

23 March 2015

Keston Ruxton
Manager, Market Assessment and Dairy
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Commerce Commission

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Dear Keston,

Review of input methodologies

I refer to the Commission's open letter on the proposed scope, timing and focus for the forthcoming review of input methodologies.

BARNZ supports the Commission's proposal to commence the review of input methodologies soon, with a view to concluding it by December 2016 so that the results are known before the default price-quality paths for gas pipeline businesses are reset in May 2017 and before Auckland and Christchurch Airport reset their prices, likely to also occur in May 2017 (so that they are promulgated in time for a 1 July 2017 commencement of the new charges). It is essential, in our view, that the outcomes of the input methodologies review are known in sufficient time to be taken into account and/or reflected in these price setting decisions. If not, then it would be another five years before any changes to the input methodologies could be reflected in prices paid by consumers. The consultations on pricing will be commencing in about July 2016.

However, there is one aspect of the review we request the Commission to undertake sooner in the process rather than later as it forms one of the initial building blocks which airports and airlines must work on in the price resetting process, and therefore needs to be finalised much sooner than the date upon which prices are reset. This is the land valuation, which takes many months to prepare by the airport's valuers, and then be peer reviewed by the airlines' valuers, and finally reconsidered by the airport's valuers. Airports are likely to start work on the valuation in the first half of 2016. The land valuations are based on the land valuation guidelines contained in Schedule A to the Airport Input Methodologies Determination. The s56G review process highlighted a number of areas where the directions in Schedule A need to be expanded or clarified. A date as late as December 2016 for completion of this work would be highly problematic. BARNZ requests that this piece of work be undertaken on a stand-alone basis early in the input methodology review process.

The Commission has also proposed to incorporate the work relating to the WACC percentile estimate for regulated airport services within the review of all input methodologies, scheduled for completion by December 2016. While BARNZ would have greatly preferred the work on the WACC percentile for airports to have been undertaken as a stand-alone project in 2015, as was the Commission's original intention, we acknowledge the economies available by combining the work with the wider review of the input methodologies. However, if the proposed December 2016 completion for the wider input methodology reviews cannot be confirmed, then BARNZ considers

that the work on the WACC percentile for airports should proceed separately on an earlier time frame. The WACC input methodology and appropriate percentile estimate are essential inputs to airline reviews of the reasonableness of the airport's proposed cost of capital for use in their charge setting process, and therefore clarity on the appropriate percentile estimate is required prior to Auckland and Christchurch Airports setting their charges in May 2017.

BARNZ supports the Commission's proposal to focus the review on those areas which are likely to have the most significant long-term benefit to consumers.

BARNZ is comfortable with the Commission's list of key topic areas. The treatment of unindexed (or un-forecast) land revaluations is an important area where BARNZ considers that the Commission's practical application of these revaluations within its IRR calculations undertaken for the s56G reports for airports has differed from the principles identified in the Commission's reasons paper which accompanied the initial input methodologies. This is an important matter which needs to be clarified.

Thank you for providing interested parties with the opportunity to comment on the Commission's proposed scope and timing of the input methodologies review at this time.

Yours sincerely



John Beckett
Executive Director