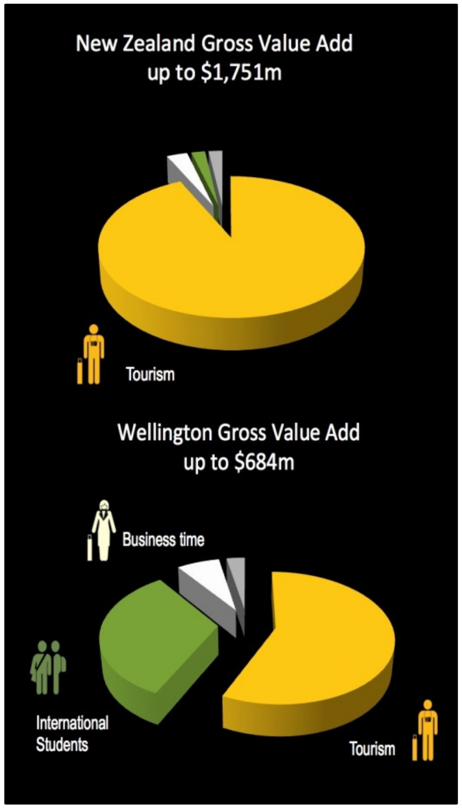
Commerce Commission – IM Review Forum 30 July 2015
Proposed Extension of Wellington's Runway

Background

- WIAL progressing a submission to EPA to obtain a resource consent for a 15 year option to extend its runway
- 355 metre extension to the south to accommodate long haul flights by modern jet aircraft
- Economic assessment undertaken by Ernst and Young - direct economic benefits up to $1.7b for NZ and Wellington region $684m
- Cost benefit analysis being prepared by Sapare now that construction and environmental costs have been assessed
- InterVISTAS confirmed viable market and routes for airlines
- Extensive stakeholder consultation expected on consent
- First step is resource consent, next steps (provided approved) are funding and ongoing discussions with airlines
- Requires external support from central and/or local Government



AAA Consultation

For PSE3

- No runway extension costs were included in PSE3 pricing by WIAL as part of AAA consultation

- Resource consent costs were forecast but specifically excluded from PSE3 (expected WIAL costs $2.9m) – *WIAL risk should consent not be approved*

Major Capex Project

- Scale of project requires AAA consultation with airlines separate from five yearly pricing consultation

- Estimated $300m runway extension costs - external funding yet to be determined (expected to be circa 80% external funding)

- An array of issues will be addressed as part of the resource consent process

- WIAL expects that the project will have significant oversight and interest from the Government and other stakeholders

- Reliant on public funding which will require economic justification - *WIAL and funding partners risk should airlines not deliver forecast services over the long term*

Approach Under IMs

- Resource consent costs currently held as work in progress and excluded from RAB since works not commissioned
- Construction of runway expected to be completed in approx 5-7 years post resource consent approval
- Construction costs would be included in RAB once asset commissioned
- Per the IMs the asset value to be recorded in RAB should be the net amount invested by WIAL

Approach Under IMs

- Per the IMs the value of a commissioned asset is set out in section 3.9(1):

(h) an asset in respect of which capital contributions were received, where such contributions do not reduce the cost of the asset when applying GAAP, is the cost of the asset by applying GAAP reduced by the amount of the capital contributions; and

(i) a vested asset in respect of which its fair value is treated as its cost under GAAP, must exclude any amount of the fair value of the asset determined under GAAP that exceeds the amount of consideration provided by the airport

Where:

(a) 'capital contributions' means money or the monetary value of other consideration charged to or received from consumers or other parties for the purposes of asset construction or enhancement; and

(b) 'vested asset' means an asset, associated with the supply of specified airport services, received by an airport-

(i) without provision of consideration; or

(ii) with provision of nominal consideration.

Prospective Charging

- Charging structure yet to be discussed or consulted with airlines
- First step is resource consent, next steps (provided approved) are:
  - Confirmation of funding
  - Consultation with airlines on charging/pricing approach and in consideration of market demand
- Charges dependent on level of WIAL funding and external contribution from central and/or local Government
- WIAL expects main beneficiaries of an extension would be long haul operators ie new routes not currently operating from WIAL
- However, there will also be incremental benefits for existing airlines such as elimination of payload restrictions and enabling of other short haul routes
- Extension will facilitate more traffic such that the increase in asset base will be offset by an increase in traffic – existing users will not pay more than they would without the extension

Prospective Charging

- If WIAL uses its historic building block approach to charges it will need to use, amongst other factors, an appropriate WACC and price path
- These will be determined following extensive consultation with airlines and considerations include:
  - Regulatory regime - Commission's IMs and ID
  - Cost recovery over a longer time period ie beyond standard 5 year pricing period
  - Transition of the costs of construction into the pricing asset base over time ie beyond date of completion and being in use
- It is expected that airlines operating new routes will require incentives over and above published incentives - current published incentives for long haul new routes is 100% rebate for first three years

Next Steps

- Submit resource consent in late 2015 – thereafter expecting a 9 month EPA process
- Ongoing stakeholder and AAA consultation as part of resource consent process
- Provided resource consent approval, next steps will be progressing funding and discussions with airlines