

APPENDIX 1

WIAL REVIEW OF OPERATING EXPENDITURE

This review is presented in four parts:

- A. Overview of WIAL's Historical Expense Performance
- B. Explanatory Comments on WIAL's Expense Forecasts for Consultation
- C. Forecasts and Illustrations
- D. Overview of WIAL's Expense Allocation Methodology

Introduction

This paper provides an historical overview of WIAL's annual expenditure since corporatisation and presents a forecast of expenses for the ten years following expiry of the Deed.

A. Overview of WIAL's Historical Expense Performance

WIAL's total operating expenses over the past 10 years reflect four phases in the company's history.

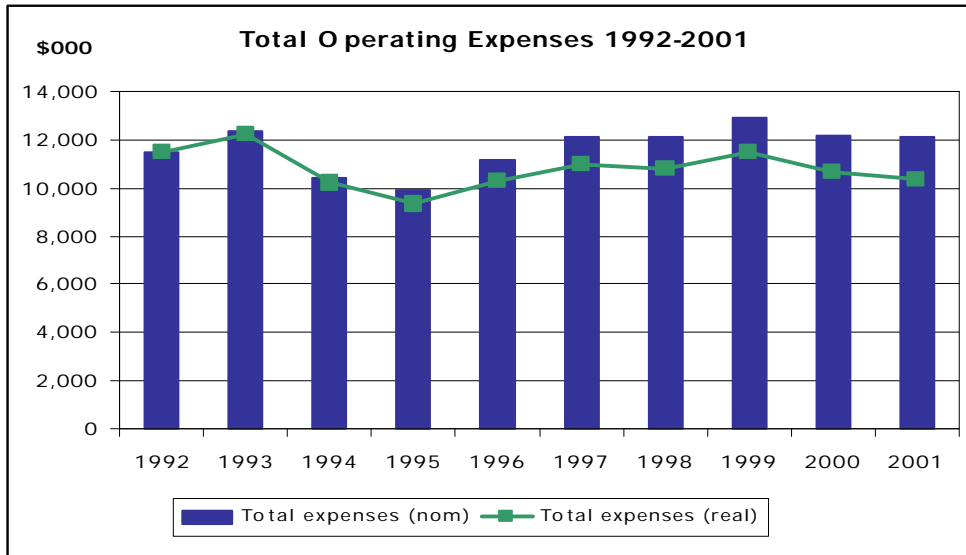
- (a) Establishment 1990–1993
- (b) Consolidation 1994–1995
- (c) Terminal area development 1996-1999
- (d) Consolidation 2000-

The table and subsequent graphs below show total expenses in nominal and real terms since 1992 (1999 figures are annualised).

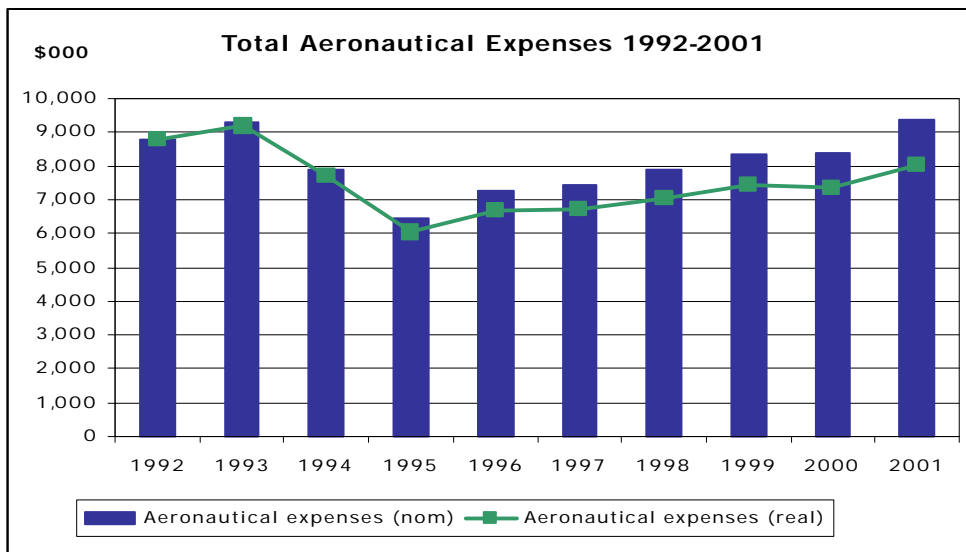
EXPENSE AND EFFICIENCY WORKSHEET

Financial Year Ended	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total expenses (nom)	11,504	12,386	10,443	9,948	11,168	12,146	12,092	12,905	12,153	12,128
Total expenses (real)	11,504	12,263	10,207	9,349	10,270	10,972	10,783	11,519	10,688	10,349
Aeronautical expenses (nom)	8,807	9,296	7,875	6,465	7,252	7,423	7,911	8,357	8,365	9,388
Aeronautical expenses (real)	8,807	9,204	7,697	6,076	6,669	6,705	7,054	7,460	7,356	8,011
Total employees	60.0	56.5	88.0	86.0	95.2	103.6	106.5	93.7	79.2	70.0
Aeronautical employees	44.0	41.0	72.0	70.0	75.0	82.0	85.0	75.0	74.0	60.7
Total passengers	2,736	2,911	3,092	3,283	3,253	3,348	3,504	3,575	3,613	3,677
Per Pax Aeronautical Expense (Nom)	3.22	3.19	2.55	1.97	2.23	2.22	2.26	2.34	2.32	2.55
Per Pax Aeronautical Expense (Real)	3.22	3.16	2.49	1.85	2.05	2.00	2.01	2.09	2.04	2.18

Note 1999 figures are annualised



The equivalent graph for the aeronautical business is

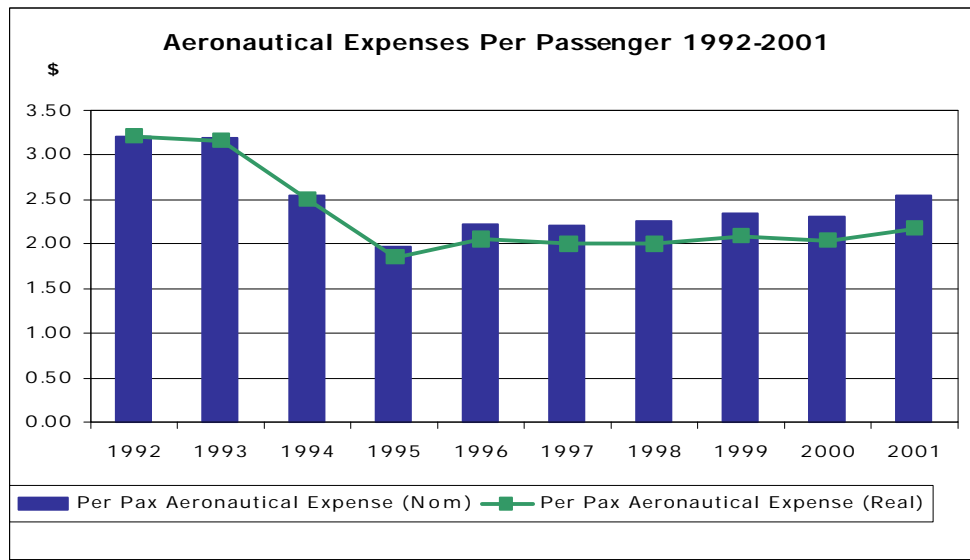


The relative financial performance statistics (\$000) are shown in the table below.

	1992	2001	Variance	Percent
Total nominal expense	11,504	12,128	624	5.4
Total real expense	11,504	10,349	(1,155)	(10.0)
Aeronautical nominal expense	8,807	9,388	581	6.6
Aeronautical real expense	8,807	8,011	(796)	(9.0)
Aero nominal expense per pax	3.22	2.55	(0.67)	(20.8)
Aero real expense per pax	3.22	2.18	(1.04)	(32.3)

Aeronautical expenses for 2001 include a provision for doubtful debts of \$695,000 for Tasman Pacific Ltd and \$539,000 for expenses incurred for the Commerce Commission Inquiry.

The aeronautical costs per passenger since 1992 are shown below



With respect to the aeronautical business the table and graphs demonstrate clear efficiency gains. This has come about in three phases

- (a) Establishment 1990–1993 – capture of Corporatisation efficiencies and negotiation out of inefficient contracts, in particular that relating to airport fire services
- (b) 1994 onwards – introduction of new business practices and a policy of contestable contracting for most cost streams.
- (c) 1999 onwards – completion of TAD with some reduction in staff expenses as a result

1. Cost management initiatives

The 2001 draft disclosure accounts show operating costs of (\$000) \$9,460 for the aeronautical business.

This is derived as follows

	\$000
Total company operating costs	\$12,128
Total aeronautical operating costs	\$ 9,360
<i>comprising</i>	
Direct costs	\$ 7,120
Maintenance overhead	\$ 383
Corporate overhead	\$ 1,957
	\$ 9,460

Of the direct costs of (\$000) \$7,120 five items make up 89% of the total. These are

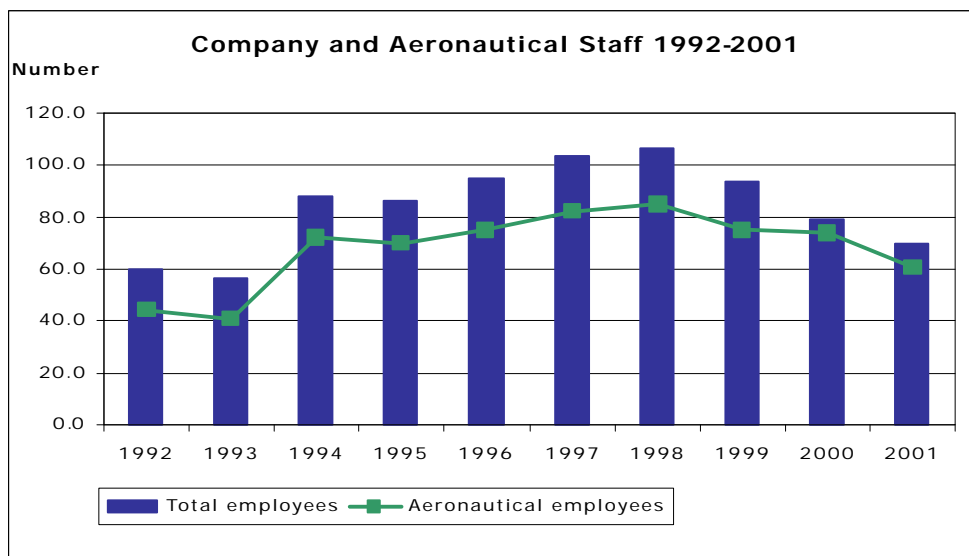
Employee remuneration and benefits \$2,400

Repairs and maintenance	\$1,162
Services and Utilities (Energy, rates, cleaning telephones)	\$1,511
Commerce Commission Inquiry Costs	\$ 539
Provision for Doubtful Debts	\$ 695

For each of these WIAL has either introduced contestability and/or management processes to enhance efficiency.

2. Employee remuneration

The major post-corporatisation efficiency gain is shown by referring to the graph below showing total staff and comparing this to the graph of total aeronautical expenses.



What the graph shows is that staff levels in the aeronautical business increased from 44 to 74 in the period 1992-2000. At the same time aeronautical costs fell in nominal and real terms..

This was due to WIAL bringing the airport fire services contract in house. In 1993 the contract cost \$3.6m. In 2000 the equivalent cost would be at least \$1-\$1.5m less than this.

During the period costs were falling WIAL achieved an ISO certification for the airport fire service, introduced new compliance management systems consistent with *CAA Rules* and safely implemented the reconstruction of the eastern apron.

3. Repairs and maintenance

All airside repairs and maintenance, including the provision of engineering advice has been contracted out under competitive tender.

Activity	Contestability elements
Engineering advice	“In house” engineer is contract position reflecting seasonal nature of work. Engineering advice contract competitively tendered

Facilities management	Competitively tendered contracts implemented for key facilities including airbridges, lifts and escalators, building systems, fire systems and housing stocks.
Minor maintenance	Grounds maintenance tendered to outside contractors
Minor works	Annual bundle of minor works (\$100-150k) tendered every two years
Major works	Major work contracts (\$50K and above) are competitively tendered

Because the contractor market in Wellington is relatively thin, WIAL has had to be innovative in its contractor relationships to ensure ongoing competitive pricing. This is particularly an issue for seawall maintenance where there is only one supplier.

The pattern of expenditure for the movement areas (runway, taxiway, stub ways and sea protection) is now reasonably well established and predictable.

For the gates and apron the period 1996-1999 saw substantial capital investment. The level of maintenance over the next 5-10 years will consequently be lower.

Contracts for the new terminal have been implemented in the last year as warranty periods have expired. This has resulted in an increase in costs in some areas.

The annual scope of works is determined with reference to the rolling ten-year works forecast supplemented with an annual inspection.

3. Insurance

All insurance is ordered through brokers. For the most part it is placed offshore.

4. Service and Asset Quality

The evidence above clearly shows reduction in costs. There has also been an increase in service quality during the same period.

Area	Quality enhancement
Airport fire	ISO 9001 certification Enhanced fuel spill response capabilities Introduction of computerised emergency alerting system
Airside services	Introduction of aerodrome certification QA manuals Successful outcome from all CAA audits
Runway	Re-sealing, re-shaping of runway to comply with CAR139.06 and grooving of the full length
Taxiways	Progressive programme of reseal for all taxiways
Apron & gates	Substantial reconstruction and re-alignment of the majority of gate positions

To conclude the airfield and terminal assets are in substantially better shape than immediately post corporatisation, there is clear evidence that it is better managed, and the operational expenses per passenger have declined by 32.3%.