

Queenstown Aerodrome Price Change Proposal (for Aircraft over 5 Tonnes)

2 September 2011

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1 Background

1.1 In response to a request from Queenstown Airport Corporation Limited and aircraft operators in Queenstown, Airways Corporation of NZ Ltd (Airways) has installed runway lights at Queenstown Airport. The installation of these lights will enhance safety during daytime operations. Airways has installed the following assets:

- Runway Threshold identifier lights (REILS/strobes) at both the 05 and 23 thresholds.
- High Intensity Runway Edge Lighting
- High Intensity Threshold Lighting
- High Intensity Threshold Wing Bar Lighting
- High Intensity Runway End Lighting
- Illuminated Wind Indicators
- Starter Extension End Lights

1.2 Airways is now embarking on the process of consulting with all aircraft operators at Queenstown Airport in respect of proposed changes to Airways' charges required to recover the capital cost and ongoing operating cost of the new runway lights. The proposed changes are detailed in section 2 below with supporting financial information in section 3.

2 Proposed changes to Airways' Charges at Queenstown Airport

2.1 Airways is proposing to increase its Queenstown aerodrome service charge by 36.3% for aircraft over 5 tonnes to recover the cost of the recently installed runway lights.

The proposed charges have been set at a level that will enable Airways to recover:

- a. Airways capital costs (depreciated over a period up to 15 years)
- b. Airways ongoing operating costs
- c. Airways cost of capital

2.2 The current Queenstown aerodrome service charges (1 July 2011) are calculated by application of the formula set out in Airways' published Standard Terms & Conditions for the provision of Airways Services (the Standard Terms) and using the base and weight charges detailed in the following table:

| | 0 – 680 Kgs | 681 – 1,999 Kgs | 2,000 - 5,000 Kgs | 5,001 – 7,999 Kgs | 8,000 – 30,000 Kgs | 30,0001+ Kgs |
|--|----------------|--------------------|----------------------|----------------------|--------------------------|-----------------|
| Queenstown aerodrome base charge | \$3.80 | \$7.50 | \$6.40 | \$9.27 | \$9.27 | \$9.27 |
| Queenstown aerodrome weight charge | N/A | N/A | \$0.00232 | \$0.00337 | \$0.00337 | \$0.56342 |

2.3 The proposed new base and weight charges (from which the Queenstown aerodrome service charges would be calculated from 1 December 2011), are detailed in the following table:

| | 0 – 680 Kgs | 681 – 1,999 Kgs | 2,000 - 5,000 Kgs | 5,001 – 7,999 Kgs | 8,000 – 30,000 Kgs | 30,0001+ Kgs |
|--|----------------|--------------------|----------------------|----------------------|--------------------------|-----------------|
| Queenstown aerodrome base charge | \$3.80 | \$7.50 | \$6.40 | \$12.64 | \$12.64 | \$12.64 |
| Queenstown aerodrome weight charge | N/A | N/A | \$0.00232 | \$0.00459 | \$0.00459 | \$0.76817 |

Charging Formulae: There will be no changes to Airways' charging formulae. These formulae remain as set out in Airways' Standard Terms (available on Airways website: www.airways.co.nz).

The above changes will be subject to subsequent increase in line with Airways' previously notified general price increase on 1 July 2012 (refer "Pricing Changes – 2011/12 & 2012/13 Financial Years" section in the Standard Terms & Conditions Explanatory document on Airways' website: www.airways.co.nz)

3 Financial Information

3.1 Below is a summary of the key financial information with regard to the Queenstown runway lights.

| | |
|---|----------|
| Capital expenditure | \$1.8m |
| Additional Annual on-going operational costs (excluding depreciation) | |
| • Labour related costs | \$36k |
| • Materials and Electricity | \$13k |
| Annual additional revenue with % price increase | \$237k |
| Discount rate | 7.01% |
| Useful economic life | 15 years |
| Calculated NPV | \$0 |

- The on going operational costs to maintain the new lights include additional staff, material costs (spares and replacements), and electricity.
- The discount rate is based on Airways' Weighted Average Cost of Capital (WACC).

4 Consultation Process

Airways is committed to a consultative process which will commence on 2 September 2011. The key steps in the consultation process are set out in the table below.

| Task or Milestone | Date |
|--|-------------------|
| Closing Date to request additional information | 2 September 2011 |
| Deadline for Submissions | 30 September 2011 |
| Airways' Decision | 18 October 2011 |
| Publication of Changes (if any) | 28 October 2011 |
| Implementation | 1 December 2011 |

5 Submissions Address

Airways invites interested parties to make submissions on this Proposal or lodge enquiries to:

Queenstown Aerodrome Charge
Airways Corporation of New Zealand
100 Willis St,
PO Box 294
Wellington, 6140

Alternatively you can email: Submissions@airways.co.nz. To allow sufficient time to present a submission, please ensure any queries are raised well prior to the 30 September closing date for submissions.