- Directly attributable assets are aggregated from the business codes;
- Terminal common assets are allocated to specified terminal and terminal retail activities based on the share of directly allocated assets in each business activity (by net book value);
- Other common or shared assets are allocated to identified airport and commercial activities based on the total of directly allocated and terminal common assets for each business activity (by net book value).

An explanation of where and why disclosures differ from the cost-allocation Input Methodology and/or, where costs are shared between regulated and non-regulated assets, an explanation of the basis for that allocation.

Key Capital Expenditure Projects—Consumer Demands Assessment

Refer to Appendix D of the attached document Disclosure Following Price Setting Event for Pricing Period 1 June 2014 to 31 March 2019.

An explanation of how consumer demands have been assessed and incorporated for each reported project and the degree to which consumers agree with project scope, timing and cost.

18b(iv) FORECAST OPERATIONAL EXPENDITURE

($000)	Pricing Period Starting Year 31 Mar 15	Pricing Period Starting Year + 1 31 Mar 16	Pricing Period Starting Year + 2 31 Mar 17	Pricing Period Starting Year + 3 31 Mar 18	Pricing Period Starting Year + 4 31 Mar 19
Corporate overheads	3,606	3,770	3,998	4,081	3,895
Asset management and airport operations	12,818	13,532	13,147	13,556	13,044
Asset maintenance	2,392	2,842	2,917	2,487	2,549
Forecast operational expenditure	18,816	20,143	20,062	20,124	19,488

Appendix B – Schedule 19: Report on Demand Forecasts

Regulated Airport: **Wellington International Airport Limited**
Pricing Period Starting Year Ended: **31 March 2015**

SCHEDULE 19: REPORT ON DEMAND FORECASTS

ref *Version 2.0*

19a: Passenger terminal demand

				Pricing Period Starting Year + 0	Pricing Period Starting Year + 1	Pricing Period Starting Year + 2	Pricing Period Starting Year + 3	Pricing Period Starting Year + 4	Pricing Period Starting Year + 5	Pricing Period Starting Year + 6	Pricing Period Starting Year + 7	Pricing Period Starting Year + 8	Pricing Period Starting Year + 9
	(000)		for year ended	31 Mar 15	31 Mar 16	31 Mar 17	31 Mar 18	31 Mar 19	31 Mar 20	31 Mar 21	31 Mar 22	31 Mar 23	31 Mar 24
Busy hour passenger numbers	Inbound passengers	Domestic		961	979	993	1,018	1,044	1,070	1,102	1,134	1,167	1,199
		International		597	632	671	699	766	806	846	885	915	943
		Combined *		1,135	1,162	1,187	1,219	1,264	1,300	1,344	1,387	1,428	1,468
	Outbound passengers	Domestic		992	1,011	1,026	1,051	1,078	1,105	1,138	1,171	1,205	1,239
		International		596	631	670	698	765	805	844	883	913	941
		Combined *		1,166	1,194	1,220	1,253	1,299	1,336	1,381	1,425	1,467	1,509
Number of passengers during year	Inbound passengers	Domestic		2,369,413	2,412,729	2,449,071	2,508,776	2,574,533	2,637,443	2,717,390	2,796,685	2,877,202	2,956,871
		International		380,248	402,840	427,764	445,425	488,297	513,685	538,978	563,776	582,937	600,866
		Total		2,749,660	2,815,569	2,876,835	2,954,200	3,062,830	3,151,128	3,256,369	3,360,461	3,460,139	3,557,736
	Outbound passengers	Domestic		2,369,413	2,412,729	2,449,071	2,508,776	2,574,533	2,637,443	2,717,390	2,796,685	2,877,202	2,956,871
		International		380,248	402,840	427,764	445,425	488,297	513,685	538,978	563,776	582,937	600,866
		Total		2,749,660	2,815,569	2,876,835	2,954,200	3,062,830	3,151,128	3,256,369	3,360,461	3,460,139	3,557,736
	International transit and transfer passengers†			–	–	–	–	–	–	–	–	–	–

* *No disclosure of combined terminal forecasts is required for airports with no shared passenger terminal functional components.*

† *NB. Forecasts of international transit and transfer passenger numbers relate only to airports with extant or planned international transit and transfer facilities*

Regulated Airport: **Wellington International Airport Limited**
Pricing Period Starting Year Ended: **31 March 2015**

SCHEDULE 19: REPORT ON DEMAND FORECASTS (cont)

ref *Version 2.0*

19b: Aircraft Runway Movements

		(000) for year ended	Pricing Period Starting Year 31 Mar 15	Pricing Period Starting Year + 1 31 Mar 16	Pricing Period Starting Year + 2 31 Mar 17	Pricing Period Starting Year + 3 31 Mar 18	Pricing Period Starting Year + 4 31 Mar 19	Pricing Period Starting Year + 5 31 Mar 20	Pricing Period Starting Year + 6 31 Mar 21	Pricing Period Starting Year + 7 31 Mar 22	Pricing Period Starting Year + 8 31 Mar 23	Pricing Period Starting Year + 9 31 Mar 24
Movements during busy period (total number of aircraft)	During the runway busy hour		31	31	30	31	31	31	31	32	33	33
	During the runway busy day		312	312	308	313	315	314	320	326	332	339
Landings during year (total number of aircraft)	Aircraft 30 tonnes MCTOW or more		15,106	15,249	15,460	15,820	16,051	16,288	16,632	16,961	17,288	17,689
	Aircraft 3 tonnes or more but less than 30 tonnes MCTOW		26,837	26,654	25,931	26,236	26,237	25,883	26,345	26,789	27,234	27,847
	Aircraft less than 3 tonnes MCTOW		4,449	4,450	4,452	4,460	4,464	4,468	4,476	4,484	4,492	4,502
	Total		46,392	46,353	45,843	46,516	46,753	46,639	47,453	48,234	49,013	50,038
Landings during year (total MCTOW in tonnes)	Aircraft 30 tonnes MCTOW or more		1,039,401	1,077,316	1,120,961	1,153,855	1,206,412	1,233,207	1,268,488	1,302,860	1,328,824	1,359,926
	Aircraft 3 tonnes or more but less than 30 tonnes MCTOW		395,944	395,949	391,905	399,076	401,697	401,726	409,878	417,789	425,743	435,388
	Aircraft less than 3 tonnes MCTOW		16,167	16,170	16,175	16,201	16,212	16,224	16,248	16,271	16,294	16,326
	Total		1,451,512	1,489,435	1,529,041	1,569,132	1,624,321	1,651,158	1,694,614	1,736,920	1,770,861	1,811,640
Landings during year (total number of aircraft)	Air passenger services—international		2,849	2,959	3,126	3,237	3,362	3,481	3,597	3,707	3,815	3,913
	Air passenger services—domestic		39,016	38,867	38,189	38,752	38,864	38,631	39,328	39,999	40,671	41,598
	Other aircraft		4,528	4,528	4,528	4,528	4,528	4,528	4,528	4,528	4,528	4,528
Landings during year (total MCTOW in tonnes)	Air passenger services—international		221,714	229,594	242,331	250,692	295,564	313,912	332,795	351,394	361,567	370,880
	Air passenger services—domestic		1,199,225	1,229,268	1,256,138	1,287,867	1,298,184	1,306,674	1,331,247	1,354,954	1,378,722	1,410,188
	Other aircraft		30,572	30,572	30,572	30,572	30,572	30,572	30,572	30,572	30,572	30,572

Description of the basis for forecasts, and/or assumptions made in forecasting

WIAL's objective in completing a demand forecast for the pricing period ending 31 March 2019 was to establish a base for pricing of aeronautical services to airlines. WIAL commissioned Pricewaterhouse Coopers (PwC) to prepare the forecast and to provide a 10 year forecast for this Price Setting Disclosure.

The PwC report comments on the assumptions made to develop the forecast and is available on WIAL's website www.wellingtonairport.co.nz.

Appendix C – Cost Allocation Approaches for the Pricing Period

Cost Centre	Cost Centre Activity	Cost Allocation Approach
Gibson Hangar	Property for aircraft and freight services	Aircraft and freight direct cost
Air National Hangar	Property for aircraft and freight services	Aircraft and freight direct cost
Executive Jet Hangar	Property for aircraft and freight services	Aircraft and freight direct cost
Westside 1	Property with mixed tenancies	Use of share of rental revenues as causal allocator
Western Other	Properties with mixed tenancies	Use of share of rental revenues as causal allocator
Houses	Residential properties purchased by WIAL	Use of rental revenues as causal allocator
Operations Management	Staff and associated facilities costs for operations staff	Use of share of staff time as causal allocator
Terminal	Terminal buildings, including all passenger facilities	Use of share of terminal net book value as causal allocator
Air Bridges	Air bridges	Air bridges direct cost
Corporate Property	Staff and associated facilities costs for staff administering property lease portfolio	Estimate of time allocated to aeronautical and non-aeronautical activities as causal allocator
Fire Station	Building housing fire service	Airfield direct cost
AGS	Properties with mixed tenancies	Use of share of rental revenues as causal allocator
Eastern Other	Properties with mixed tenancies	Use of share of rental revenues as causal allocator
Airfield Engineering	External costs to maintain WIAL's infrastructure	Airfield direct cost
Airport Operations	Staff and associated facilities costs for staff administering airside safety and terminal facilitation	Estimate of time allocated to aeronautical and non-aeronautical activities as a causal allocator

Cost Centre	Cost Centre Activity	Cost Allocation Approach
Airport Planning	External costs to meet regulatory planning requirements for WIAL 's property	Estimate of time allocated to aeronautical and non-aeronautical activities as causal allocator
AFS	Airport fire service staff and costs	Airfield direct cost
Service Quality Assurance	Staff and other costs associated with management of health and safety and service quality	Estimate of time allocated to aeronautical and non-aeronautical activities as causal allocator
Marketing	Staff, associated costs, and marketing, airline development and external relations costs	Initial identification of direct costs for each area with shared costs allocated in proportion to estimate of time allocated to aeronautical and non-aeronautical activities as a causal allocator
Maintenance	Maintenance staff and associated facilities	Share of maintenance expenditure incurred on maintaining facilities as proxy allocator
Consultations and Regulation	Costs associated with Airport Authorities Act consultation and Commerce Act information disclosure regime	Shared equally between airfield and specified terminal activities
Corporate Salaries	Corporate office staff and associated costs for company management functions including HR, finance and IT	Estimate of time and costs allocated to aeronautical and non-aeronautical activities as proxy allocator
Corporate Administration Costs	Corporate overheads (e.g., director's fees, audit fees) and administration costs	Share of all other expenditure allocated to aeronautical and non-aeronautical activities as a proxy allocator

Appendix D – Comment on Key Capital Expenditure Projects for the Pricing Period

For reference the projects requiring comment are defined as:

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

Airfield Pavement and Seawall Maintenance Programme

The programme comprises the following components:

	Costs in 2014$ in Consultation Capex Forecast			Allocated Costs in Nominal $ in Building Block Model		
Sub Project	**2015-2019 $000**	**2020-2024 $000**	**Total $000**	**2015-2019 $000**	**2020-2024 $000**	**Total $000**
Marine Protection	3,625	1,941	5,566	3,863	2,295	6,158
Gates	1,463	556	2,019	1,525	657	2,182
Aprons	3,309	363	3,672	3,482	417	3,899
Movement Areas	16,133	11,770	27,903	17,226	13,808	31,034
Total	**24,530**	**14,630**	**39,160**	**26,096**	**17,177**	**43,273**

Disclosure Requirement	WIAL Comment
Description of works	The on-going maintenance of all airfield asphaltic concrete surfaces, including runway, taxiways, aprons and aircraft parking stands required to accommodate safe and efficient aircraft movements, and The on-going maintenance of all marine protection structures to ensure that the integrity of the airfield civil platform is preserved, particularly from damage from the southerly storms. The most notable single projects within these programmes are a pavement overlay of the main taxiway in 2017-

Disclosure Requirement	WIAL Comment
	2018 (PSE3) and a pavement overlay of the main runway in 2021-2022 (PSE4). Both of these events are based on the expected pavement life supplemented by on-going condition checks. The last runway overlay was completed in 2008-2009.
Aims and objectives	To ensure continued operational safety, security, regularity and efficiency through asset management and compliance with CAA regulations.
Process by which need for the expenditure was determined	WIAL's airfield paved surfaces are managed under a moving 20-year Asset Management Plan, prepared by WIAL's consulting engineers, Beca. This Asset Management Plan defines the recommended activities for each of the next 20 years based on a combination of theoretical lives and actual condition checks. The AMP is updated each year based on a detailed annual inspection. Marine protection structures are inspected regularly by WIAL staff and external consultant engineers to determine the requirement for repair or replacement. Reports are prepared annually by the engineers which determine the upcoming works required.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	WIAL submitted the forecast expenditure for this programme to substantial customers as part of the capital expenditure forecast for the Pricing Period. Airlines will be involved with operational planning for future substantial projects such as taxiway or runway overlays.
Any alternative projects considered and the rationale for excluding the alternatives	New pavement technologies are continuously monitored to establish their suitability for WIAL's airfield. These include restorative coatings that might extend the life of existing pavements, and new pavement mixes. Other than these developments there are no alternative options in respect of the repair and replacement of sealed surfaces or works on the marine protections structures.
The extent to which the project is reflected in pricing	The forecast costs, including CPI escalation, detailed above are exclusively Airfield activity costs with the forecast expenditure for the next five years included in the building block model to establish the required revenue for the Pricing Period.
Any constraints or other factors on which successful completion of the project is contingent	None.

Airfield Other Works

	Costs in 2014$ in Consultation Capex Forecast			Allocated Costs in Nominal $ in Building Block Model		
Sub Project	**2015-2019 $000**	**2020-2024 $000**	**Total $000**	**2015-2019 $000**	**2020-2024 $000**	**Total $000**
Operational Compliance (including tunnel and jet blast deflectors)	6,651	2,354	9,005	6,898	2,669	9,567
Relocation Airport Fire Service	4,457	-	4,457	4,769	-	4,769
MAGS/Guard Lights	1,990	-	1,990	2,081	-	2,081
Runway Capacity Utilisation Improvements	2,014	2,650	4,664	2,198	2,997	5,195
Total	**15,112**	**5,004**	**20,116**	**15,946**	**5,666**	**21,612**

Disclosure Requirement	**WIAL Comment**
Description of works	Runway and Taxiway Improvements and Compliance Works.
Aims and objectives	To enhance the capacity and capability of the runways and taxiways, and to comply with CAA regulations.
Process by which need for the expenditure was determined	There are three notable planned activities identified in WIAL's 2030 Master Plan: ➢ Installation of jet blast deflectors at the northern and southern ends of the runways ➢ Relocating the Airport Fire Station due to it impinging on required wing-tip clearances for taxiing aircraft and being below building code seismic capacity. ➢ Installing high speed runway exits to expedite aircraft exits from the runway and thereby increase runway utilisation. An additional planned activity is triggered by a concern that has emerged regarding runway structural capability: ➢ Strengthening of the pedestrian subway crossing under the runway and taxiway due to its strength being inadequate for fully laden wide body aircraft and to meet full building code seismic requirements. An additional planned activity is triggered by a CAA and ICAO recommendations for enhanced airfield safety generated by clear airfield signage: ➢ Installing additional illuminated runway and taxiway identification signage and guard lights aimed at reducing the risk of a runway incursion.

Disclosure Requirement	WIAL Comment
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Stakeholder consultation was undertaken over an 18 month period to enable completion of WIAL's 2030 Master Plan which was published in 2010. WIAL submitted the forecast expenditure for these programmes to the Airlines as part of the capital expenditure forecast for the Pricing Period.
Any alternative projects considered and the rationale for excluding the alternatives	All of these projects are the considered outcomes that improve safety or enhance productivity.
The extent to which the project is reflected in pricing	The forecast costs shown in the table above for 2015-2019 were included in the capital expenditure forecasts for the Pricing Period.
Any constraints or other factors on which successful completion of the project is contingent	No.

Terminal South Extension

The project works proposed by WIAL are summarised in the table below with subsequent details of each individual sub project provided in the Disclosure.

	Costs in 2014$ in Consultation Capex Forecast			Allocated Costs in Nominal $ in Building Block Model		
Sub Project	**2015-2019 $000**	**2020-2024 $000**	**Total $000**	**2015-2019 $000**	**2020-2024 $000**	**Total $000**
Terminal South Development	30,812	-	30,812	31,925	-	31,925
Southern Apron Development	11,300	-	11,300	11,702	-	11,702
Total	**42,112**	**-**	**42,112**	**43,627**	**-**	**43,627**

Disclosure Requirement	WIAL Comment
Description of works	Extension of MTB to the south and reconfiguration of south and SWP and the south apron.
Aims and objectives	To increase floor area at the south end of the MTB to alleviate congestion and improve efficiency and customer experience. To reconfigure the SWP to be a security screened departure lounge servicing jet aircraft. To reconfigure the south pier to be a non-screened access to regional turboprop aircraft. To reconfigure the domestic jet and turboprop aprons to optimise aircraft parking space.
Process by which need for the expenditure was determined	Congestion has increased at the south end of the MTB since 2001 due to security screening requirements, the growth in passenger numbers and aircraft numbers on the ground during peak periods. Currently domestic departure lounges range from 20% to 63% of International Air Transport Association (IATA) recommended sizes. This has resulted in inefficient airline operations, and poor passenger experience as evidenced by below average scores for ASQ surveys. These issues were identified in the 2030 Master Plan finalised in 2010. The scope of the TSE is designed around achieving IATA Level of Service C for the predicted passenger demand and sufficient aircraft parking positions at peak periods.
Any consumer engagement undertaken as part of process and how consumer demands have	Stakeholder consultation over an 18 month period took place as input into WIAL's 2030 Master Plan. The 2030 Master Plan was used as a base to develop concept plans to expand the terminal to the south. Terminal South Expansion plans were developed in 2012 and formed the basis of on-going consultation with substantial

Disclosure Requirement	WIAL Comment
been assessed	customers through 2013. By late 2013 the concept designs were accepted by substantial customers and detail design ensued. Construction is due to commence in late 2014.
Any alternative projects considered and the rationale for excluding the alternatives	The final configuration of the southern apron was determined after extensive consultation and consideration of stakeholder feedback.
The extent to which the project is reflected in pricing	The forecast costs shown in the table above for 2015-2019 were included in the capital expenditure forecasts for the Pricing Period.
Any constraints or other factors on which successful completion of the project is contingent	Construction will be staged to ensure on-going airline operational integrity.

Other Terminal Building Development Projects

The project works proposed by WIAL are summarised in the table below with subsequent details of each individual sub project provided in the PSE Disclosure.

	Costs in 2014$ in Consultation Capex Forecast			Allocated Costs in Nominal $ in Building Block Model		
Sub Project	**2015-2019 $000**	**2020-2024 $000**	**Total $000**	**2015-2019 $000**	**2020-2024 $000**	**Total $000**
MTB Internal Optimisation – Central Hall	1,333	-	1,333	1,394	-	1,394
MTB Internal Optimisation – Building Flow	3,000	-	3,000	3,333	-	3,333
North Terminal Development – Domestic Pax Facilitation	2,000	-	2,000	2,040	-	2,040
North Terminal Development – International Expansion	17,000	-	17,000	18,887	-	18,887
Earthquake Strengthening Existing Terminal Buildings	-	20,000	20,000	-	23,234	23,234
Total	**23,333**	**20,000**	**43,333**	**25,654**	**23,234**	**48,888**

Disclosure Requirement	WIAL Comment
Description of works	On-going Terminal Building Developments.
Aims and objectives	To accommodate growth, optimise terminal space, increase operational efficiency and to maintain service quality standards for the public.
Process by which need for the expenditure was determined	There are four notable activities planned for the Pricing Period: 1. Optimisation of the MTB interior main hall by removing bulky air handler units improving circulation and generating more efficient space for passengers - $1.33m. 2. Reconfiguration of the MTB entry and lifts and stairwell access to improve passenger flows - $3m. 3. Reconfiguration of the North Pier domestic departure lounge providing more space and toilet facilities - $2m; • WIALs objective for these three projects is to improve efficiency of the terminal building for passengers, which in conjunction with TSE will enable WIAL to address its below standard terminal space (cf. IATA Service Standards) and below standard service quality outcomes in respect of passenger comfort in the waiting and gate areas (as identified in surveys). 4. Expansion of the International Terminal Building to accommodate growth at peak periods - $17m. • The international terminal has two peak periods per day when departures and arrivals processing areas can become very congested, slowing processing to unacceptable levels. The 2030 Master Plan identifies expansion growth paths for these areas. • It is anticipated that a number of processing improvements can be made to ensure optimisation of space within the current building, however it is predicted that by FY19 there will be a need to extend the building. • This project has been excluded from the PS3 capital expenditure forecast to be included in the pricing calculation and it will be recognised as a SPC project There is one more notable activity planned for the PS4 pricing period 5. Earthquake Strengthening Existing Terminal Buildings - $20m • Some of the international terminal buildings have been assessed as being in the range of 34% to 66% of New Building Standard (NBS). This is not cause for immediate safety concern or mandatory remediation; however it is planned to upgrade these areas to 100% of NBS in FY21 and FY22.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	WIAL submitted the forecast expenditure for these programmes to substantial customers as part of the capital expenditure forecast for the Pricing Period.

Disclosure Requirement	WIAL Comment
Any alternative projects considered and the rationale for excluding the alternatives	All terminal developments are preceded by a thorough assessment to ensure that existing facilities are optimised first and any expansion works are justified based on demonstrable analysis.
The extent to which the project is reflected in pricing	The forecast costs shown in the table above for 2015-2019 were included in the capital expenditure forecasts for the Pricing Period.
Any constraints or other factors on which successful completion of the project is contingent	North Terminal Development International Expansion will be predicated upon international growth and how this growth impacts upon peak periods.

South Terminal and Apron Development – Stage 2

	Costs in 2014$ in Consultation Capex Forecast			Allocated Costs in Nominal $ in Building Block Model		
Sub Project	**2015-2019 $000**	**2020-2024 $000**	**Total $000**	**2015-2019 $000**	**2020-2024 $000**	**Total $000**
Terminal South Development – Stage 2	-	15,827	15,827	-	18,625	18,625
Southern Apron Development – Stage 2	7,500	20,622	28,122	8,308	23,501	31,809
Total	**7,500**	**36,449**	**43,949**	**8,308**	**42,126**	**50,434**

Disclosure Requirement	WIAL Comment
Description of works	A second stage expansion of the terminal and apron to the south.
Aims and objectives	Expansion of the southern apron to accommodate demand from additional and larger aircraft and to achieve improved efficiencies in aircraft operations. Terminal Building changes are required to provide access to the new expanding aircraft parking apron.
Process by which need for the expenditure was determined	WIAL's 2030 Master Plan was developed following consultation with stakeholders and consideration of expert advice from airport planners including Airbiz and Beca. The 2030 Master Plan includes forecast aircraft movement assumptions growth and the associated infrastructure development required to accommodate the growth. The Master Plan identifies an aircraft parking apron growth path to the south and east, utilising land which is currently used for public car parking. Simultaneous expansion of the terminal building and associated piers is identified.
Any consumer engagement undertaken as part of process and how consumer demands have been assessed	Consultation over an 18 month period took place as input into WIAL's 2030 Master Plan. The 2030 Master Plan was used as a base to develop concept plans to expand the terminal and southern apron to the south. These plans were provided to stakeholders for comment. The forecast expenditure was provided to substantial customers during consultation. The substantial customers and other stakeholders will be consulted further during the design phases of the works to be undertaken. The proposed expenditure for the 2020-2024 pricing period will be subject to further consultation for PSE4.
Any alternative projects considered	Various planning options were considered during the development of the 2030 Master Plan. Since the Master Plan

Disclosure Requirement	WIAL Comment
and the rationale for excluding the alternatives	WIAL have worked with airlines to further develop the south apron layout in conjunction with the TSE project. This has ensured that the existing apron is optimised thereby deferring the next expansion for as long as possible.
The extent to which the project is reflected in pricing	The forecast costs shown in the table above for 2015-2019 were included in the capital expenditure forecasts for the Pricing Period.
Any constraints or other factors on which successful completion of the project is contingent	The expansion of the southern apron is dependent on forecast aircraft and passenger growth. Any impact of a slowing or change in domestic passenger growth leading to airlines operating reduced schedules and resulting in reduced aircraft movements on the Southern Apron will continue to be assessed.

Noise Mitigation Works

	Costs in 2014$ in Consultation Capex Forecast			Costs in Nominal $ in Building Block Model		
Sub Project	**2015-2019 $000**	**2020-2024 $000**	**Total $000**	**2015-2019 $000**	**2020-2024 $000**	**Total $000**
Residential Property Acquisitions	7,681	-	7,681	8,076	-	8,076

Disclosure Requirement	WIAL Comment
Description of works	Acquisition of residential properties for noise mitigation activity.
Aims and objectives	To meet noise mitigation obligations that arise following the LUMINS study.
Process by which need for the expenditure was determined	LUMINS is a project that is being undertaken by WIAL in conjunction with the airlines, BARNZ, WCC and the local Air Noise Management Committee in order to fulfil obligations arising from the Environment Court proceedings in 1997. The LUMINS study was undertaken to evaluate the impact of aircraft noise on properties surrounding the airport, noise mitigation strategies that may be necessary if the noise level was considered to be potentially harmful, and implications for property land use in the future necessary to preserve the long term operation of Wellington airport.
Any consumer engagement undertaken as part of process and how consumer demands have	Discussions undertaken between WIAL, the airlines and the local Air Noise Committee (comprised of WIAL, airlines, WCC and local residents), developed a means of responding to LUMINS. This culminated in provision of the LUMINS stage 2 report in 2009 that confirmed that noise mitigation measures were required and that these

Disclosure Requirement	WIAL Comment
been assessed	would comprise a combination of removing the most severely affected properties and insulating others to a defined maximum internal noise level. WIAL and its substantial customers also discussed the means of funding the LUMINS obligations during the consultation for PSE2. WIAL notes that there was alignment with the substantial customers concerning the requirement to address noise management issues at WIAL, and BARNZ's response to WIAL's PSE2 Revised Pricing Proposal confirmed that "*there is a high level of agreement and acceptance among the airlines over the need to develop a LUMINS solution*". Funding of the noise mitigation obligations was then established as a separate stand-alone scheme. WIAL initially forecast the property acquisition and noise mitigation activities to commence in the first year of the PSE2. However, after consideration of comments from the substantial customers, WIAL deferred commencement of the noise mitigation activities until the year commencing 1 April 2014. In the period until that date WIAL, the airlines, WCC and resident representatives will continue to develop the specific rules and processes to be applied for affected properties. WIAL has continued to propose these arrangements in PSE3 and the substantial customer submissions in the PSE3 consultation have not expressed disagreement with retention of the scheme or the funding approach. There were different options proposed concerning the timing of charges which WIAL has explained earlier in this document.
Any alternative projects considered and the rationale for excluding the alternatives	The Air Noise Committee undertook in depth investigations of the need for noise mitigation activities and the means to address identified concerns as detailed above.
The extent to which the project is reflected in pricing	The forecast costs are provided for in PSE3 as part of the stand-alone LUMINS charge.
Any constraints or other factors on which successful completion of the project is contingent	WIAL is still to agree the detailed noise mitigation process requirements with airlines and other parties. Residents not identified in the consultation may also not be satisfied with the terms of the noise mitigation arrangements offered. WIAL is currently purchasing the severely affected properties on a willing-buyer-willing-seller basis, however at some stage in the future WIAL may be required to purchase some residential properties under a compulsory acquisition process which may lead to some disagreement from property owners or tenants.

Appendix E – Price Structure – Supplementary Information

1. Introduction

In order to develop its pricing structure WIAL has had to establish detailed volume forecasts that form the basis for each charge. The detailed volume forecasts are explained in this appendix. Detailed workings are provided in the WIAL Pricing Structure Model spreadsheet, which accompanies this decision paper.

WIAL provided the airlines with the traffic forecast report prepared by PwC, which set out forecasts of Air Traffic Movements (ATM's) and gross passenger numbers for international, domestic jet and prop (refer appendix 5). PwC forecasted provide the basis for establishment of the more segmented forecasts required for the various pricing components.

2. Air Traffic Movement Forecasts

To enable forecasting of the impact of different charges particularly with regard to peak and off peak pricing, the ATM's have been segmented into time periods as follows:

- ✈ weekday peak (07:45-08:45 and 18:15-19:15);
- ✈ weekday shoulder (30 minutes either side of the peak);and
- ✈ weekday off peak and weekend movements.

Segmenting ATM's into time periods by aircraft type has been undertaken using actual airline movements for the 12-months to July 2013. The pricing structure does not adjust the differential between peak, shoulder and offpeak pricing from 2014 levels. As such the forecasts assume there will be no change in the proportion of peak flying by aircraft type (see Table 1).

		2015		2019	
		Peak	Shoulder	Peak	Shoulder
International	A320	0.7%	0.6%	0.7%	0.6%
	B738	3.6%	2.9%	3.6%	2.9%
Domestic	A320	15.1%	12.6%	15.1%	12.6%
	B733	15.1%	12.6%	15.1%	12.6%
	ATR	10.6%	8.0%	10.6%	8.0%
	Q300	19.2%	9.5%	19.2%	9.5%
	B1900D	19.5%	12.0%	19.5%	12.0%
	CV5	5.6%	3.5%	5.6%	3.5%
	C208	12.3%	13.2%	12.3%	13.2%

Table 1: Proportion of flights within each weekday time period by aircraft

2.1 Pricing Methodology

The price structure for PSE3 incorporates a transition between the current passenger based charging and the predominantly MCTOW and congestion pricing methodology. Congestion pricing is reflected in a combination of a higher MCTOW charge in the peak and shoulder than offpeak and a fixed charge. The fixed congestion charge and higher MCTOW charge differential compared with the offpeak remains constant throughout the pricing period, The shoulder price is assumed to be the average between the peak and offpeak allowing retiming of services to achieve a cost saving.

Additionally, a passenger charge is applied to broadly reflect the current cost per passenger relativities by aircraft type in the first year, but through the pricing period is used to reduce the pricing discrepancy between smaller domestic and larger international aircraft.

For larger unscheduled aircraft only a MCTOW and fixed (peak and shoulder) charge apply, with the higher MCTOW charge compared with scheduled services accounting for the additional passenger charge. The higher MCTOW charge has been determined by relating a scheduled aircraft's MCTOW with the number of passengers at 80% load factor and determining what a per tonne charge would be for an unscheduled aircraft of a similar size. This results in airfield charges for unscheduled services being equivalent to their scheduled counterparts of a similar type.

The general aviation charge of $10.46 per movement in the first year is increased by CPI with a minimum charge of $100 in the peak and $75 in the shoulder.

Forecasts of ATM's are multiplied by their relevant charge (combination of MCTOW, fixed charge, and passenger charge) by time periods to produce revenue estimates.

3. Aircraft Parking

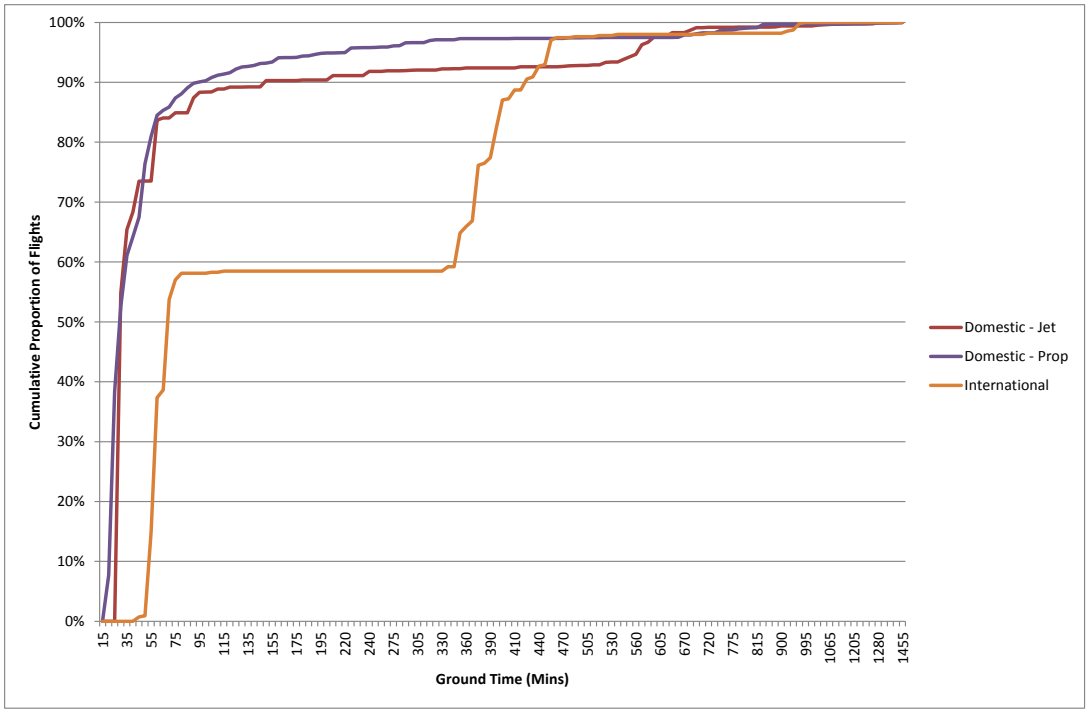
WIAL has analysed the amount of time aircraft currently spend on aircraft gates from existing ATM's. Graph 1 below shows the cumulative distribution of flights by ground time for domestic and international services. From the graph there is clearly a differing profile between domestic and international aircraft.

Domestic services generally turn-around within a short space of time:

- 53% of flights within 30 minutes
- 75% of flights within 50 minutes
- 90% of flights within 110 minutes

A large portion (around 40%) of international services overnight at Wellington airport, and so the international turnaround times are concentrated around two behaviours:

- 54% of flights within 70 minutes
- 66% of flights within 360 minutes
- 91% of flights within 425 minutes



Graph 1: Cumulative proportion of flights by aircraft and ground time

The charging structure is intended to encourage efficient use of the apron during peak times (see Table 2). The structure includes:

- A free turnaround period for parking during the weekday peak (06:00-10:00, 16:00-20:00)
  - 120 minutes for International and unscheduled
  - 60 minutes for Domestic
- Free offpeak parking
  - Overnight 20:00-06:00
  - Weekends
  - Weekdays 10:00-16:00
- A charge per hour for parking during the peak above the turnaround time (grown at CPI)
  - International $73.20/hour
  - Domestic Jet $52.29/hour
  - Domestic Prop $41.83/hour
  - Other $20.91/hour

Segment	Charging Period	2015	2016	2017	2018	2019
International	Less than 120 mins	62	62	62	62	62
	120-240 mins	11	11	11	10	10
	Greater than 240 mins	15	14	13	12	12
	Overnight mins	123	123	123	123	123
	Average Time on Ground (mins)	211	210	209	208	207
Domestic Jets	Less than 60 mins	36	36	36	35	35
	60-120 mins	4	4	4	4	4
	Greater than 120 mins	7	6	6	6	5
	Overnight mins	42	42	42	42	42
	Average Time on Ground (mins)	89	89	88	87	86
Domestic Props	Less than 60 mins	37	36	36	35	34
	60-120 mins	6	6	6	6	6
	Greater than 120 mins	8	7	7	6	6
	Overnight mins	15	15	15	15	15
	Average Time on Ground (mins)	66	65	64	63	62
Other	Less than 120 mins	44	45	45	45	45
	120-240 mins	5	5	5	5	5
	Greater than 240 mins	3	2	2	2	2
	Overnight mins	15	15	15	15	15
	Average Time on Ground (mins)	68	68	68	68	68

Table 2: Average ground time (hours) for each parking period

Revenue for parking is generated by taking the current total parking time in each charging period by aircraft, applying this to the number of aircraft movements over the pricing period, and then adjusting the time down based on the improved efficiencies outlined in Table 2. The total ground times are factored down by 20% to reflect weekend parked time, and a further 43% to reflect the time aircraft are parked during the off-peak daytime period of 10:00-16:00. Total parked times are multiplied by the pricing schedule to produce parking revenue.

4. Check-in Counters

Increasing demand for check-in facilities is forecast due to increasing passenger numbers and an increase in the number of airlines operating at the airport. However, WIAL considers that technological advances in check-in processes can compensate for much of this demand increase. WIAL does not anticipate that an expansion of check-in facilities is required in the pricing period, however increased flexibility in the use of the current facilities may be required to achieve this. WIAL therefore has decided to retain the current pricing approach for check-in facilities.

For the purposes of forecasting counter usage over the pricing period, a model based on number of passengers per flight, service time per passenger, and proportion of self check-in has been developed. Based on available data, it has been assumed that approximately 0.9 minutes in counter time per passenger (1.5 minutes international, 0.8 minutes domestic) is required on average taking into account the relatively high proportion of self-check-in (estimated 71% in 2014) through the self-service bag drop system in particular.

WIAL expects that the proportion of self check-in will increase through time as technology improves. It has been assumed that the proportion of self check-in will increase from 71% in 2014 to 84% by the end of the pricing period as passengers move to mobile and gate check-in facilities.

Forecasting of future counter requirements applies the estimate of 43,000 current counter hours, and increases this by the relevant growth rates of international and domestic passengers, and then adjusts downwards for the increase in the self check-in proportion. Table 3 shows the forecasted change in annual counter hours which shows counter usage reducing slightly despite a growth in passengers.

	2015	2016	2017	2018	2019
International	9,703	9,237	8,700	7,906	7,402
Domestic	29,211	26,726	24,064	21,511	18,854
Total	38,914	35,962	32,764	29,417	26,255

Table 3: Forecast Counter Requirement (Annual Counter Hours)

The check-in counter price is proposed to be set at $15/counter/hour (growing by CPI through the pricing period) which is considered to be at an appropriate level to incentivise airlines to utilise check in facilities in an efficient manner.

Future counter hours are multiplied by this charge to produce counter revenue.

This charge is proposed to be implemented in conjunction with Check-in Facility agreements with airlines (see Appendix 6). The agreements can estimate the charge payable for the six monthly airline seasons and establish monthly charges to apply for each six month period. WIAL and each airline would meet under the agreement to review usage and establish the charge for each period before it commenced. The agreements also establish other appropriate operating arrangements for the check in hall.

5. Incentives

5.1 Introduction

The PwC passenger forecasts assume that future network development opportunities are delivered, particularly in the case of future international growth. WIAL wishes to incentivise this growth to achieve a sustainable long term increase in passenger numbers that will ultimately benefit all passengers and airlines. It has become common in the aviation market for the development of new services to be reliant on incentives to be provided to airlines, as a way of airports sharing in the risk of new route development. Long haul services provide a good example, where a service from Wellington may not commence without a significant contribution from the airport (and regional stakeholders).

WIAL therefore considers it appropriate to offer published incentives that will be available to existing or new airlines for development of new routes and growth in capacity. This is proposed to apply to domestic and international routes with the incentive arrangements detailed in the table below.

	Qualifying Capacity		YR1	YR2	YR3
Domestic	All Pax Growth over Previous Years		50%	25%	0%
International – Short Haul	3/week	Additional capacity	50%	25%	0%
	3/week	New route to/from WLG	100%	50%	25%
International – Long Haul	All	Additional capacity	50%	25%	0%
	3/week	New route to/from WLG	100%	100%	100%

Table 4: Incentive discounts for new capacity

For the international incentive, the assumed number of extra flights on new and existing routes is multiplied by the appropriate discount rate for the type of capacity increase and year in which it occurs. These discounted flights are then multiplied by an average aircraft capacity (170 seats in the case of short-haul, 300 seats in the case of long-haul) and the number of discounted passengers determined assuming an average 80% load factor. The average airfield and terminal cost per international passenger (around $20 in 2014) is multiplied by the discounted passengers and then subtracted from the revenue line.

For domestic passengers the incentive is calculated by taking the incremental passengers between the current and previous year and applying the year 1 discount, and taking the incremental passengers between the previous year and two years before and applying the year 2 discount but commencing from 2013. This incentive is subtracted from revenue.

5.2 Volume Growth Incentive Discount

The terms and conditions are set out below:

1. Additional domestic capacity shall receive a 50% discount on MCTOW, passenger and parking charges for the first 12 months of operation and a 25% discount for the second 12 months of operation.

2. This discount shall only be applied to the incremental passengers in the given financial year exceeding the total passengers flown on domestic routes by the airline seeking the discount in the immediately preceding financial year.

3. The maximum number of passengers qualifying for the discount will be limited by the level of total market growth, being the difference in total domestic passengers between the financial year in which the discount is sought and the immediately preceding financial year.

4. Additional capacity on international short-haul routes served by existing scheduled passenger operations shall receive a 50% discount on MCTOW, passenger and parking charges for the first 12 months of operation and a 25% discount for the second 12 months of operation.

5. This discount shall only be applied to the number of passengers in the given 12 months exceeding the total passengers flown on the specific international route concerned in the immediately preceding 12-month period provided that a minimum additional average frequency of three return services per week is operated.

6. The maximum number of passengers qualifying for the discount will be limited by the level of total market growth, being the difference in total international passengers between the 12 month period in which the discount is sought and the immediately preceding 12 month period.

7. Additional capacity on international short-haul routes not currently served by scheduled passenger operations shall receive a 100% discount on MCTOW, passenger and parking charges for the first 12 months of operations, a 50% discount for the second 12 months of operations and a 25% discount for the third 12 months of operations.

8. Additional capacity on international long-haul routes served by existing scheduled passenger operations shall receive a 50% discount on MCTOW, passenger and parking charges for the first 12 months of operation and a 25% discount for the second 12 months of operation.

9. This discount shall only be applied to the number of passengers in the given 12 months exceeding the total passengers flown on the specific routes in the immediately preceding 12-month period.

10. Additional capacity on international long-haul routes not currently served by scheduled passenger operations shall receive a 100% discount on MCTOW, passenger and parking charges for the first three 12-month periods of operations provided that a minimum additional frequency of three return services per week is operated.

Appendix F – Wellington International Airport Limited ("WIAL") Schedule of Landing and Terminal Charges Effective 1 June 2014 to 31 March 2019

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

1. Charges for Operators of Passenger Services Utilising Terminal Facilities

(a) Aircraft Movement Charges[1]

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Fixed Charge[2]					
Peak[3]	$20.00	$20.00	$20.00	$20.00	$20.00
Shoulder[4]	$10.00	$10.00	$10.00	$10.00	$10.00
Other	$0.00	$0.00	$0.00	$0.00	$0.00
MCTOW Charge[2]					
0-100 Tonnes					
Peak	$4.81	$5.10	$5.13	$5.16	$5.21
Shoulder	$4.56	$4.85	$4.88	$4.91	$4.96
Other	$4.31	$4.60	$4.63	$4.66	$4.71
100+ Tonnes[5]					
Peak	$0.48	$0.51	$0.51	$0.52	$0.52
Shoulder	$0.46	$0.48	$0.49	$0.49	$0.50
Other	$0.43	$0.46	$0.46	$0.47	$0.47
Passenger Charge[6]					
International	$11.00	$10.90	$10.80	$10.70	$10.60
Domestic Jet	$4.25	$4.50	$4.75	$5.00	$5.25
Domestic Prop ≥ 10 Tonnes	$1.00	$1.25	$1.50	$1.75	$2.00
Domestic Prop < 10 Tonnes	$0.25	$0.50	$0.75	$1.00	$1.25

Notes:
1: Charges are additive
2: Per aircraft landing and departure
3: Peak defined as actual landing or take-off between 07:45-08:45 and 18:15-19:15
4: Shoulder defined as 30 minutes either side of the peak definition
5: Additional to the 0-100 tonne charge
6: Per departing and arriving passenger, as defined by the total passengers carried on board less infants, positioning crews, domestic or international transit passengers, and diverted international passengers returned to a destination (being only those diverted passengers not processed by customs)

(b) Parking Charges[1]

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Charges only apply Monday-Friday 06:00-10:00, 16:00-20:00					
International					
0-120 minutes	$0.00	$0.00	$0.00	$0.00	$0.00
120+ minutes[2]	$73.20	$75.03	$76.77	$78.31	$79.71
Domestic Jet					
0-60 minutes	$0.00	$0.00	$0.00	$0.00	$0.00
60+ minutes[2]	$52.29	$53.59	$54.84	$55.93	$56.94
Domestic Prop					
0-60 minutes	$0.00	$0.00	$0.00	$0.00	$0.00
60+ minutes[2]	$41.83	$42.87	$43.87	$44.75	$45.55

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
2: Charges are additive to the previous time segment

(c) Terminal Charges

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Passenger Charge[1]	$4.45	$4.74	$5.16	$5.53	$5.53

Notes:
1: Per departing and arriving passenger, as defined by the total passengers carried on board less infants, positioning crews, domestic or international transit passengers, and diverted international passengers returned to a destination (being only those diverted passengers not processed by customs)

(d) Check-in Facility Charges

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Desk Charge[1,2]	$15.00	$15.38	$15.73	$16.05	$16.34

Notes:
1: Charged on a per desk per hour basis.
2: Charges may be established as fixed six monthly or annual charges. See Check In Facility Terms and Conditions for more information.

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

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Passenger Charge	$0.40	$0.40	$0.32	$0.32	$0.32

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

(f) Incentives for Capacity Growth[1]

	Qualifying Capacity		Year 1	Year 2	Year 3
Domestic	All Pax Growth over Previous Years		50%	25%	0%
International – Short Haul	3 per week	Additional Capacity on Existing Route	50%	25%	0%
	3 per week	New route to/from WLG	100%	50%	25%
International – Long Haul	All	Additional Capacity on Existing Route	50%	25%	0%
	3 per week	New route to/from WLG	100%	100%	100%

Notes:
1: Incentives are discounts on all airport charges relating to the operation of the qualifying capacity.

Incentive terms and conditions:

1. Additional domestic capacity shall receive a 50% discount on MCTOW, passenger and parking charges for the first 12 months of operation and a 25% discount for the second 12 months of operation.

2. This discount shall only be applied to the incremental passengers in the given financial year exceeding the total passengers flown on domestic routes by the airline seeking the discount in the immediately preceding financial year.

3. The maximum number of passengers qualifying for the discount will be limited by the level of total market growth, being the difference in total domestic passengers between the financial year in which the discount is sought and the immediately preceding financial year.

4. Additional capacity on international short-haul routes served by existing scheduled passenger operations shall receive a 50% discount on MCTOW, passenger and parking charges for the first 12 months of operation and a 25% discount for the second 12 months of operation.

5. This discount shall only be applied to the number of passengers in the given 12 months exceeding the total passengers flown on the specific international route concerned in the immediately preceding 12-month period provided that a minimum additional average frequency of three return services per week is operated.

6. The maximum number of passengers qualifying for the discount will be limited by the level of total market growth, being the difference in total international passengers between the 12 month period in which the discount is sought and the immediately preceding 12 month period.

7. Additional capacity on international short-haul routes not currently served by scheduled passenger operations shall receive a 100% discount on MCTOW, passenger and parking charges for the first 12 months of operations, a 50% discount for the second 12 months of operations and a 25% discount for the third 12 months of operations.

8. The discount shall only be applied to the number of passengers in the given 12 months exceeding the total passengers flown on the specific International route concerned in the immediately preceding 12-month period provided that a minimum additional average frequency of three return services per week is operated.

9. The maximum number of passengers qualifying for the discount will be limited by the level of total market growth, being the difference in total international passengers between the 12 month period in which the discount is sought and the immediately preceding 12 month period.

10. Additional capacity on international long-haul routes served by existing scheduled passenger operations shall receive a 50% discount on MCTOW, passenger and parking charges for the first 12 months of operation and a 25% discount for the second 12 months of operation.

11. This discount shall only be applied to the number of passengers in the given 12 months exceeding the total passengers flown on the specific routes in the immediately preceding 12-month period.

12. Additional capacity on international long-haul routes not currently served by scheduled passenger operations shall receive a 100% discount on MCTOW, passenger and parking charges for the first three 12-month periods of operations provided that a minimum additional frequency of three return services per week is operated.

13. For the avoidance of doubt, the incentives for capacity growth do not apply for LUMINS or check in facility charges.

(g) Provision of Airline Information

1. Airlines will advise WIAL of passenger numbers, scheduled and actual arrival and departure times, aircraft registration, and aircraft MCTOW for services into and out of WIAL the previous calendar month by close of business on the third business day of the new month. Information will be provided in the form attached, or a suitable equivalent approved by WIAL.

2. If WIAL has concerns over the accuracy of the information:

   - WIAL will convey its concerns to the relevant airline and that airline shall respond within five business days.
   - If after receipt of the airline response WIAL retains its concerns WIAL may arrange for the airline data to be audited. If the audited result varies from the airline data by more than 2% the costs of the audit will be met by the airline.

   The airlines will also provide this information on a daily basis, by way of daily data downloads, in a format and timeframe specified by WIAL.

3. Charges in relation to international diverts to Wellington will be applied as follows:

   - Where any passenger remains in the international facilities and return to the original destination –as for Operators of Non Passenger Services, charge only.
   - Where passengers leave the aircraft and are processed through customs - full aircraft movement and terminal charges.

4. If an airline does not provide passenger and movement numbers WIAL may make its own assessment of an airline's information for the relevant month and issue an invoice accordingly. WIAL will issue an adjusted invoice when the airline subsequently advises its actual passenger information. The invoices will be payable in accordance with WIAL's Terms of Trade.

5. In addition to the audit referred to in paragraph 1 above WIAL may arrange an annual audit of passenger information. If the audited result varies from the airline data by more than 2% the costs of the audit will be met by the airline.

2. Charges for Operators not Using Terminal Facilities

(a) Aircraft Movement Charges[1]

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Fixed Charge[2]					
Peak[3]	$20.00	$20.00	$20.00	$20.00	$20.00
Shoulder[4]	$10.00	$10.00	$10.00	$10.00	$10.00
Other	$0.00	$0.00	$0.00	$0.00	$0.00
MCTOW Charge[2]					
0-100 Tonnes International					
Peak	$24.61	$24.72	$24.57	$24.42	$24.29
Shoulder	$24.36	$24.47	$24.32	$24.17	$24.04
Other	$24.11	$24.22	$24.07	$23.92	$23.79
100+ Tonnes[5] International					
Peak	$2.46	$2.47	$2.46	$2.44	$2.43
Shoulder	$2.44	$2.45	$2.43	$2.42	$2.40
Other	$2.41	$2.42	$2.41	$2.39	$2.38
0-100 Tonnes Domestic Jet					
Peak	$12.46	$13.20	$13.68	$14.16	$14.66
Shoulder	$12.21	$12.95	$13.43	$13.91	$14.41
Other	$11.96	$12.70	$13.18	$13.66	$14.16
100+ Tonnes Domestic Jet					
Peak	$1.25	$1.32	$1.37	$1.42	$1.47
Shoulder	$1.22	$1.29	$1.34	$1.39	$1.44
Other	$1.20	$1.27	$1.32	$1.37	$1.42
0-100 Tonnes Domestic Prop					
Peak	$6.61	$7.35	$7.83	$8.31	$8.81
Shoulder	$6.36	$7.10	$7.58	$8.06	$8.56
Other	$6.11	$6.85	$7.33	$7.81	$8.31
100+ Tonnes Domestic Prop					
Peak	$0.66	$0.73	$0.78	$0.83	$0.88
Shoulder	$0.64	$0.71	$0.76	$0.81	$0.86
Other	$0.61	$0.68	$0.73	$0.78	$0.83

Notes:
1: Charges apply for aircraft with MCTOW greater than 2 tonnes, and are additive
2: Per aircraft landing and departure
3: Peak defined as actual landing or take-off between 07:45-08:45 and 18:15-19:15
4: Shoulder defined as 30 minutes either side of the peak definition
5: Additional to the 0-100 tonne charge

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
General Aviation[1]	$10.46	$10.72	$10.97	$11.19	$11.39

Notes:
1: Charges apply for aircraft with MCTOW less than 2 tonnes, and are changed per aircraft landing and departure. A minimum charge of $100 per movement (increased by CPI) applies in the peak, and $75 per movement applies in the shoulder. A minimum monthly charge of $40.00 per month (increased by CPI) applies.

(b) Parking Charges[1]

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Charges only apply Monday-Friday 06:00-10:00, 16:00-20:00					
0-120 minutes	$0.00	$0.00	$0.00	$0.00	$0.00
120+ minutes[2]	$20.91	$21.44	$21.93	$22.37	$22.78

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

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

	1 June 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
MCTOW less than 2tonnes	$1.78	$1.78	$1.78	$1.78	$1.78
MCTOW 2- 30 tonnes	$8.38	$8.38	$8.38	$8.38	$8.38
MCTOW 30+ tonnes	$56.71	$56.71	$56.71	$56.71	$56.71

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

3. Terms of Trade for Payment of Invoices

(a) Payment Terms

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

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

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

(b) Interest on Overdue Amounts

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

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

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

(c) Rate of Interest and Costs

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

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

4. Service Quality and Compliance Reporting

(a) Service Quality Reporting

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

(b) Compliance Reporting

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

Interruptions:

Airlines to advise WIAL of:

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

On Time Departure Delays:

Airlines to provide WIAL with:

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

Passenger Data:

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

An Example of the Provision of Airline Information for Passenger Services

Airline: _____

for the Month of: _____

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

Note:

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

Signed by: _____

Title: _____

Date: _____