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1 Introduction

Airways Corporation of New Zealand Ltd (Airways) is the sole provider of aeronautical navigation services (ANS) in the airspace for which New Zealand has responsibility. Airways is a State-Owned Enterprise (SOE) wholly owned by the Government of New Zealand. The company is run as a fully commercial business and is governed by an independent Board of Directors.

Safety is at the heart of everything we do. Our primary role is to provide a safe and efficient air traffic service. Our aim is to provide world class services and real value to customers; we do this by having skilled, committed staff and investing in leading technology solutions.

We are proud of Airways’ safety and operational performance, which consistently ranks amongst the top ANS providers globally. We believe our continuous improvement approach to air safety and operational efficiency is what makes us industry leaders.

In competitive markets, prices are determined by market forces. As there is no competition for many of Airways’ services in New Zealand, a different mechanism is needed to set prices. Airways’ aim is to carry out its business efficiently and build stakeholder confidence by maintaining a well-understood Pricing Framework for setting prices and incentivising excellent performance.

This Pricing Framework sits alongside its companion Service Framework. The Service Framework sets out the services we provide, who receives them and where and how our services are delivered. The Pricing Framework then defines the methodologies to price these services. Figure 1 illustrates how the Pricing Framework sits in relation to other documents related to the delivery of ANS.

Figure 1 Relationship between The Pricing Framework and other key documents
1.1 THE PRICING FRAMEWORK DOCUMENT

The Pricing Framework document defines the pricing methodologies Airways will use to price the services defined by the Service Framework. This document outlines the price setting and reporting methodologies for each of the key steps required to set prices. The document is structured as:

**Figure 2 Structure of the Pricing Framework document**

- **Context**
  - The context that Airways works in

- **Pricing principles**
  - The principles that underpin the framework

- **Pricing cycle**
  - The process and period for which prices are set

- **Overall revenue**
  - The cost building block method and enhancements

- **Revenue by service & location**
  - Cost allocation and cluster prices

- **Unit prices**
  - The pricing formula for each service

- **Reporting cycle**
  - Planning and performance reporting documents

- **Transition**
  - The process for implementing new prices
2 Context

2.1 SERVICES

The following Airways’ services are covered by this framework:

**Figure 3 Airways’ services as defined by the Service Framework**

<table>
<thead>
<tr>
<th>Service Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerodrome Air Traffic Management Service</td>
<td>Services for aircraft arriving or departing from an attended aerodrome and/or operating in the vicinity of that aerodrome. Includes a Flight Information and Alerting Service.</td>
</tr>
<tr>
<td>Aerodrome Visual Navigation Aid Service</td>
<td>Provision and maintenance of airfield lighting and/or paint markings at aerodromes.</td>
</tr>
<tr>
<td>Approach Service</td>
<td>Services for arriving and departing aircraft, electronic navigation aids and navigation procedures at attended aerodromes; electronic navigation aids and/or navigation procedures at selected unattended aerodromes. Includes a Flight Information and Alerting Service.</td>
</tr>
<tr>
<td>En-route Domestic or En-route Oceanic Service</td>
<td>Control and navigation services for aircraft en-route between aerodromes; provided in both domestic and international airspace. Includes a Flight Information and Alerting Service.</td>
</tr>
<tr>
<td>Flight Information Service in Uncontrolled Airspace</td>
<td>Provision of information to aircraft in uncontrolled airspace.</td>
</tr>
<tr>
<td>Alerting Service in Uncontrolled Airspace</td>
<td>Provision of an alerting service to aircraft in uncontrolled airspace.</td>
</tr>
</tbody>
</table>

The Pricing Framework also covers Parachuting Services which Airways provides to parachute operators in controlled airspace.

A more detailed description of each of these services (except the Parachuting Service) is included in the Service Framework.
2.2 FUTURE SERVICE DELIVERY

The technology to provide air traffic services will change significantly over the next 10 years. Airways’ navigation and surveillance systems comprise a national network of ground-based equipment. Traditional ground-based systems will be progressively replaced with satellite-based technology, providing information directly to an aircraft’s cockpit as well as to the air traffic controller. This technology will provide a greater level of flexibility enabling:

» fuel savings due to more efficient flight profiles
» capacity enhancement in controlled airspace due to more efficient management of the airspace
» on time performance benefits to Airways’ customers due to improved scheduling and management of aircraft.

Prices could temporarily increase during the transition between the ground-based and satellite technologies. Both systems will be provided while aircraft fit the required equipment to migrate to a satellite system and the regulatory rules are adjusted as appropriate. This Pricing Framework will provide the basis for pricing through this transition and beyond.
2.3 CUSTOMERS

Airways has four major customer groups:

**Figure 4 Airways’ major customer groups**

- **Airlines and commercial aircraft operators** – domestic and international airlines and large commercial and freight operators (with aircraft > 5 tonne). This group comprises approximately 55% of Airways’ air traffic volumes. Airlines use the full range of Airways’ services.

- **General Aviation (GA)** – New Zealand’s amateur aviators, aero clubs and smaller commercial operators (with aircraft < 5 tonne). This group uses mainly aerodrome, flight information and approach services.

- **Airports** – Airports are required to have aerodrome and visual navigation aid services (depending on the features of the aerodrome) in place. It is the Airport operator that appoints Airways to provide these services.

- **The New Zealand Defence Force** – RNZAF contracts Airways directly to provide specified services at Whenuapai and Ohakea air bases.

Airways charges its Airline, General Aviation and New Zealand Defence Force customers directly for ANS. While airport operators appoint Airways to provide Aerodrome ATM and Visual Navigation Aid Services, normally they do not directly pay for these services.
### 3. Pricing principles

The following principles were used as the basis for developing this Pricing Framework and will be used to guide its implementation.

Prices should:

<table>
<thead>
<tr>
<th>1. Be predictable, consistent and durable</th>
<th>5. Be commercially sustainable</th>
</tr>
</thead>
<tbody>
<tr>
<td>be predictable and consistent in their application across services and between customers, and durable to variations in circumstances and business conditions over time.</td>
<td>provide sufficient revenue for Airways to earn a commercial return.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Be transparent and practicable to implement</th>
<th>6. Encourage Airways to innovate and operate efficiently</th>
</tr>
</thead>
<tbody>
<tr>
<td>be transparent to customers and not impose large transaction costs on customers or Airways.</td>
<td>provide Airways with incentives to innovate in the supply of existing and new services, to operate and invest efficiently and improve productivity, and for customers to benefit over time from such innovation, productivity improvements and efficient operation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Reflect costs</th>
<th>7. Comply with relevant regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>reflect the costs that the service and associated customer activity give rise to.</td>
<td>be compliant with relevant legislation and regulation including, but not limited to, aviation, competition and financial regulations.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Take account of differences in the value customers derive from Airways’ services</th>
</tr>
</thead>
<tbody>
<tr>
<td>customers who derive greater value from ANS should contribute a greater share of the fixed or common costs to provide ANS.</td>
</tr>
</tbody>
</table>
4 Pricing cycle

Prices will be set for a three-year pricing period. The first pricing period will run from July 2013 until June 2016.

Prior to the commencement of a pricing period, prices will be set for each of the three pricing years within the pricing period. Prices will be set in consultation with Airways’ customers in accordance with this Framework. The pricing year will run from 1 July to 30 June.

Prices for any pricing year may be adjusted within the pricing period as set out in Section 5.2, to take account of volume risk/reward sharing and efficiency and innovation incentives. If a trigger event occurs (as described in Section 5), a review of prices may be initiated for the remaining years of the pricing period.

5 Setting revenue

Base Services are the services required by the Civil Aviation Rules and included in the Service Framework. The overall revenue requirement for the Base Services is calculated using the building block methodology.

5.1 BUILDING BLOCK METHOD

Base Service revenue

Airways sets the level of revenue for its Base Services, and the subsequent prices, for a three-year pricing period using a cost-based building block method. The building block method is commonly used to set prices in regulated industries. The building block model is based on the amount of revenue required to cover the efficient costs of Airways’ Base Services. Base revenue is calculated as the sum of forecast operating costs, depreciation, tax and capital charge.

Airways uses the Economic Value Added (EVA) framework to calculate operating expenditure, depreciation, capital charge and tax. EVA is a form of the cost building blocks methodology.

The capital charge component is calculated by multiplying the value of Airways’ asset base by an estimate of Airways’ weighted average cost of capital (to be set at the start of the pricing period). The value of Airways’ asset base is determined using the existing asset values carried forward from the previous pricing period, adjusted annually for capital expenditure and depreciation.

The relationship between overall revenue and unit prices

The EVA methodology is used to set the level of overall revenue. A set of allocation policies (described in Section 6.1) are then applied to the overall revenue amount to identify the costs that need to be recovered from each service. Volume forecasts for each service for the three-year period are then used to arrive at unit prices.
Risk sharing and encouraging efficiency and innovation

To improve the standard building blocks model, several additional mechanisms have been included to enhance its ability to respond to uncertainty in economic conditions over the pricing period and to encourage innovation and operational efficiency. These mechanisms, and the revenue associated with them, are outside base revenue. The mechanisms are illustrated in Figure 5 below. The risk sharing mechanisms are described in Section 5.2. The efficiency and innovation mechanism are described in Section 5.3.

The ‘incentives to provide new services’ reference on the right hand side of Figure 5 relates to services Airways may provide that are not part of those services provided pursuant to Airways’ Service Framework and/or statutory obligations, and which customers may choose to purchase from Airways. Such services fall outside the Pricing Framework, and will be priced by negotiation with customers on a case-by-case basis. This additional innovation mechanism is described in Section 5.3.

Figure 5 Cost building block model and enhancements
5.2 RISK SHARING

Over a three-year pricing period there may be unforeseen variations in the volume of air traffic and the environment in which Airways operates. The following mechanisms will share this risk between Airways and its customers:

1. Volume risk/reward sharing
2. Trigger clauses for a within period price reset.

1. Volume risk/reward sharing

A key risk faced by Airways is that the volume of traffic anticipated at the start of the pricing period does not eventuate. Airways’ cost structure is not flexible in the short term to fluctuations in volumes. While exposure to minor volume fluctuations is accepted as normal business risk, to address the issue of large fluctuations in volume, Airways operates a volume risk sharing mechanism based on variations in base revenue from the forecast. Changes in base revenue are used as a proxy to changes in volume. Base revenue is determined through the cost building blocks described in Section 5.1 (base revenue excludes any adjustment for risk sharing or efficiency and innovation mechanisms). Prices are determined from base revenue and expected demand volumes (i.e. the forecast volume and weight of traffic). Any difference between base revenue earned in a year and the forecast is, therefore, a result of unexpected variation in volumes.

Prices will automatically be adjusted when base revenue fluctuates significantly from the original forecast.

This mechanism has the following features:

- revenue difference less than 2%: Airways bears all of the risk and receives all of the rewards. This 2% neutral zone means small variations in traffic or forecasting errors do not result in changes in price
- revenue difference greater than 2%: Airways bears 25% of the revenue difference, our customers bearing 75%. This means that if the aggregate volume of traffic falls by 10%, Airways’ revenue will fall by 4%. The reverse is also true: if traffic increases by 10%, Airways’ revenue will increase by 4%.

Any adjustment is made to total revenue in the year following the unexpected variation in volume. The adjustment is made when prices are set for the year. The adjustment is made for one year. Note that if the unexpected variation in volume is in year 3 of a pricing period, the adjustment will occur in year 1 of the next pricing period.

2. Trigger clauses for a within period price reset

The events that may trigger a possible reset within a pricing period are:

- the scope of the ANS network changes, through the addition or removal of one or more aerodromes
- legislation or regulation changes, for example the requirement of Airways to meet its CAA certification changes
- material unplanned service enhancements within the pricing period
- any circumstance that has, or will have a substantially adverse effect on Airways, its assets, liabilities, financial position or profits or losses (not being a circumstance which would have been avoided by prudent management action).

If a price review is initiated, Airways will consult with stakeholders to reset prices to take account of the trigger event.
5.3 EFFICIENCY AND INNOVATION

A mechanical link between costs and revenue, as in the building blocks approach, does not encourage cost efficiencies or innovation to improve customer service.

Incentives will be identified at the start of each pricing period, informed by Airways’ 10-year plan, to ensure Airways has incentives to reduce its cost base relative to forecasts and to introduce service and technological enhancements that are important to customers. There are three mechanisms to achieve this:

1. Incentives to reduce cost
2. Incentives to enhance services
3. Incentives to provide new services.

1. Incentives to reduce cost

Airways will carry forward (for price setting purposes) into the next pricing period the cost reductions achieved from material and separately identifiable cost reduction initiatives in the preceding pricing period, subject to this carry-forward amount not exceeding 50% of the value of these ongoing cost reductions (in present value terms). Airways will identify separately these carry-forward amounts in its cost building block model, and will also verify that the amounts being carried forward do not exceed 50% of the value of these ongoing cost reductions.

Prior to carrying forward any amounts under this mechanism Airways will consult with its customers as part of the consultation on setting prices for the pricing period that would be affected by the carry forward. Where feasible Airways will also consult its customers prior to undertaking such cost reducing initiatives. The following details will be provided as part of these consultations:

» the amount and nature of the investment
» the level of savings
» the amount to be carried forward for pricing purposes
» the timeframe of the initiative.

Progress updates on such initiatives will form part of the annual performance reporting, covering at least the above points. Once the carry-forward period is over, specific reporting on the initiative will stop and all costs and savings will become part of the base costs.

2. Incentives to enhance services

To encourage Airways to actively explore possible service enhancements (over and above Base Services) that customers would value, the price of service enhancements will be agreed by negotiation with those who will be paying for the enhancements. In addition, Airways will develop a scorecard to identify and track performance measures of importance to customers. Once these measures are established, financial incentives to improve performance will be considered.

3. Incentives to provide new services

Where Airways provides new services that are discrete from existing services, it will price these new services on a commercial basis. These services are not part of the services provided pursuant to Airways’ Service Framework and/or statutory obligations. Customers choose whether or not to purchase these services.
6.0 Revenue by service and location

Once the overall revenue level has been set using the EVA framework, the amount of revenue to recover from each service and location is derived. This is done in two steps.

1. The cost of providing each service is calculated by applying a set of costing policies to the overall revenue figure. This process is described in Section 6.1.

2. Airways uses a mixture of location specific and service cluster pricing to best suit the characteristics of each service. Section 6.2 describes which locations are included in a cluster for which a single price set will be derived.

6.1 COSTING POLICIES

Airways determines the costs required to deliver a service based on the direct costs of providing it (including the cost of capital employed), and a share of overhead costs. Costs are identified as being either directly attributable to a service or location, or part of overheads (Step 1). The overhead costs are then allocated to a specific service at an individual location (Step 2).

Figure 6 Cost allocation process

1. **Step 1: Identify costs in each cost pool**

   Costs are identified as being in one of three cost pools:

   1. The direct cost pool. Direct costs are defined as those that could be avoided if a particular service, or a service at a particular location, were not provided. Where direct costs relate to a service where Airways is the sole provider by statute, and to a service that is contestable, the costs that would be avoided in relation to the services where Airways is the sole provider are identified first. Any remaining costs are treated as direct costs of the contestable service. The services where Airways is a sole provider are costed first because Airways considers these to be the foundation of its ANS business.

   2. Business unit overhead pool. Business unit costs are defined as those costs that can be avoided if none of the services provided by a business unit are supplied. Business units include Towers, Terminal, En-route and Oceanic units.

   3. Company-wide overhead pool. Company-wide costs are defined as all other costs (i.e. those that are neither direct costs nor business unit overheads) that are required to provide ANS services on a standalone basis. The incremental costs to Airways of providing other services (i.e. services not covered by this Pricing Framework) are not included in this overhead pool.
2. Step 2: Allocation of overhead cost pools

Terminal business unit overheads relate to delivering Approach Services. These overheads are allocated to Approach Services based on the relative weight of aircraft landed at each aerodrome (with weight being used as a proxy for the value that customers derive from the service, as per Principle 4 in Section 5). Towers business unit overheads relate to delivering Aerodrome Services. These overheads are allocated to the Aerodrome Services based on relative weight of aircraft landed at each aerodrome. En-route and Oceanic business unit overheads are allocated directly to the services they relate to.

Company-wide overheads are allocated to the services where Airways is the sole provider by statute (Approach, En-route Domestic and Oceanic Services), based on their relative direct costs.

6.2 Prices by location

Airways uses a mixture of location specific and service cluster pricing to best suit the characteristics of each service.

The table details the level of the grouping for each service.

<table>
<thead>
<tr>
<th>SERVICE TYPE</th>
<th>SCOPE OF PRICE CLUSTERS</th>
<th>COMMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>En-route Oceanic</td>
<td>National</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>En-route Domestic</td>
<td>National</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>Approach</td>
<td>Main trunk</td>
<td>Single price set applies to the main trunk aerodromes (Auckland, Christchurch &amp; Wellington)</td>
</tr>
<tr>
<td></td>
<td>Regional controlled aerodromes</td>
<td>Single price set applies to all regional attended aerodromes</td>
</tr>
<tr>
<td>Aerodrome</td>
<td>Auckland</td>
<td>Separate price set for Auckland</td>
</tr>
<tr>
<td></td>
<td>Wellington</td>
<td>Separate price set for Wellington</td>
</tr>
<tr>
<td></td>
<td>Christchurch</td>
<td>Separate price set for Christchurch</td>
</tr>
<tr>
<td></td>
<td>Queenstown</td>
<td>Separate price set for Queenstown</td>
</tr>
<tr>
<td></td>
<td>Regional controlled subcategory B &amp; C</td>
<td>Single price set for airport service subcategories B &amp; C (as defined by the Service Framework)</td>
</tr>
<tr>
<td></td>
<td>Regional controlled subcategory D</td>
<td>Single price set for airport service subcategories D (as defined by the Service Framework)</td>
</tr>
<tr>
<td></td>
<td>Regional AFIS by location</td>
<td>Separate price sets for each location</td>
</tr>
<tr>
<td>Unattended</td>
<td>By location</td>
<td>Separate price sets for each location</td>
</tr>
<tr>
<td>Circuits</td>
<td>National</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>Vicinity landing</td>
<td>National</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>Controlled VFR transits through controlled airspace</td>
<td>National</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>VFR Flight plans</td>
<td>National, based on electronic/other filing</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>Parachute</td>
<td>National, based on airspace complexity</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>Missed SAR times</td>
<td>National</td>
<td>Single price set applies nationally</td>
</tr>
<tr>
<td>Enhanced Services</td>
<td>Separately identified</td>
<td>Separate price for each enhancement</td>
</tr>
</tbody>
</table>
7 Unit prices

Once the revenue requirements have been set for each service (as outlined in Section 6), a unit price is chosen that will return the required revenue. Unit prices are set using volume forecasts for the service.

Consistent with international practice and ICAO guidelines, Airways uses aircraft weight as the basis for its charges. En-route charges also vary with distance flown. Intrinsic to the formulae is the principle that prices should be transparent and practicable. A simple pricing system lowers Airways’ costs and those of its customers.

7.1 AERODROME SERVICE PRICES

Aerodrome Service prices vary with weight:
» there is a minimum price
» there is a base charge and a per tonne charge above 5 tonnes
» for aircraft above 30 tonnes, there is a weight charge based on the square root of weight.

Expressed as a formula this is:

For aircraft flying IFR, the greater of the Minimum Price or:
• for aircraft weights under 5 tonnes  = Base Rate x MCTOW / 5
• for aircraft weights 5-30 tonnes  = Base Rate + Weight Rate x (MCTOW – 5)
• for aircraft weights above 30 tonnes  = Base Rate + Weight Rate x 5 x Square root of (MCTOW – 5)

» where the Minimum Price, Base Rate and Weight Rate are provided by the relevant price table.

Price tables provide the prices for each service and location. Price tables are provided in Airways’ standard terms and conditions.

» where MCTOW is an aircraft’s maximum certified take-off weight measured in tonnes.
7.2 APPROACH (INCLUDING UNATTENDED) SERVICE PRICES

Approach Service prices vary with weight:

» there is a minimum price
» there is a base charge and a per tonne charge above 5 tonnes
» for aircraft above 30 tonnes, there is a weight charge based on the square root of weight.

Expressed as a formula this is:

For aircraft flying IFR, the greater of the Minimum Price or:

• for aircraft weights under 5 tonnes = Base Rate x MCTOW / 5
• for aircraft weights 5-30 tonnes = Base Rate + Weight Rate x (MCTOW – 5)
• for aircraft weights above 30 tonnes = Base Rate + Weight Rate x 5 x Square root of (MCTOW – 5)

» where the Minimum Price, Base Rate and Weight Rate are provided by the relevant price table.
   Price tables provide the prices for each service and location. Price tables are provided in Airways’ standard terms and conditions
» where MCTOW is an aircraft’s maximum certified take-off weight measured in tonnes.

Note, a separate price will be calculated for landings outside the published hours of Air Traffic Service watch at attended aerodromes. The price will be set at a lower level than the Approach price.
### 7.3 EN-ROUTE DOMESTIC SERVICE PRICES

En-route Domestic Service prices vary with weight and distance travelled:

- there will be a minimum price
- there will be a base charge and a per tonne charge above 5 tonnes
- for aircraft above 30 tonnes, there will be a weight charge based on the square root of weight
- there is a distance charge.

Expressed as a formula this is:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>for aircraft weights under 5 tonnes</td>
<td>Base Rate x Nautical Miles / 100</td>
</tr>
<tr>
<td>for aircraft weights 5-30 tonnes</td>
<td>[Base Rate + Weight Rate x (MCTOW – 5)] x Nautical Miles / 100</td>
</tr>
<tr>
<td>for aircraft weights above 30 tonnes</td>
<td>[Base Rate + Weight Rate x 5 x Square root of (MCTOW – 5)] x Nautical Miles / 100</td>
</tr>
</tbody>
</table>

- where the Minimum Price, Base Rate and Weight Rate are provided by the relevant price tables.
- Price tables provide the prices for each service and location. Price tables are provided in Airways’ standard terms and conditions.
- where MCTOW is an aircraft’s maximum certified take-off weight measured in tonnes.
- where Nautical Miles is the distance between the origin and destination aerodromes less the terminal navigation radius at both aerodromes.
7.4 EN-ROUTE OCEANIC SERVICE PRICES

En-route Oceanic Service prices vary with weight and distance travelled:

» there will be a minimum price

» there will be a base charge and a per tonne charge above 5 tonnes

» for aircraft above 30 tonnes, there will be a weight charge based on the square root of weight

» there is a distance charge.

Expressed as a formula this is:

For aircraft flying IFR, the greater of the Minimum Price or:

- for aircraft weights under 5 tonnes = Base Rate x Oceanic Chargeable Distance / 100

- for aircraft weights 5-30 tonnes = [Base Rate + Weight Rate x (MCTOW – 5)] 
  x Oceanic Chargeable Distance / 100

- for aircraft weights above 30 tonnes = [Base Rate + Weight Rate x 5 x Square root of (MCTOW – 5)] 
  x Oceanic Chargeable Distance / 100

» where the Minimum Price, Base Rate and Weight Rate are provided by the relevant price table. Price tables provide the prices for each service and location. Price tables are provided in Airways’ standard terms and conditions

» where MCTOW is an aircraft’s maximum certified take-off weight measured in tonnes

» where Oceanic Chargeable Distance for international flights is Airways’ reasonable estimate of the average distance flown in nautical miles (by aircraft on the relevant route) between the outer boundary of the Auckland Oceanic Flight Information Region (NZZO) and the aerodrome of arrival or departure minus the total of 150 nautical miles plus the appropriate terminal navigation radius

» where Oceanic Chargeable Distance for international overflights is Airways’ reasonable estimate of the average distance flown within the NZZO by aircraft on the relevant route in nautical miles.
7.5 OTHER PRICES

Base Services

Other prices for Base Services are outlined below:

» Circuits are charged a fixed fee for each circuit made, which is set below the minimum Aerodrome Service price. A circuit fee will not be applied if the reason for a circuit is due to Air Traffic Control Instructions. For pricing purposes, a circuit includes a missed approach, a touch and go, low approach, stop and go or a go around. A circuit does not include a final landing.

» Vicinity landings are charged a fixed fee for each landing made. For the purpose of the Pricing Framework, a vicinity landing means any landing within an aerodrome control zone, which is not at the attended aerodrome. The fee is charged for the separation and/or flight information service received while operating in the aerodrome control zone and making a vicinity landing. The vicinity landing fee is set below the minimum Aerodrome Service price.

» Controlled VFR Transits through the aerodrome control zone: A VFR flight through an aerodrome control zone (without a landing or vicinity landing) is charged a fixed fee for each new control zone entered in a single flight. The fee is set below the minimum Aerodrome Service price. An aircraft entering and exiting a single aerodrome control zone multiple times in a single flight will incur a single fixed fee. An aircraft entering a control zone and then landing within the aerodrome control zone will incur the aerodrome landing fee or the vicinity landing fee and will not also incur a Controller VFR Transit fee.

» Controlled VFR Transits through terminal control areas and en-route airspace: VFR flights through terminal control areas and en-route airspace will be charged a fixed fee from July 2015. The definition as to how the fee will be applied will be presented as part of the implementation.

» VFR flight plans are charged a fixed fee based on whether they are filed electronically or manually.

» Missed SAR times are charged a fixed fee.

» Flight Information and Alerting Services in Uncontrolled Airspace do not have a separate price. These services are included as part of the Approach and Enroute Service prices.

Other services

In addition to the Base Services described by the Service Framework, Airways also provides:

» Parachute Services for which Airways charges a fixed fee based on the complexity of the airspace in which the service operates.

» Enhanced Services over and above the Base Services described by the Service Framework. These include Auckland CAT III lighting and Queenstown Multilateration services which are charged in addition to the respective Base Services. These enhanced services are priced at a per tonne rate and are added to the respective Approach prices.

7.6 GENERAL AVIATION COLLECTION METHODS

Payment options for under five tonne customers will include online payments and direct debits. This will ensure transaction and administrative costs are kept low. The full description of payment method and customer obligations will be included in Airways’ standard terms and conditions.
8 Reporting cycle

8.1 TEN-YEAR PLAN

Airways will develop a 10-year service plan as part of the information to be provided to stakeholders when setting prices for each pricing period. This will include project capital expenditure and strategic initiatives.

8.2 ANNUAL REPORTING ON FINANCIAL AND SERVICE PERFORMANCE

Airways will report on financial and service performance for each pricing year within four months of the end of that year. The report will assess Airways’ performance against the financial plan and service performance metrics (Scorecard) put forward as part of the process of setting prices for the pricing cycle.
9 Transition

Transition to the new Pricing Framework

The Pricing Framework will be implemented on 1 July 2013 with the exceptions of:

» new service prices for landings in, or flights through, the aerodrome control zone, and circuits will be introduced incrementally over the first pricing period (July 2013 – June 2016). The table below outlines the staged increase to the full price which will be reached by the end of the first pricing period.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CHARGE FOR A CIRCUIT, LANDING IN OR FLIGHT THROUGH AN AERODROME CONTROL ZONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>$1</td>
</tr>
<tr>
<td>2014/15</td>
<td>$2</td>
</tr>
<tr>
<td>2015/16</td>
<td>Full charge</td>
</tr>
</tbody>
</table>

» transit of VFR traffic through terminal control areas and en-route airspace. The prices for these services will be established within two years, and introduced on 1 July 2015.

Discounts for GA customers who have a GA contract on 1 May 2012 will be phased out as follows:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DISCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>65% of the 2011/12 discount rate multiplied by the lesser of average annual (undiscounted) fees from 2010/11-2012/13 or actual fees in 2013/14</td>
</tr>
<tr>
<td>2014/15</td>
<td>30% of the 2011/12 discount rate multiplied by the lesser of average annual (undiscounted) fees from 2010/11-2012/13 or actual fees in 2014/15</td>
</tr>
<tr>
<td>2015/16</td>
<td>Full charge</td>
</tr>
</tbody>
</table>

Where the 2011/12 discount rate is the actual rate applied to GA contracts ending between 30/6/2012 and 31/01/2013.

Transition to future pricing sets

Prices for individual services in the future are likely to change due to a number of factors which include, but are not limited to, changes in operating costs required to provide a service, enhancements to services, the introduction of new services, changes in customer volumes/activity, lifecycle replacement of assets and changes to the mix of aerodromes using Airways’ network.

» Prices for new services or enhancements to existing services will apply when the services are launched.

» Changes in prices for existing services will reflect the timing of any changes to the underlying resources required to provide a service and any changes to customer volumes/activity. If the price change for an existing service is greater than 25% during any one year, Airways will consider phasing in the price change.
# 10 Glossary

<table>
<thead>
<tr>
<th>TERM</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset base</td>
<td>A component of the capital charge calculation. The asset base is determined using Economic Value Add (EVA) accounting.</td>
</tr>
<tr>
<td>Base services</td>
<td>The services required by the Civil Aviation Authority (CAA) Rules and are included in the Service Framework.</td>
</tr>
<tr>
<td>Capital charge</td>
<td>A component of the EVA calculation of revenue. It is calculated by multiplying the Asset Base by the Weighted Average Cost of Capital (WACC).</td>
</tr>
<tr>
<td>Circuit (for pricing purposes)</td>
<td>A flight where the aircraft takes off and completes a circuit for the same runway or another runway at the same aerodrome to carry out a touch and go, low approach and overshoot or stop and go.</td>
</tr>
<tr>
<td>Civil Aviation Authority (CAA)</td>
<td>A government body that regulates civil aviation in New Zealand.</td>
</tr>
<tr>
<td>Controlled VFR Transit (for pricing purposes)</td>
<td>When an aircraft flying VFR enters controlled airspace and does not land within that airspace.</td>
</tr>
<tr>
<td>Cost building blocks methodology</td>
<td>A method to set overall levels of revenue. Revenue is calculated as the sum of forecast operating costs, depreciation, tax and capital charge. EVA is a form of cost building block methodology.</td>
</tr>
<tr>
<td>Enhanced services (in the context of the Service Framework)</td>
<td>An addition or quality improvement to a base service relative to the scope and quality determined in the Service Framework.</td>
</tr>
<tr>
<td>General Aviation (GA)</td>
<td>For the purpose of Airways’ Pricing Framework, general aviation is defined as any customer operating an aircraft under 5 tonnes. This includes recreational flyers, training organisations and commercial operators.</td>
</tr>
<tr>
<td>ICAO</td>
<td>The International Civil Aviation Organisation.</td>
</tr>
<tr>
<td>IFR</td>
<td>Instrument flight rules.</td>
</tr>
<tr>
<td>Maximum certified take-off weight (MCTOW)</td>
<td>The maximum certified take-off weight of an aircraft as specified in the certificate of airworthiness issues in respect of the aircraft and its associated flight manual.</td>
</tr>
<tr>
<td>New services (in the context of the Service Framework)</td>
<td>Services that Airways may provide that are not part of the services provided under the Service Framework pursuant to the Civil Aviation Rules, and which customers may choose to purchase from Airways. Such services fall outside the Pricing Framework and will be priced by negotiation with customers on a case-by-case basis.</td>
</tr>
<tr>
<td>Pricing period</td>
<td>The pricing period is three years. Prior to the commencement of a pricing period, prices will be set for each of the three pricing years within the pricing period.</td>
</tr>
<tr>
<td>Standard terms and conditions (Airways)</td>
<td>Defines the prices and contractual terms under which customers use the services outlined in the Service Framework.</td>
</tr>
<tr>
<td>Trigger event</td>
<td>A specified event that is outside Airways’ control that may cause Airways to initiate a price review within a pricing period.</td>
</tr>
<tr>
<td>Vicinity landing</td>
<td>For the purpose of the Pricing Framework, a vicinity landing means any landing within an aerodrome control zone in respect of each attended aerodrome, which is not at the attended aerodrome.</td>
</tr>
<tr>
<td>VFR</td>
<td>Visual flight rules.</td>
</tr>
</tbody>
</table>