

REVIEW OF INPUT METHODOLOGIES: RESPONSE TO FAST TRACK PROPOSAL 23 JUNE 2015

1. The NZ Airports Association ("NZ Airports") makes this submission in response to the Commerce Commission's proposal to fast track certain airport input methodologies ("IMs") as part of its full IM review. Auckland International Airport, Christchurch International Airport and Wellington International Airport have been involved in the preparation of this submission.
2. The NZ Airports contact for matters regarding this submission is:

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Fast track proposal for Schedule A land valuation rules

3. NZ Airports has considered the Commission's proposal to "fast track" the review of the land valuation methodology and rules set out in Schedule A of the airport IMs. NZ Airports can understand the rationale for the fast track proposal.
4. We note, however, that if changes are ultimately made to the IM (a case for which has yet to be made) it does not necessarily follow that airports will undertake new regulatory valuations before setting prices in 2017. There are a number of factors that airports consider before choosing to undertake new valuations for regulatory disclosure or pricing purposes, which include the logistics involved in obtaining a new valuation. Further, any decisions about whether valuations flow through to pricing are complex and carefully considered.
5. In addition, if at any time it is apparent that the fast track process may compromise full and robust consideration of the perceived problem and potential solutions, then the timeframes must be extended. This will be particularly important if additional time is needed to allow for the parties' external expert advisors to effectively engage in the review process (including to meaningfully engage with the positions put forward by the Commission and its advisors).

Scope of Schedule A issues for consideration

6. The Commission has invited submissions on the scope of the land valuation methodology amendments it is proposing to consider, for the purpose of establishing the terms of reference for its expert valuer.
7. We think the scope should be limited to the issues identified by the Commission. We are not aware of any other Schedule A issues that have previously been raised by the Commission or airlines.
8. Before the Commission formulates its terms of reference for its expert valuer, we think it would be helpful for it to provide more information about which aspects of Schedule A are in its focus. For example, it would be helpful for the Commission to indicate which rules it considers are

insufficiently prescriptive, where it considers there are compliance ambiguities, and which aspects of the practical implementation of the requirements need to be aligned to current valuation standards and industry practices.

9. Given that any changes to the IMs will create uncertainty, it is important that perceived issues are tested and assessed with real rigour before the Commission accepts that a problem exists, and before potential advantages and disadvantages of any proposed solutions are examined.

Inclusion of other issues in the fast track process

10. NZ Airports does not consider that any other issues should be included in the fast track process. In particular, the Commission should be mindful that the inclusion of other matters may restrict or hinder the ability for the fast track process to operate as intended.
11. In our view, it is unlikely that there is a sufficient reason for any other aspects of the IM review to be fast tracked for airports, particularly given the Commission is already aiming to complete the review a full year ahead of the statutory deadline of December 2017. We cannot see any areas of the IMs where an earlier review timeline would deliver benefits in the context of the airport information disclosure regime.
12. If the Commission does propose to expand the scope of issues to be included in the "fast track" (whether in response to submissions or otherwise), we request an opportunity to respond to any such proposals before a decision is made.
13. That said, if the fast track process does result in amendments to the IM determination in advance of the full review being completed, then that may be an opportune time to correct any mechanical or technical errors in the IMs (on the basis that the sooner errors are corrected, the better). NZ Airports will respond more fully on the issue of where error correction fits within the Commission's decision-making framework at the appropriate time.

Process for fast tracked issues

14. It appears that the "fast track" process is intended to progress in parallel to the full IM review. We note that there are also likely to be other airport-related projects over this time, including analysis of airport disclosures under section 53B which we understand is currently scheduled for late 2015.
15. If these three processes are running in parallel, this is likely to pose a significant resourcing challenge to the affected airports and other interested parties. We ask the Commission to be conscious of this, and to seek to stagger its processes and minimise overlapping of deadlines where possible. This will allow interested parties to allocate their available time and resources to ensure effective engagement on all issues.
16. We also reiterate that it is critical that the Commission design its process in a way that allows sufficient time and opportunity for NZ Airports and other interested parties to effectively engage experts and to ensure that these experts are available for relevant workshops.
17. In the case of land valuation, this may include several parties for each airport, including valuers, urban planners and property economic experts. It is critical that the fast track process and timetable is clarified as early as possible so that the relevant experts may be engaged. These experts may also be required for the scheduled forum on 29-30 July 2015, and it would be useful for the agenda to be confirmed as soon as possible as this will determine which experts (if any) may need to attend. We appreciate the Commission is looking to publish its agenda by the end of June, which will be helpful.