

SCHEDULE 18: REPORT ON THE FORECAST TOTAL ASSET BASE REVENUE REQUIREMENTS

ref Version 3.0

	First Day of Pricing Period	Pricing Period Starting Year	Pricing Period Starting Year + 1	Pricing Period Starting Year + 2	Pricing Period Starting Year + 3	Pricing Period Starting Year + 4	Last Day of Pricing Period					
	1 Jul 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 22					
Cash flow date	30 Dec 17	2 Feb 18	30 Dec 18	2 Feb 19	31 Dec 19	3 Feb 20	30 Dec 20	2 Feb 21	30 Dec 21	2 Feb 22	30 Jun 22	
18(i): Forecast Internal Rate of Return (\$000)												
Opening RAB	1,244,584											
Opening carry forward adjustment	82,510											
Opening investment value	1,162,074											
plus Forecast total revenue requirement		334,356		350,537		352,322		369,055		387,415		
less Forecast assets commissioned		(209,141)		(417,167)		(340,771)		(240,596)		(267,534)		
plus Forecast cash flow from asset disposals		-		-		-		-		-		
less Forecast operational expenditure		(113,722)		(122,465)		(127,281)		(132,045)		(137,398)		
less Forecast unlevered tax		(44,611)		(42,744)		(36,093)		(36,836)		(37,580)		
Forecast closing asset base											2,323,081	
Forecast closing carry forward adjustment											86,084	
Forecast closing investment value											2,236,998	
Forecast net cash flows	(1,162,074)	(367,475)	334,356	(582,376)	350,537	(504,146)	352,322	(409,477)	369,055	(442,513)	387,415	2,236,998
Forecast post-tax IRR as at 01 July 2017	6.72%											
NPV check	0.01	ERROR	There is an unreconciled error of \$0.01.									

18(ii): Opening carry forward adjustment (\$000)

	Forecast closing carry forward from previous price setting event	Opening carry forward adjustments from current price setting event	Total opening carry forward adjustments
Default revaluation gain/loss adjustment			-
Risk allocation adjustment			-
Other carry forward adjustments	86,084	(3,574)	82,510
Opening carry forward adjustment	86,084	(3,574)	82,510

Please explain each adjustment and how this has been calculated

The opening carry forward adjustment is made up of two parts - "the Pier B adjustment" (-\$3.57m) which relates to the recovery of revenue for the Pier B development that was deferred from previous pricing periods, and the "moratorium adjustment" (\$86.1m) which accounts for the difference in revaluations for terminal and airfield assets between the start of the pricing moratorium in 2006 and the start of information disclosure regulation in 2010. Further information about these adjustments and how they have been calculated is included in Section 5.2 of Auckland Airport's price setting disclosure.

Provide a summary of any views expressed by substantial customers about the pricing approaches reflected in the opening carry forward adjustment

Auckland Airport discussed both the Pier B adjustment and the moratorium adjustment with substantial customers through the aeronautical pricing consultation. No substantial customers opposed the Pier B adjustment or the intention to recover the deferred revenue in PSE3. Auckland Airport considers that the Pier B adjustment accurately captures the intention of Auckland Airport and airlines at the time prices were set in PSE1, and that this adjustment has airline support. For the moratorium adjustment, Auckland Airport shared its proposed approach to asset valuation with substantial customers through the aeronautical pricing consultation, including our proposal to use the opening and closing carry forward mechanism to disclose the ongoing impact of the moratorium on Auckland Airport's asset values related to aeronautical pricing activities. No airlines raised any concerns about the proposed approach to the carry forward adjustment.

18(iii): Forecast closing carry forward adjustment (\$000)

	(\$000)
Moratorium Adjustment	86,084
[description of closing carry forward adjustment]	
Total forecast closing carry forward adjustment	86,084

Please explain each adjustment and how this has been calculated

For the moratorium adjustment, there is a closing carry forward for PSE3 which is equivalent in value to the opening carry forward adjustment. This records the continuing impact of this downward adjustment, to be carried forward in future periods unless the moratorium is unwound.

Explain how the closing investment value provides a good indication of the remaining capital expected to be recovered by the airport in future pricing periods and provide a summary of substantial customer views on any closing carry forward adjustments

The forecast closing investment value for PSE3 reflects the estimated remaining capital as at the end of PSE3 that is intended to be recovered in future pricing periods. It represents the value of Auckland Airport's forecast regulatory asset base as at closing FY22, adjusted through a closing carry forward moratorium adjustment to remove revaluations between 2006 (the start of the moratorium) and 2010 (the start of information disclosure regulation) for airfield and terminal assets. In this way, the forecast closing investment value represents the ongoing impact of the moratorium on asset valuations on the estimated remaining capital as at the end of PSE3. The opening carry forward Pier B adjustment has been fully offset by the end of PSE3. More information about the closing carry forward adjustment is included in Section 5.3 of Auckland Airport's price setting disclosure. This approach was shared with substantial customers through the aeronautical pricing consultation. No substantial customers expressed any concerns with the closing carry forward adjustment or the pricing approaches reflected in that adjustment.

18(iv): Cash flow timing assumptions

Year of most recent annual disclosure (year ended)	30 June 2016	
First day of pricing period	1 July 2017	
	Default	
	Airport assumption	
Cash flow timing - revenues - days from year end	148	148
Cash flow timing - expenditure - days from year end	182	182

Explanation and evidence if airport assumption is different from default

Auckland Airport has applied the same cash flow timing as the Commission's default assumptions for forecast revenue and expenditure. However, we note that for some assets, the forecast assets commissioning (treated as a cashflow in the IRR calculation) is assumed to occur at the end of FY22. For these assets, the asset commissioning timing differs from the Commission's default assumptions. As part of the price consultation, it was agreed that assets expected to be commissioned before the end of FY22 but near the end of FY22 (primarily relating to the new DTB) would not impact prices in PSE3. In order to ensure that the IRR analysis in these disclosure schedules is consistent with our pricing approach, the value of these assets (\$0.625b) has been notionally retained in works under construction and disclosed as part of schedule 18(vii). If the schedule reflected the expected commissioning of these assets in FY22, the forecast balance of works under construction at 30/06/22 would be \$0.391b (\$0.625b lower than shown in schedule 18(vii)) and the forecast RAB at 30/06/22 would be \$2.949b (\$0.625b higher than shown in schedule 18(i) and 18(vii)).

Regulated Airport
Pricing Period Starting Year Ended

Auckland International Airport Limited
30 June 2018

SCHEDULE 18: REPORT ON THE FORECAST TOTAL ASSET BASE REVENUE REQUIREMENTS (cont)

ref Version 3.0

65 **18(v): Total Revenue Requirement**

66 **Overview of the methodology used to determine the revenue requirement**

67 An overview of the methodology used to determine the revenue requirement is provided at Section 3 of Auckland Airport's price setting disclosure. Further information on the revenue requirement components is included in Section 4, and a
68 description of pricing methodology used by Auckland Airport to set Standard Charges is included at Section 9.
69
70
71
72
73
74

75 **(\$000)**

	Pricing Period Starting Year 30 Jun 18	Pricing Period Starting Year + 1 30 Jun 19	Pricing Period Starting Year + 2 30 Jun 20	Pricing Period Starting Year + 3 30 Jun 21	Pricing Period Starting Year + 4 30 Jun 22
76 Forecast revenue for services applicable to the price setting event (excluding forecast assets held for future use revenue)	310,100	324,198	324,002	339,680	357,160
77 plus Forecast lease, rental and concession income (not applicable to the price setting event)	24,257	26,338	28,320	29,375	30,254
78 plus Forecast other operating revenue (not applicable to the price setting event)	-	-	-	-	-
79 Forecast total revenue requirement (excluding assets held for future use revenue)	334,356	350,537	352,322	369,055	387,415
80					
81 less Forecast operational expenditure	113,722	122,465	127,281	132,045	137,398
82 less Forecast depreciation	52,312	60,725	79,092	91,499	97,647
83 less Forecast unlevered tax	44,611	42,744	36,093	36,836	37,580
84 plus Forecast revaluations	804	1,234	1,813	1,928	1,879
85					
86 Forecast regulatory profit / (loss)	124,514	125,836	111,669	110,604	116,668
87					
88					
89					
90 Forecast regulatory investment value	1,342,148	1,595,751	1,913,346	2,125,305	2,287,142
91					
92 ROI - comparable to a post tax WACC	9.28%	7.89%	5.84%	5.20%	5.10%
93					
94 Forecast cost of capital	6.85% to 8.1%				
95 Post-tax WACC at price setting event	6.41%				
96 WACC percentile equivalent for forecast cost of capital (optional)					
97 WACC percentile equivalent for the post-tax IRR (optional)					
98					

99 **Explain the differences between the post-tax IRR and the forecast cost of capital, and the post-tax WACC at price setting event and the forecast cost of capital (including reasons)**

100 A full description of Auckland Airport's approach to its forecast cost of capital and forecast target return (i.e. post-tax IRR) is provided in Section 4.3 of Auckland Airport's price setting disclosure. This includes an explanation of the
101 differences between our post-tax IRR for all regulated activities of 7.06% and the forecast cost of capital (Section 4.3.2), and an explanation of the differences between the post-tax WACC at price setting event (the Commission's industry
wide estimate of 6.41%) and our estimate of Auckland Airport's specific cost of capital of between 6.85% and 8.1% (Section 4.3.1).

102 It is noted that the ROI calculation does not include any adjustments for the balance of carry forward adjustments and assumes mid-year cash-flows.

103 **Forecast total revenue requirement from airport charges (including assets held for future use revenue)**

104 Forecast total revenue requirement (excluding assets held for future use revenue)	334,356	350,537	352,322	369,055	387,415
105 Forecast assets held for future use revenue	-	-	-	25,254	26,057
106 Forecast total revenue requirement (including forecast assets held for future use revenue)	334,356	350,537	352,322	394,309	413,471

107 **Description of any other factors that are considered in determining the forecast total revenue requirement**

108 As explained in Section 4.8, other than the carry-forward adjustments, no "other factors" (as defined in the ID Determination) were considered in determining the forecast total revenue requirement.

109 We note that the forecast assets held for future use revenue disclosed in line 104 above is the pre-tax revenue associated with the Runway Land Charge (ie the forecast total revenue from "airport charges" associated with assets held for
110 future use).
111
112
113
114
115
116

Regulated Airport
Pricing Period Starting Year Ended

Auckland International Airport Limited
30 June 2018

SCHEDULE 18: REPORT ON THE FORECAST TOTAL ASSET BASE REVENUE REQUIREMENTS (cont 3)

ref Version 3.0

(\$000)

18(vi): Opening Regulatory Asset Base

	30 Jun 17
Regulatory asset base as at 30 June 2016	1,107,225
less Forecast depreciation	45,088
plus Forecast revaluations	757
plus Assets commissioned	192,991
less Asset disposals	938
plus (less) Forecast adjustment resulting from cost allocation	(10,362)
Estimate of regulatory asset base at start of price setting event	1,244,584

	Pricing Period Starting Year - 1 30 Jun 17	Pricing Period Starting Year 30 Jun 18	Pricing Period Starting Year + 1 30 Jun 19	Pricing Period Starting Year + 2 30 Jun 20	Pricing Period Starting Year + 3 30 Jun 21	Pricing Period Starting Year + 4 30 Jun 22
--	---	---	---	---	---	---

18(vii): Forecast Asset Base

Forecast asset base—previous year	1,107,225	1,244,584	1,388,203	1,743,808	2,005,604	2,155,435
less Forecast depreciation	45,088	52,312	60,725	79,092	91,499	97,647
plus Forecast revaluations	757	804	1,234	1,813	1,928	1,879
plus Assets commissioned	192,991	209,141	417,167	340,771	240,596	267,534
less Asset disposals	938	14,014	2,069	1,696	1,195	4,119
plus (less) Forecast adjustment resulting from cost allocation	(10,362)	-	-	-	-	-
Forecast asset base	1,244,584	1,388,203	1,743,808	2,005,604	2,155,435	2,323,081

Description and explanation of the depreciation methodology applied

Auckland Airport has forecast depreciation based on the economic life of existing assets, and for new assets based on the average economic life of that asset class (determined with reference to the historical cost weighted depreciation of assets in existence prior to 30 June 2016). Straight line depreciation was used for all airfield and terminal assets. In the case of assets allocated directly to aircraft and freight activities, these assets were depreciated using modified straight line depreciation, which uses the same economic life as the straight line method but involves an adjustment to offset the effect of CPI revaluations over the economic life of the asset. Auckland Airport's approach to depreciation is explained in more detail in Section 4.5 of the price setting disclosure.

18(viii): Forecast Works Under Construction

Works under construction—previous year	111,785	138,983	235,297	274,927	393,285	690,224
plus Capital expenditure	220,189	305,455	456,797	459,129	537,535	587,501
less Assets commissioned	192,991	209,141	417,167	340,771	240,596	267,534
Works under construction	138,983	235,297	274,927	393,285	690,224	1,010,190

18(ix): Assets held for future use cost and base value

Assets held for future use opening cost—previous year	276,964	300,571	322,738	346,524	370,761	378,015
plus Forecast holding costs	23,478	21,048	22,600	22,981	24,109	24,577
less Forecast assets held for future use net revenue	(999)	(1,119)	(1,186)	(1,256)	16,854	17,321
plus Forecast assets held for future use additions	-	-	-	-	-	-
less Forecast assets held for future use disposals	870	-	-	-	-	-
less Forecast transfers to works under construction	-	-	-	-	-	-
Assets held for future use closing cost	300,571	322,738	346,524	370,761	378,015	385,272

Initial base value	143,852					
plus Opening tracking revaluations	13,373					
Opening base value	157,224	156,274	156,274	156,274	156,274	156,274
plus Forecast assets held for future use revaluations	(81)	-	-	-	-	-
plus Forecast assets held for future use additions	-	-	-	-	-	-
less Forecast assets held for future use disposals	870	-	-	-	-	-
less Forecast transfers to works under construction	-	-	-	-	-	-
Closing base value	156,274	156,274	156,274	156,274	156,274	156,274
Tracking revaluations	13,292	13,292	13,292	13,292	13,292	13,292

Assumptions and explanations of any assets held for future use revenues

Auckland Airport's forecast assets held for future use revenues are made up of two revenue streams - a Runway Land Charge that is forecast to be levied from FY21 (but which is subject to triggers being met before it is levied) and minor other revenue (primarily associated with minor farming activities that are carried out on land held for future use). A description of the Runway Land Charge is set out at Section 6 of the price setting disclosure, including an explanation of Auckland Airport's rationale for introducing the Runway Land Charge, the triggers that must be met before the charge is levied, and an explanation of the assumptions and justifications of the net revenue associated with this charge.

Consistent with the definitions in the ID Determination, "forecast assets held for future use net revenue" in Schedule 18(ix) represents forecast revenue less tax and less opex. The forecast net revenue disclosed above includes revenue from the Runway Land Charge and other forecast minor revenue associated with assets held for future use. A table separating out these two forecast revenue streams, as well as the forecast opex associated with assets held for future use, is included at Section 6.3 of Auckland Airport's price setting disclosure.

Regulated Airport
Pricing Period Starting Year Ended

Auckland International Airport Limited
30 June 2018

SCHEDULE 18: REPORT ON THE FORECAST TOTAL ASSET BASE REVENUE REQUIREMENTS (cont 4)

ref Version 3.0

185 **18(x): Forecast Capital Expenditure**

186 (\$000)	187 for year ended	188 Pricing Period	188 Pricing Period	188 Pricing Period	188 Pricing Period	188 Pricing Period	188 Pricing Period	188 Pricing Period	188 Pricing Period	188 Pricing Period	188 Pricing Period	189 Total
		189 Starting Year	189 Starting Year + 1	189 Starting Year + 2	189 Starting Year + 3	189 Starting Year + 4	189 Starting Year + 5	189 Starting Year + 6	189 Starting Year + 7	189 Starting Year + 8	189 Starting Year + 9	
		30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23	30 Jun 24	30 Jun 25	30 Jun 26	30 Jun 27	
Capital Expenditure by Category												
189 Capacity growth		247,551	409,728	422,721	499,410	544,606	591,466	553,308	418,692	449,005	599,403	
190 Asset replacement and renewal		57,904	47,069	36,408	38,125	42,894	41,514	43,745	44,193	44,610	43,990	
191 Total capital expenditure		305,455	456,797	459,129	537,535	587,501	632,981	597,053	462,884	493,614	643,393	
Capital Expenditure by Key Capital Expenditure Project												
192 International Terminal (Check in, Outbound Baggage & Landside Dwell)		11,915	1,129	6,403	36,309	109,960	32,571	-	-	-	-	198,288
193 International Terminal (Airside Emigration & Dwell)		51,002	20,848	702	-	0	27,946	(0)	0	701	149,258	250,456
194 International Terminal (Pier and Connections)		78,194	55,066	43,025	0	0	0	0	29,762	63,892	65,519	335,458
195 International Terminal (Arrivals)		20,163	40,248	41,862	119	15,638	46,770	68,013	49,976	-	-	282,790
196 Ground Transport Centre / Plaza - Aeronautical elements (Ground Transport Centre / Plaza - Aeronautical elements)		1,138	535	584	15,841	29,198	8,629	3,581	-	-	-	59,506
197 Integrated Facility (Domestic Jet Facility (Phase 5))		35,854	135,708	138,494	176,562	139,691	47,683	39,134	438	1,568	930	716,063
198 Existing Domestic Terminal (Extension of Life)		-	11,295	11,814	-	-	5,683	-	-	-	-	28,792
199 Runway, Taxiway and Aprons (Code F Taxiway, Stands and Aprons)		11,345	6,130	3,004	61,304	120,282	227,835	168,896	-	-	-	598,796
200 Runway, Taxiway and Aprons (Code B/C/E taxiway, stands and aprons (Phase 5))		5,481	64,100	83,189	94,618	-	34,767	-	-	-	-	282,156
201 Runway, Taxiway and Aprons (Airfield Utilities)		8,675	18,656	4,711	1,172	8,675	1,223	1,270	1,318	2,810	2,924	52,354
202 Runway, Taxiway and Aprons (Flexible contingent runway)		-	-	-	-	-	-	-	-	-	-	-
203 Support Facilities (Business Technology)		5,064	3,577	3,741	3,906	6,017	4,235	4,394	4,564	7,009	4,945	47,452
204 Support Facilities (Acoustic Mitigation)		1,625	1,694	1,772	1,850	1,931	1,337	1,387	1,441	1,499	1,562	16,099
205 Support Facilities (AD&D Support Projects)		4,901	6,813	7,126	7,441	7,764	8,066	8,369	8,694	9,044	9,419	77,636
206 Support Facilities (Airport Emergency Services)		793	10,447	-	-	-	-	4,162	2,306	-	-	17,708
207 Support Facilities (Marketing Customer Service and Communications)		623	565	591	617	644	669	694	721	750	781	6,652
208 Support Facilities (Corporate)		1,184	1,150	1,203	1,256	1,310	1,210	1,255	1,304	1,357	1,413	12,641
209 Airport Campus Utilities (Utilities - Stormwater)		678	2,434	2,300	1,544	716	930	965	1,002	365	-	10,932
210 Airport Campus Utilities (Utilities - Water & Wastewater)		2,115	6,230	5,975	1,688	1,283	1,959	3,668	2,916	1,893	1,596	29,324
211 Airport Campus Utilities (Utilities - Power - LV and HV Power)		305	1,449	1,373	3,010	-	-	-	-	-	-	6,137
212 Airport Surface Access Network (Terminal Roads)		7,507	7,617	9,316	7,323	1,962	4,595	3,758	-	-	-	42,078
213 Airport Surface Access Network (Arterial and Other Roads)		11,413	18,198	11,008	12,336	27,166	25,130	12,985	4,439	9,795	24,836	157,306
214 Asset Maintenance (Slab Replacement and Runway Works)		8,666	9,036	9,451	9,869	10,297	9,360	9,712	10,089	10,495	10,931	97,906
215 Asset Maintenance (Airbridge Refurbishment)		1,517	1,581	1,654	1,727	1,802	1,872	1,942	2,018	2,099	2,186	18,398
216 Asset Maintenance (Business as Usual)		14,262	11,157	12,120	12,027	11,767	12,549	13,298	14,581	13,943	14,406	130,109
217 Second Runway incl Utilities (Second Runway incl Utilities)		11,270	18,377	57,190	85,778	95,605	124,045	249,177	325,475	365,941	345,639	1,678,498
218		-	-	-	-	-	-	-	-	-	-	-
219		-	-	-	-	-	-	-	-	-	-	-
220		-	-	-	-	-	-	-	-	-	-	-
221		-	-	-	-	-	-	-	-	-	-	-
222		-	-	-	-	-	-	-	-	-	-	-
223 Other capital expenditure		9,767.04	2,756.89	520.22	1,236.95	3,247.18	3,868.73	345.52	348.05	339.45	377.10	22,807
224 Total Capital Expenditure		305,455	456,797	459,129	537,535	587,501	632,981	597,053	462,884	493,614	643,393	5,176,342

Regulated Airport
Pricing Period Starting Year Ended

Auckland International Airport Limited
30 June 2018

SCHEDULE 18: REPORT ON THE FORECAST TOTAL ASSET BASE REVENUE REQUIREMENTS (cont 6)

ref Version 3.0

277 **18(xii) Forecast financial incentives**

278 (\$000)

279 Forecast pricing incentives
280 Forecast other incentives
281 Forecast total financial incentives
282
283

	Pricing Period Starting Year 30 Jun 18	Pricing Period Starting Year + 1 30 Jun 19	Pricing Period Starting Year + 2 30 Jun 20	Pricing Period Starting Year + 3 30 Jun 21	Pricing Period Starting Year + 4 30 Jun 22
	30	33	35	38	42
	5,680	6,440	5,200	5,200	5,200
	5,710	6,473	5,235	5,238	5,242

284 **18(xiii) Forecast revaluations**

285 Forecast CPI used to set prices

286 Forecast pricing CPI (%)

287 Asset category revaluation rates (%)

288 Land
289 Sealed Surfaces
290 Infrastructure and buildings
291 Vehicles, plant and equipment

292 Forecast revaluations (\$000s)

293 Land
294 Sealed Surfaces
295 Infrastructure and buildings
296 Vehicles, plant and equipment
297 Total forecast revaluations
298
299

	Pricing Period Starting Year - 1 30 Jun 17	Pricing Period Starting Year 30 Jun 18	Pricing Period Starting Year + 1 30 Jun 19	Pricing Period Starting Year + 2 30 Jun 20	Pricing Period Starting Year + 3 30 Jun 21	Pricing Period Starting Year + 4 30 Jun 22
	1.34%	1.32%	1.71%	2.08%	2.05%	2.03%
	1.34%	1.32%	1.71%	2.08%	2.05%	2.03%
	1.34%	1.32%	1.71%	2.08%	2.05%	2.03%
	1.34%	1.32%	1.71%	2.08%	2.05%	2.03%
	340	340	446	553	557	561
	-	1	1	1	1	1
	414	457	729	1,142	1,286	1,265
	2	6	57	117	84	51
	757	804	1,234	1,813	1,928	1,879

300 Value of any forecast revaluations not consistent with IMs

301
302 **18(xiv) Alternative methodologies with equivalent effect**

303 Description of and explanation for any alternative methodologies with equivalent effect that have been applied and which components they have been applied to (including evidence to support that it is likely to have equivalent effect)

304 An alternative methodology with equivalent effect has been applied to the restated RAB value of airfield and terminal land in Schedule 24(ii). This restated RAB is also disclosed in Schedule 18(vi) above. This methodology is explained in
305 more detail at Section 13 of Auckland Airport's price setting disclosure, along with evidence to support that it is likely to have equivalent effect.

306 For the avoidance of doubt, no alternative methodologies have been applied in rolling this restated FY16 value forward to generate the estimate of total regulatory asset base at start of price setting event disclosed in Schedule 18(vi), or the
307 estimate of regulatory asset base (applicable to the price setting event) disclosed in Schedule 19(vi).
308
309
310
311

Regulated Airport
Pricing Period Starting Year Ended

Auckland International Airport Limited
30 June 2018

SCHEDULE 18: REPORT ON THE FORECAST TOTAL ASSET BASE REVENUE REQUIREMENTS (cont 5)

ref Version 3.0

232
233
234
235
236
237
238
239
240
241
242
243
244
245
246
247
248
249
250
251
252
253
254
255
256
257
258
259
260
261
262
263
264
265
266
267
268
269

Basis for Cost Allocation

This information is included in the following sections of Auckland Airport's price setting disclosure:

- Information about asset allocation can be found at Section 4.2.2;
- Information about operating cost allocation can be found at Section 4.4.1; and
- A description of the methodology used by Auckland Airport to allocate costs to particular charged services can be found at Section 9.4.

An explanation of where and why disclosures differ from the cost-allocation Input Methodology and/or, where costs are shared between regulated and non-regulated assets, an explanation of the basis for that allocation.

Key Capital Expenditure Projects—Consumer Demands Assessment

This information is included in Auckland Airport's price setting disclosure at Section 7 and Appendix B.

An explanation of how consumer demands have been assessed and incorporated for each reported project and the degree to which consumers agree with project scope, timing and cost.

18(xi) Forecast operational expenditure

(\$000)

Corporate overheads
Asset management and airport operations
Asset maintenance
Forecast operational expenditure

	Pricing Period Starting Year 30 Jun 18	Pricing Period Starting Year + 1 30 Jun 19	Pricing Period Starting Year + 2 30 Jun 20	Pricing Period Starting Year + 3 30 Jun 21	Pricing Period Starting Year + 4 30 Jun 22
Corporate overheads	27,204	29,295	30,447	31,587	32,868
Asset management and airport operations	73,027	78,641	81,733	84,793	88,230
Asset maintenance	13,492	14,529	15,100	15,665	16,300
Forecast operational expenditure	113,722	122,465	127,281	132,045	137,398

SCHEDULE 19: REPORT ON THE FORECAST PRICING ASSET BASE REVENUE REQUIREMENTS

ref Version 3.0

	First Day of Pricing Period	Pricing Period Starting Year	Pricing Period Starting Year + 1	Pricing Period Starting Year + 2	Pricing Period Starting Year + 3	Pricing Period Starting Year + 4	Last Day of Pricing Period					
	1 Jul 17	30 Dec 17	2 Feb 18	30 Dec 18	2 Feb 19	31 Dec 19	3 Feb 20	30 Dec 20	2 Feb 21	30 Dec 21	2 Feb 22	30 Jun 22
19(i): Forecast Internal Rate of Return												
(\$000)												
Cash flow date	1 Jul 17	30 Dec 17	2 Feb 18	30 Dec 18	2 Feb 19	31 Dec 19	3 Feb 20	30 Dec 20	2 Feb 21	30 Dec 21	2 Feb 22	30 Jun 22
Opening asset base (applicable to price setting)	1,145,635											
Opening carry forward adjustment	82,510											
Opening investment value	1,063,125											
<i>plus</i> Forecast revenue for services applicable to price setting event			310,100		324,198		324,002		339,680		357,160	
<i>less</i> Forecast assets commissioned		(189,118)		(393,041)		(331,144)		(238,796)		(265,688)		
<i>plus</i> Forecast cash flow from asset disposals		-		-		-		-		-		
<i>less</i> Forecast operational expenditure		(105,324)		(112,940)		(117,313)		(121,720)		(126,775)		
<i>less</i> Forecast unlevered tax		(41,438)		(39,708)		(32,796)		(33,164)		(33,623)		
Forecast closing asset base												2,189,277
Forecast closing carry forward adjustment												86,084
Forecast closing investment value												2,103,194
Forecast net cash flows	(1,063,125)	(335,879)	310,100	(545,689)	324,198	(481,252)	324,002	(393,679)	339,680	(426,086)	357,160	2,103,194
Forecast post-tax IRR as at 01 July 2017	6.6204%											
NPV check	(0.01)	OK										

19(ii): Opening carry forward adjustment

	Forecast closing carry forward from previous price setting event	Opening carry forward adjustments from current price setting event	Total opening carry forward adjustments	Please explain each adjustment and how this has been calculated
(\$000)				
Default revaluation gain/loss adjustment			-	
Risk allocation adjustment			-	
Other carry forward adjustments	86,084	3,574	82,510	
Opening carry forward adjustment	86,084	(3,574)	82,510	The opening carry forward adjustment is made up of two parts - "the Pier B adjustment" (-\$3.57m) which relates to the recovery of revenue for the Pier B development that was deferred from previous pricing periods, and the "moratorium adjustment" (\$86.1m) which accounts for the difference in revaluations for terminal and airfield assets between the start of the pricing moratorium in 2006 and the start of information disclosure regulation in 2010. Further information about these adjustments and how they have been calculated is included in Section 5.2 of Auckland Airport's price setting disclosure.

Provide a summary of any views expressed by substantial customers about the pricing approaches reflected in the opening carry forward adjustment
 Auckland Airport discussed both the Pier B adjustment and the moratorium adjustment with substantial customers through the aeronautical pricing consultation. No substantial customers opposed the Pier B adjustment or the intention to recover the deferred revenue in PSE3. Auckland Airport considers that the Pier B adjustment accurately captures the intention of Auckland Airport and airlines at the time prices were set in PSE1, and that this adjustment has airline support. For the moratorium adjustment, Auckland Airport shared its proposed approach to asset valuation with substantial customers through the aeronautical pricing consultation, including our proposal to use the opening and closing carry forward mechanism to disclose the ongoing impact of the moratorium on Auckland Airport's asset values related to aeronautical pricing activities. Airline feedback was consistent with this approach and no airlines raised any concerns about the use of the carry forward adjustment.

19(iii): Forecast closing carry forward adjustment

	(\$000)	Please explain each adjustment and how this has been calculated
Moratorium Adjustment	86,084	For the moratorium adjustment, there is a closing carry forward for PSE3 which is equivalent in value to the opening carry forward adjustment. This records the continuing impact of this downward adjustment, to be carried forward in future periods unless the moratorium is unwound.
[description of closing carry forward adjustment]	-	
[description of closing carry forward adjustment]	-	
[description of closing carry forward adjustment]	-	
Total forecast closing carry forward adjustment	86,084	

Explain how the closing investment value provides a good indication of the remaining capital expected to be recovered by the airport in future pricing periods and provide a summary of substantial customer views on any closing carry forward adjustments
 The forecast closing investment value for PSE3 reflects the estimated remaining capital as at the end of PSE3 that is intended to be recovered in future pricing periods. It represents the value of Auckland Airport's regulatory asset base as at closing FY22, adjusted through a closing carry forward moratorium adjustment to remove revaluations between 2006 (the start of the moratorium) and 2010 (the start of information disclosure regulation) for airfield and terminal assets. In this way, the forecast closing investment value represents the ongoing impact of the moratorium on asset valuations on the estimated remaining capital as at the end of PSE3. The opening carry forward Pier B adjustment has been fully offset by the end of PSE3. More information about the closing carry forward adjustment is included in Section 5.3 of Auckland Airport's price setting disclosure.

19(iv): Cash flow timing assumptions

Year of most recent annual disclosure (year ended)	30 June 2016
First day of pricing period	1 July 2017
Cash flow timing - revenues - days from year end	Airport assumption: 148, Default assumption: 148
Cash flow timing - expenditure - days from year end	Airport assumption: 182, Default assumption: 182

Explanation and evidence if airport assumption is different from default
 Auckland Airport has applied the same cash flow timing as the Commission's default assumptions for forecast revenue and expenditure. However, we note that for some assets, the forecast assets commissioning (treated as a cashflow in the IRR calculation) is assumed to occur at the end of FY22. For these assets, the asset commissioning timing differs from the Commission's default assumptions. As part of the price consultation, it was agreed that assets expected to be commissioned before the end of FY22 but near the end of FY22 (primarily relating to the new DTB) would not impact prices in PSE3. In order to ensure that the IRR analysis in these disclosure schedules is consistent with our pricing approach, the value of these assets (\$0.625b) has been notionally retained in works under construction and disclosed as part of schedule 18(vii). If the schedule reflected the expected commissioning of these assets in FY22, the forecast balance of works under construction at 30/06/22 would be \$0.391b (\$0.625b lower than shown in schedule 18(vii)) and the forecast RAB at 30/06/22 would be \$2.949b (\$0.625b higher than shown in schedule 18(i) and 18(vii)).

SCHEDULE 19: REPORT ON THE FORECAST PRICING ASSET BASE REVENUE REQUIREMENTS (cont 2)

ref Version 3.0

19(v): Total Revenue Requirement for Pricing Assets

Overview of the methodology used to determine the revenue requirement for pricing assets

An overview of the methodology used to determine the revenue requirement is provided at Section 3 of Auckland Airport's price setting disclosure. Further information on the revenue requirement components is included in Section 4, and a description of the pricing methodology used by Auckland Airport to set Standard Charges is included at Section 9.

	Pricing Period Starting Year 30 Jun 18	Pricing Period Starting Year + 1 30 Jun 19	Pricing Period Starting Year + 2 30 Jun 20	Pricing Period Starting Year + 3 30 Jun 21	Pricing Period Starting Year + 4 30 Jun 22
(\$000)					
Forecast revenue from airport activity charges applicable to the price setting event	306,654	320,566	320,172	335,642	352,902
Forecast lease, rental and concession income (applicable to the price setting event)	3,446	3,633	3,830	4,038	4,259
plus Forecast other operating revenue (applicable to the price setting event)	-	-	-	-	-
Forecast pricing revenue for services applicable to the price setting event pricing revenue requirement (excluding assets held for future use revenue)	310,100	324,198	324,002	339,680	357,160
less Forecast operational expenditure	105,324	112,940	117,313	121,720	126,775
less Forecast depreciation	48,591	55,755	72,792	84,832	90,940
less Forecast unlevered tax	41,438	39,708	32,796	33,164	33,623
plus Forecast revaluations	-	-	-	-	-
Forecast regulatory profit / (loss)	114,747	115,796	101,101	99,966	105,823
Forecast regulatory investment value	1,233,739	1,468,842	1,773,467	1,984,282	2,149,243
ROI - comparable to a post tax WACC	9.30%	7.88%	5.70%	5.04%	4.92%
Forecast cost of capital	6.85% to 8.1%				

Explain any difference between the post-tax IRR on the pricing asset base and the post-tax IRR on the regulated asset base

A full description of Auckland Airport's approach to its forecast cost of capital and forecast target return (i.e. post-tax IRR) is provided at Section 4.3 of Auckland Airport's price setting disclosure. This includes an explanation of the differences between the post-tax IRR on the pricing asset base and the post-tax IRR on the regulated asset base (Section 4.3.2).

It is noted that the ROI calculation does not include any adjustments for the balance of carry forward adjustments and assumes mid-year cash-flows.

Forecast pricing revenue requirement from airport charges (including assets held for future use charges)

Forecast pricing revenue requirement (excluding forecast revenue from assets held for future use revenues)	310,100	324,198	324,002	339,680	357,160
Forecast revenues from assets held for future use charges	-	-	-	25,254	26,057
Forecast pricing revenue requirement from airport charges (including forecast revenue from assets held for future use charges)	310,100	324,198	324,002	364,935	383,217

Description of any other factors that are considered in determining the forecast total revenue requirement

No "other factors" (as defined in the ID Determination) were considered in determining the forecast total revenue requirement, other than those discussed in Sections 4.1 - 4.7 of Auckland Airport's price setting disclosure.

We note that the forecast assets held for future use revenue disclosed in line 101 above is the pre-tax revenue associated with the Runway Land Charge (ie the forecast total revenue from "airport charges" associated with assets held for future use).

Regulated Airport
Pricing Period Starting Year Ended

Auckland International Airport Limited
30 June 2018

SCHEDULE 19: REPORT ON THE FORECAST PRICING ASSET BASE REVENUE REQUIREMENTS (cont 3)

ref Version 3.0

(\$000)

19(vi): Opening Regulated Asset Base (applicable to price setting)

	30 Jun 17
120	
121	
122	Regulated asset base (applicable to price setting) as at 30 June 2016
123	less Forecast depreciation
124	plus Forecast revaluations
125	plus Assets commissioned
126	less Asset disposals
127	plus (less) Forecast adjustment resulting from cost allocation
128	Estimate of regulated asset base (applicable to price setting) at start of price setting event

	Pricing Period Starting Year - 1	Pricing Period Starting Year	Pricing Period Starting Year + 1	Pricing Period Starting Year + 2	Pricing Period Starting Year + 3	Pricing Period Starting Year + 4
	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22

19(vii): Forecast Asset Base (applicable to price setting)

	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22
131						
132	Forecast pricing asset base—previous year					
133	less Forecast depreciation					
134	plus Forecast revaluations					
135	plus Assets commissioned					
136	less Asset disposals					
137	plus (less) Forecast adjustment resulting from cost allocation					
138	Forecast pricing asset base					

Description of and explanation for the depreciation methodology applied

Auckland Airport has forecast depreciation based on the economic life of existing assets, and for new assets based on the average economic life of that asset class (determined with reference to the historical cost weighted depreciation of assets in existence prior to 30 June 2016). Straight line depreciation was used for all pricing assets. Auckland Airport's approach to depreciation is explained in more detail in Section 4.5 of the price setting disclosure.