

20 May 2013

Irene King
AIA
Via e-mail

Dear Irene

Airways' final prices for the 2013 – 2016 period

In February 2013 Airways Corporation of New Zealand (Airways) released a formal consultation document setting out its proposed prices for air navigation services for the 2013 – 2016 period. Consultation on the final prices is now complete and Airways has finalised its prices.

The final overall price increase is 10.6% in 2013-14, 3.5% in 2014-15 and 1.2% in 2015-16. This is an increase of just over 5% a year, or 15.7% over the three years.

The impact of Airways' new prices on specific airlines and pilots will vary, depending on the routes travelled, the weight of aircraft and the services used. Final prices, details of the changes made to February's proposed prices and Airways' response to customer submissions can be found in Airways' *Consultation Response Document*. A copy is available for download at:

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

Thank you for your input

Airways would like to take this opportunity to thank everyone who took part in the consultation process and who provided a submission. Your submissions provided a critical test of the appropriateness of the pricing inputs.

As a consequence of the high quality of customer submissions, we have revised Airways' price increase from the 23% proposed in February to 15.7% over the three years of the pricing period.

After careful consideration of customer submissions, the main changes from February's proposed price assumptions include:

- Airways' final cost of capital is 7.8%. The cost of capital was calculated using the Commerce Commission's methodology and parameter inputs (where available) and is, therefore, within the range judged reasonable by the Commission.
- Volume growth rates of 1% to 1.7% have been assumed. This is based on schedules provided by the airlines and Airways' belief that growth will return to the 10-year long term average of 1.7% by 2016.
- The capital programme was carefully reviewed with customers to ensure we can still deliver reliable and safe services. The review resulted in a reduction in total expenditure from \$97m to \$88m.

- We evaluated customer suggestions to use New Zealand Institute of Economic Research (NZIER) inflation forecasts. Our evaluation showed the NZIER to be a good provider of inflation forecasts, which Airways will now use for future price calculations.

Looking ahead

The release of Airways' final prices marks the end of an extensive six-month consultation period for prices, which included 10 public meetings and workshops, 4,500 customer letters and 40 submissions from a wide range of customers. The release also marks the end of a longer 18-month discussion on the development of the Service and Pricing Frameworks.

Airways would like to thank you for your feedback and input into the process – 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

Yours sincerely



Pauline Lamb
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Airways Corporation of New Zealand