

Ruth Nichols

From: Martin Harrington <Martin.Harrington@wellingtonairport.co.nz>
Sent: Thursday, 7 February 2013 10:39 a.m.
To: Ruth Nichols
Cc: dgates@kpmg.co.nz
Subject: RE: Information for publication on our website on 8 February

Ruth

As advised, I do not have any concerns regarding the Commission publishing the email trail.

I have also now been able to discuss this with KPMG to ensure that they do not have any concerns. They have confirmed that they are similarly Ok that this material be published but have asked that the following matter also be published in the email trail:

“KPMG emphasise that when considering WIAL's accounting of the terminal pricing wash up its procedures were performed as part of its audit of the WIAL 31 March 2012 financial statements and no additional work has been undertaken on this matter for any other purpose.”

I have copied the partner at KPMG into this email for his records.

I trust that the above is suitable for your purposes. Any questions let me know.

Rgds Martin

From: Ruth Nichols [mailto:Ruth.Nichols@comcom.govt.nz]
Sent: Tuesday, 5 February 2013 2:15 p.m.
To: Martin Harrington
Subject: Information for publication on our website on 8 February

Martin

We propose to place on our website when we release our final s 56G report, the confirmation you sent to us on 21 December 2012 that your auditors had reconfirmed the treatment of the wash-up and clarified the future on-going event. This is part of an email trail (see below), so the entire trail would need to be released. Please let me know if you have any concern about the publication of this material by COB today. Thank you.

We will also be publishing a letter of advice in relation to our s 56G review we received from Darroch, and Darroch's reports on land valuation compliance with ID requirements (2009 and 2011) – draft and final, and Wellington Airport's response (attached to your email dated 7 December 2012) to Darroch's draft reports.

Kind regards
Ruth

Email for website:

From: Martin Harrington [mailto:Martin.Harrington@wellingtonairport.co.nz]
Sent: Friday, 21 December 2012 10:33 a.m.
To: Ruth Nichols
Subject: RE: Follow-up question re terminal wash-up

Ruth

Further to my previous email, I have discussed your question with our auditors KPMG and they have reconfirmed that they remain comfortable with the treatment of the wash up and that this is in accordance with GAAP. While it may seem that a past event has triggered an obligation, the difference in this scenario is that there remains an ongoing future event. This is the future traffic (and hence revenue) that needs to occur by a third party airline before the discount is provided in the form of the reduced charges. These charges are available to all future users of the airport (who may be different to those that operated in PSE1).

To clarify further, there is no obligation to make any payment to the airlines. Furthermore if any airline undertook no further activity with WIAL there is no liability or cash payment that will need to be made to this airline or any credit provided on the past activity. The only obligation is that a discount is incorporated in PSE2 and will be provided on future spend - however this is dependent on an airline undertaking further activity. As such no liability existed at balance date.

I trust that the above answers your query.

I hope you have a great Xmas and well earned holiday.

Rgds Martin

From: Ruth Nichols [<mailto:Ruth.Nichols@comcom.govt.nz>]
Sent: Monday, 17 December 2012 2:59 p.m.
To: Martin Harrington
Subject: Follow-up question re terminal wash-up

Thanks Martin.

We would be grateful if you could clarify the response in more detail. It is not clear to us why you conflate the settlement with the obligation. We accept that the actual settlement of the wash-up is to occur through pricing in PSE2. As to when the obligation to pay arose, however, it seems clear that WIAL had entered an agreement to pay either before or as at 1 March 2012 (refer page 87 of the Final Pricing Document) as a result of a past event, and that the amount at that point was measurable, so appearing to meet the criteria for recognition of a liability under GAAP. Based on our interpretation of statements made, we would be surprised if your auditors were to accept that there was no present obligation to pay in future as at that date, irrespective of how it would eventually be settled. Could you please explain, with reference to GAAP, why you believe that the obligation did not eventuate until PSE2? Thank you.

regards
Ruth

From: Martin Harrington [<mailto:Martin.Harrington@wellingtonairport.co.nz>]
Sent: Monday, 17 December 2012 10:57 a.m.
To: Ruth Nichols
Cc: Paolo Ryan
Subject: RE: Follow-up question re terminal wash-up

Ruth

The arrangement for the terminal wash up did not create a liability in the 2012 year or in PSE1. As set out in the PSE1 Final Pricing Proposal any adjustment in respect of the terminal wash up would occur in the following pricing period ie PSE2 and be reflected in the prices going forward for that period ie a reduction in future revenue as opposed to a liability. The Final Pricing Proposal stated:

“BARNZ has questioned how a delay in building stage 2 might be addressed under WIAL’s proposed regime (i.e. forecast for year 2, actual in year 4). WIAL proposes to apply a credit as follows:

- Provide a credit in the next period for the WACC return and depreciation expense on any amount spent below the forecast capital expenditure for stage 2; and
- If the project timing varies from the forecast by more than 12 months, to calculate the timing benefit received by from the delay and provide this as a pricing credit in the next period.”

While the adjustment reflects an event that occurred in PSE1 the obligation to address this did not eventuate until PSE2 and was to be reflected in the prices going forward. It was similarly not necessary for WIAL to make any financial adjustment in its 2012 financial reporting.

I trust that the above answers your query. Any Q let me know.

Regards

Martin

From: Ruth Nichols [<mailto:Ruth.Nichols@comcom.govt.nz>]
Sent: Thursday, 13 December 2012 3:42 p.m.
To: Martin Harrington
Cc: Paolo Ryan
Subject: Follow-up question re terminal wash-up

Dear Martin

There is just one point that we want to follow up with you regarding the terminal wash-up. We note the obligation and agreement of the final value of the terminal wash-up was explained in the WIAL Final Pricing Document – 1 March 2012. From this it appears a financial liability for the repayment was established in the disclosure year ended 31 March 2012. The related expenditure does not however appear to have been recognised and disclosed in the operational expenditure in schedule S2. Nor does it appear to have been recognised for financial reporting purposes, based on our review of the 2012 Annual Report. Please can you describe Wellington Airport’s treatment of the liability in relation to the terminal wash-up both for financial reporting and information disclosure purposes. Thank you.

We would very much appreciate it if you could get this information to us by 5pm on Monday 17 December. Let me know if that is a problem.

Kind regards
Ruth

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