

20 March 2015

The Manager, Market Assessment and Dairy, Regulation Branch
The Commerce Commission
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Attention: Keston Ruxton

Dear Keston

INPUT METHODOLOGIES REVIEW

Introduction

1. Christchurch International Airport Limited (CIAL) welcomes the opportunity to respond to the Commission's open letter dated 27 February 2015 in relation to the proposed review of the Input Methodologies (the IM Review).
2. CIAL has reviewed and supports the New Zealand Airports Association's (NZAA) response to the Commission's letter. We do not wish to repeat the NZAA submission in this regard but rather focus on the resource implications of the timing of the IM Review.
3. The Commission proposes to complete the IM Review by 20 December 2016 to enable any changes to be considered by CIAL before resetting prices for PSE3 in July 2017. Putting aside the concerns raised by NZAA that the Commission is, in essence, seeking to establish a WACC percentile to be used in airport pricing, we believe the timing of the review may not, at least at a practical level, have the effect desired by the Commission.
4. Although prices are to be set not later than the prescribed date, the reality is that the extensive work required by an airport commences well in advance of that date. A typical pricing consultation process may involve approximately three months notification to airlines of a Final Pricing Decision preceded by a consultation period of approximately six months. By way of example, the Pricing Consultation Process for CIAL's PSE2 prices which took effect on 1 December 2012 commenced on 2 March 2012 with the Final Pricing Decision released on 24 October 2012. Without taking into account the internal preparation work required to release a Pricing Proposal, this will mean that the IM Review will be on-going while the PSE3 Price Consultation Process is well underway.
5. CIAL supports the NZAA concerns as to where the WACC percentile review may lead, but also wishes to bring to the Commission's attention these parallel, but separate, regulatory processes may lead to internal resources being stretched. It would be an

undesirable, albeit unintended, consequence of the IM Review if the quality of the Pricing Consultation Process were affected by the diversion of key internal resources.

6. CIAL is committed to ensuring the IM Review proceeds in both an efficient and effective manner. We believe this is most likely to occur and the process effectively resourced where material issues are identified early and only where evidence exists that a change to an IM is likely to have a beneficial impact on the quality of disclosures or the ability to monitor and measure airport performance should that IM be the focus of the IM Review.
7. Resources of interested parties, including airports, are likely to be most effectively deployed where early engagement and genuine discussion has occurred between those parties about the best approach going forward, and how expert evidence may best be utilised.
8. Thank you again for the opportunity to submit on the Commission's letter. Please do not hesitate to contact me in relation to any aspect of this submission.

Yours sincerely



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