

25 July 2012

Kevin England
AIA Training Division
PO Box 2096
Wellington 6140

Dear Kevin England ,

Re: Airways' Final Pricing Framework

In May 2012 Airways wrote to all of its customers seeking feedback on the Proposed Pricing Framework to apply to our services from July 2013. The public consultation process in respect of the Pricing Framework is now complete, and Airways is pleased to present the final Pricing Framework. You can download a copy of it from our website:

https://www.airways.co.nz/airways_Services/commercial_framework.asp

Since May, 21 submissions have been received. A summary of these submissions, Airways responses to these submissions and the resulting changes we have made to the Framework is provided in the **Submissions Summary & Airways Responses** document. This document and a full copy of all submissions can be found at:

https://www.airways.co.nz/airways_Services/commercial_framework.asp.

Airways considered all customer submissions in finalising the Pricing Framework. As a result several adjustments were made to the Pricing Framework. Some of the changes included:

- Clarification of Pricing Principle 6 to make explicit that Airways considers that to “operate efficiently” encompasses both operating and capital spending decisions. This change is in response to NZ Airports’ concern that Airways should invest efficiently in airport infrastructure.
- The practical application of the incentive to reduce cost mechanism has been clarified. New cost saving initiatives will be presented as part of the consultation process for a new three year price set, or by a separate consultation process, giving customers input into what initiatives are implemented.
- An increase in the neutral zone specified in the volume risk sharing mechanism to 2% of base revenue. Customer submissions indicated that the proposed 1% was too narrow. A 2% neutral zone is a similar level to the current \$2.5m revenue band.
- A delay in the introduction of prices for Controlled VFR Transit price for traffic that enters a terminal control area or en-route airspace until 1 July 2015. This will allow time for industry to consider the size of controlled airspace, a common concern amongst GA users. The delay will also be used to improve the practical application of the price.

- The removal of discounts for GA contract customers will be phased in over the first pricing cycle, recognising that the removal of GA contract discounts is significant for some customers.

The revised Pricing and Service Frameworks will help to ensure Airways will continue to supply high quality, innovative and cost effective services at a time of significant technological change and economically challenging conditions.

The release of the Pricing Framework marks the end of extensive review of Airways Pricing and Service Frameworks. This has included letters sent to 1,500 customers, two rounds of national road shows and an extensive public submission process, enabling customers to contribute to the final shape and contents of both Frameworks. Airways thanks you for your feedback and input into the Service and Pricing Frameworks – customer input has been a key resource in shaping the final outcome. If you require any further information, contact us at pricingfeedback@airways.co.nz or servicefeedback@airways.co.nz

Yours sincerely



Bryan Lau Young
Acting CFO
Airways NZ