

SERVICE AND PRICING FRAMEWORK REVIEW



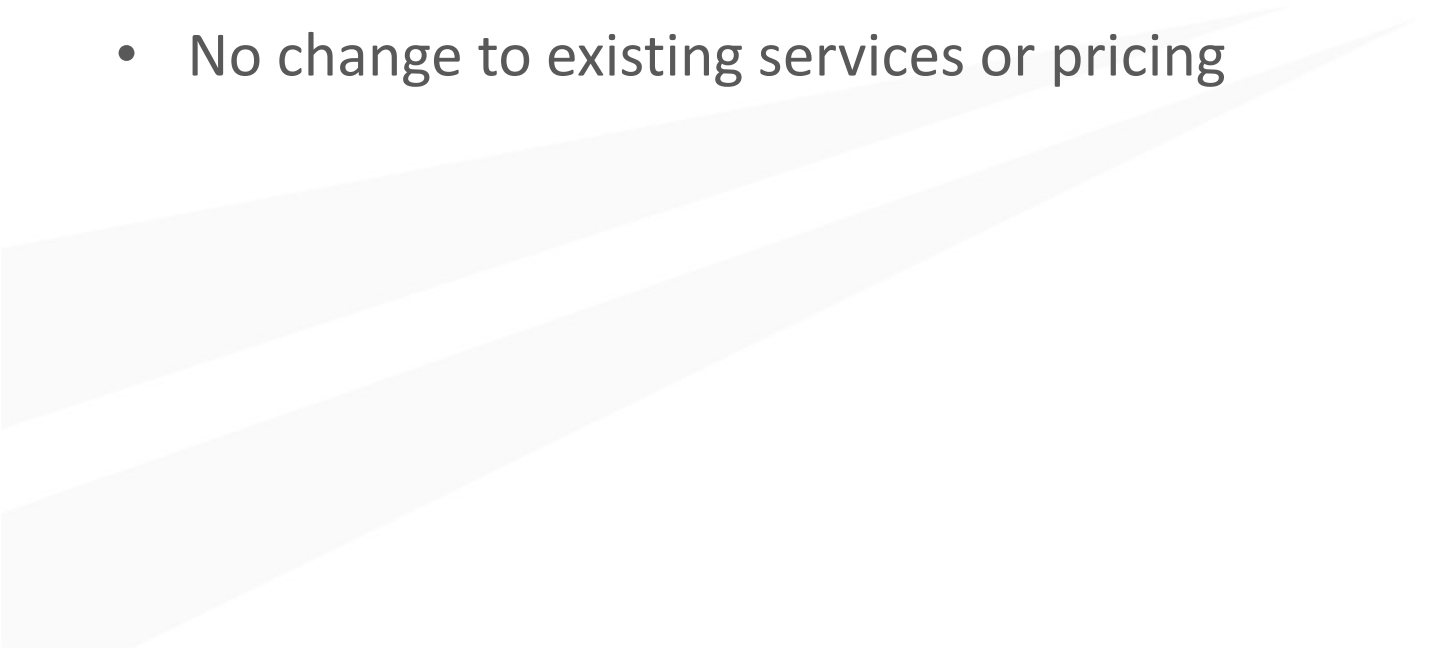
AIRWAYS
making your world possible

Today's presentation



- Airways' Team
 - Lew Jenkins, GM ANS Operations
 - Bryan Lau Young, Acting CFO
- Introduction
- Service Framework
- Pricing Framework
- Questions and Answers

Beyond July 2013...

- Current Agreement to June 2013
 - Changes to Commercial Environment
 - New methodology:
 - **Service Framework**
 - **Pricing Framework**
 - No change to existing services or pricing
- 

Airways' Changing Commercial Environment

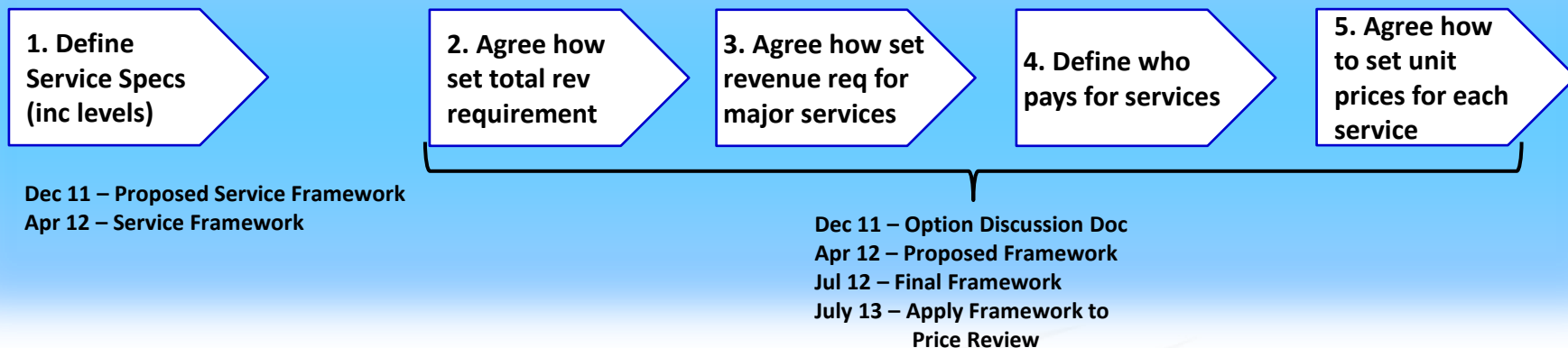
	1990s-2000s	2009 - Today
Traffic growth	✓ ✓	✓
Fuel Prices	Oil \$40 a Barrel	Oil \$110 a Barrel
Technology	Legacy, existing low investment	New Technology (Flow Mgmt, GNS, ADSB)
ANSP cost consolidation	✓ ✓	✗
Airport services	Bespoked	Service standards
Airways' pricing	Customer rebates, price freezes	??

Refreshed, Transparent Service & Pricing Frameworks

Objective: Provide airport, airline and GA customers with a clear suite of services, committed service levels and simpler, transparent prices

Service Framework

Pricing Framework



Services:

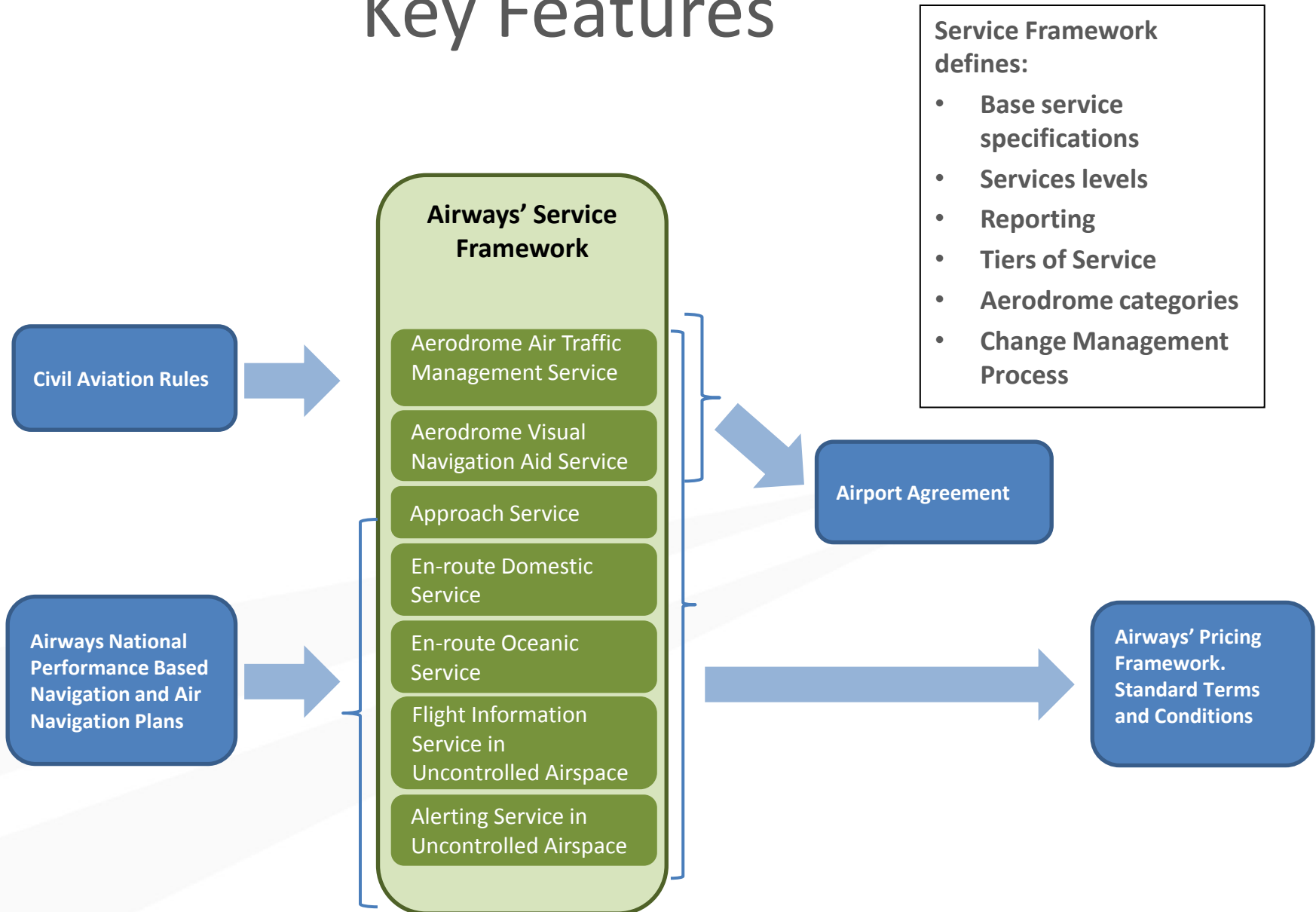
- Aerodrome – Air Traffic Management Service
- Aerodrome – Visual Nav Aid Service
- Approach Service
- En-route Domestic Service
- En-route Oceanic Service
- Area Flight Information Service in uncontrolled airspace
- Alerting Service in uncontrolled airspace

Customer Benefits

- Service focus
- Accountability
- Simpler pricing
- Transparent pricing

Service Framework

Key Features



Key Features: Service Principles

Airways considers a service, or a component of a service, should be included in the Service Framework when:

- it contributes to a **safe and reliable** Air Traffic Service, or
- it ensures **regulatory compliance** with relevant CAA NZ (Civil Aviation Authority of NZ) Rule Part Certifications held by Airways, and/or
- it **aligns with Airways' other services and ATS expertise** (eg it has greater synergy with Airways capabilities than with Airport Company capabilities).

Consistent with our obligations as an SOE, Airways is required to make a commercial rate of return on its activities.

Key Features: Aerodrome Categories

Aerodrome Category	Aerodrome Sub-category	Minimum Number of Aircraft Movements at an Aerodrome	Maximum Number of Aircraft Movements at an Aerodrome
Main Trunk Aerodromes	A	Auckland, Wellington, Christchurch No maximum – airports will be classified under sub category A if/when designated as an international airport by ICAO	No maximum
Attended Regional Aerodromes	B	Either >120,000 movements p.a., or >20,000 RPT movements p.a.	No maximum
	C	Either >80,000 movements p.a., or >15,000 RPT movements p.a.	Either 120,000 movements p.a., or 20,000 RPT movements p.a.
	D	Either >50,000 movements p.a. , or >10,000 RPT movements p.a., or >250,000 RPT passengers p.a., or if below above criteria and has International Jet Traffic	Either 80,000 movements p.a., or 15,000 RPT movements p.a.
Unattended Aerodromes	E	Either > 40,000 movements p.a., or > 7,500 RPT movements p.a.	Either 50,000 movements p.a. , or 10,000 RPT movements p.a., or 250,000 RPT passengers p.a., or if below above criteria and has International Jet Traffic
	F	>2,000 RPT movements p.a.	Either 40,000 movements p.a., or 7,500 RPT movements p.a.

- Used as a guide
- Other complexity factors
- Category determines base Aerodrome service levels

Challenges



- **Services at Unattended Aerodromes**
- **Enhanced services initiated by Customers**
- **Exceptions to the base service**
- **Overs and unders**
- **GNSS**

Services at Unattended Aerodromes

Year ending June 2011	
Unattended Aerodromes with IFR Movements	>70
Unattended Aerodromes with RPT movements	27
Airways owned Slope Guidance	5
Airways owned Runway and or Taxiway lights	3
Airways Conventional Nav Aids	13

- **Current services vary**, consist of procedure design, Visual Nav Aids, and Electronic Nav Aids
- **Low volumes** result in **high prices**
- **Airport co** can often provide cheaper Visual Nav Aid service
- **Visual Nav Aids** ageing, and Electronic Nav Aids will need replacement
- **Issues** – (i) Base /minimum service vs bespoke?
- (ii) Volume threshold cut-off
- (iii) Services need to be clarified at some Aerodromes.

Services at unattended Aerodromes - Proposal



- **Base Service**
 - > 2,000 RPT movements p.a.
 - Slope Guidance + Navigation Procedures
- **Additional Features / Services**
 - Follow change management process
- Still in discussion with NZ Airports
- Airways proposes to:
 - Continue existing Visual Nav Aid and Electronic Nav Aid services (unless otherwise agreed)
 - Clarify with Airport co – Navigation Procedures requirements

Service Framework Summary



Next Steps

Proposed Service Framework
(December 2011)

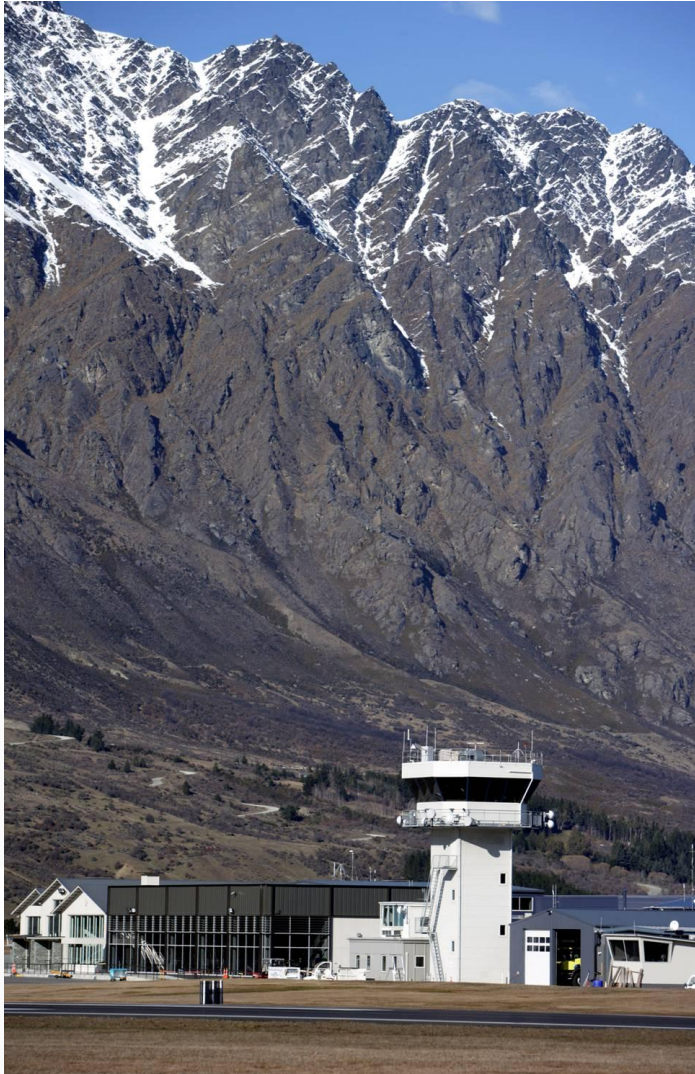
Feedback (20 Feb 2012)

Final Service Framework (Apr 2012)

On-going reporting and review (2012 and beyond)

Pricing Framework

Airways Pricing Framework



Unregulated

Airways Pricing Framework includes:

- Pricing principles
- Pricing methods (Standard Terms and Conditions)
- Pricing processes (periodic review)
- Performance reporting

**We are NOT reviewing price levels
– prices are set until June 2013**

Current Pricing Structure

Our current pricing methods / structure is complex:

- Price dimensions by service, by location, by aircraft weight. Discounts available to various tickets.

Airways' current Approach unit pricing formula

Unit price = ((i) **Base Component** + (ii) **Weight Component**) x (iii) **IFR Factor**

Where:

The **Base Component** is determined by the aerodrome category and the weight of an aircraft. There are six weight bands for each category, each having its own base component.

The **Weight Component** is calculated as

For aircraft under 2,000kg the Weight Component is nil

For aircraft over 2,000kg and less than 30,000kg the Weight Component is $(\text{MCTOW} - 2,000\text{kg}) \times \text{weight factor}$.

For aircraft over 30,000kg the Weight Component is the square root of $(\text{MCTOW} - 2,000\text{kg}) \times \text{weight factor}$.

The *weight factor* is determined by the aerodrome category and the weight of an aircraft. There are four weight bands for each location.

The IFR Factor is determined by an aircraft's weight. There are six weight bands, each having its own IFR factor. The factor only applies to aircraft between 2,000kg and 7,999kg.

Aerodromes in the Approach Service unit pricing tables are grouped into seven categories: Auckland, Wellington, Christchurch, Kapiti, Queenstown, Other Attended, Unattended.

Pricing Framework – drivers for change

- Since the Global Financial Crisis – real revenue has been flat (2011 real same as 2007). Now **reliant on price increases**.
- Current pricing structure is **complex**
- Some **services not captured** in the current framework
- Costs of services have changed at different rates – **some rebalancing needed**
- Changes to the **core technology**



Pricing Framework Discussion Document - Features

1 Pricing principles

What pricing principles underpin the framework?

- 1.Be predictable, consistent & durable
- 2.Be transparent & practicable
- 3.Be cost reflective
- 4.Recognise differences in value to customers
- 5.Be commercially sustainable
- 6.Encourage efficiency & innovation
- 7.Comply with regulation

2 Overall revenue

How is a commercially sustainable revenue set?

Overall revenue method

- 1.Market Based Pricing
- 2.Cost Based Pricing

Incentives

- 1.Enhanced service
- 2.Benchmarking
- 3.Multi year price
- 4.Scorecard
- 5.Efficiency incentive rate
- 6.Capitalise Intangibles

Risk management

- 1.Reflected in WACC
- 2.Rate stabilisation fund
- 3.Shareholder funding
- 4.Next year wash-up
- 5.Within cycle reviews
- 6.Flat fees
- 7.Pass through & indexing

3 Overall revenue by service

How is the overall revenue split by service and location?

FIS – Uncontrolled

- 1.Bundle enroute
- 2.New charge
- 3.Bundle CAA registration
- 4.Surcharge on Airways' prices
- 5.Exit the service

Aerodrome & Approach

- 1.Location Pricing
- 2.Network Pricing
- 3.Cluster Pricing
- 4.Large Airport Surcharge

4 Service revenue by customer

Who uses and should pay for each service?

Complex GA pricing

- 1.Full featured, full price
- 2.Cheap & Cheerful

Unbilled Service - circuits

- 1.No charge
- 2.Movements priced as landings
- 3.Movements price lower than landings

Other Unbilled Service in controlled airspace

- 1.No charge
- 2.Movements priced as landings
- 3.Movements price lower than landings

5 Unit prices

How are prices determined?

Review the link between weight & price

- 1.Number of passengers/ value of freight
- 2.Aircraft weight
- 3.Movements

Aerodrome & Approach Simplification

- 1.Reduce weight bands
- 2.Minimum price
- 3.Simplify formula

Enroute & Oceanic Simplification

- 1.Simplify rate structure
- 2.Simplify formula

6 Pricing cycle

When is the framework applied (the pricing & reporting cycle)?

Frequency

- 1 Year
- 3 Year
- 5 Year

Long term reporting

Performance reporting

7 Transition

What will be the transition to the new framework?

Speed of transition

- 1.Big Bang
- 2.One price cycle
- 3.Capped maximum % change

Summary

- Service and Pricing Framework Review comprises two inter-linked streams – the Service Framework and the Pricing Framework
- Aimed at defining Airways' services, who should pay for those services and establishing a simplified and transparent pricing structure
- It's NOT about increasing revenue as prices are set until June 2013; it's about updating the existing framework to reflect changing economic environment, new technology and strategic focus
- Airways is committed to a fully consultative process and ensuring customers are well informed of the proposals and given every opportunity to influence the outcome.
- Information is available on Airways' Website (www.airways.co.nz)

Questions?



