

23 June 2015

Keston Ruxton  
Manager Market Assessment and Dairy  
Regulation Branch  
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Dear Keston,

**Airport services fast track amendment proposal**

I refer to the proposal by the Commission to consider potential amendments to the airport land valuation methodology contained in schedule A of the Airport Input Methodologies under a fast tracked amendment process.

This proposal is supported by BARNZ. As noted in our submission of 23 March on the proposed scope and timing of the input methodologies review, land valuation guidelines will need to be available in a final format in early 2016 if they are to be incorporated into the pricing consultations due to commence mid 2016 in the case of Auckland and Christchurch Airports. Land valuations are one of the first building block elements provided to airlines for comment in the consultation process, and we would expect to receive them from the airports around July or August 2016 in order to enable airlines to commission their own expert reviews.

The Commission has proposed a process over the third and fourth quarter of 2015 with a decision by the Commission by 31 March 2016. BARNZ is comfortable with the proposed process, but considers that a decision at the end of March 2016 could well push out the finalisation of the valuations by the airports, such that they would not be ready to be provided to the airlines by July or August, which would in turn reduce the time available for airline review. The internal processes followed by the airports all include significant board review and approval processes which can take several months. It would therefore be highly desirable that the Commission's final decision be available by mid-February.

In terms of what should be covered by the land valuation methodology amendments, BARNZ has previously made submissions on issues regarding the land valuation guidelines (see in particular BARNZ feedback on the s56G process dated 5 May 2014 which suggested amendments to Schedule A and BARNZ's feedback dated 8 May 2015 on the Commission's draft review under s53B of WIAL's PSE3 pricing decision). The key matters raised in these submissions were:

- Improved direction in Schedule A with regard to the development of the alternative land use plan;
- Inclusion of an express requirement to undertake independent economic based demand analysis (including timing of such demand) for alternative uses of the land;

- The addition of the principle that the development or alternative land use must be one which is credible; and
- Clearer articulation of how the time and cost involved in, and likelihood of, obtaining zoning changes necessary for the alternative land use should be reflected in the valuation.

The Commission also asked whether any additional issues should be included in the airports' fast tracked process. While BARNZ would have liked to suggest the issue of the treatment of unforecast land valuations, we have observed that the issue of revaluation wash-ups generally also occurs for electricity and gas in relation to differences between actual and forecast inflation rates used for RAB indexation. We have therefore concluded that this issue is not one suitable for fast tracking under the airports process. However, we would ask that, if it becomes necessary for the Commission to defer conclusion of any matters to 2017, the question of wash-ups for revaluations not be one of the matters deferred. It is a key matter in relation to airport pricing, where updated land revaluations are required to be undertaken, and can be reflected in pricing. Any changes to the IMs in this respect therefore need to be known by the end of 2016.

We thank the Commission for being prepared to fast track the issue of amendments to the airport land valuation IM and we look forward to participating in that process very soon.

Yours sincerely,



John Beckett  
Executive Director