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Keston Ruxton
Manager, Market Assessment and Dairy
Regulation Branch
im.review@comcom.govt.nz

PO Box 14001
Christchurch 8544
New Zealand
Telephone (+64 3) 358 5029
Facsimile (+64 3) 353 7730
christchurchairport.co.nz

Dear Keston

- 1 Christchurch International Airport Limited (*CIAL*) appreciates the opportunity to provide a cross-submission in response to submissions received by the Commission on its Input Methodologies Review problem definition paper.
- 2 *CIAL* supports the cross-submission made by the New Zealand Airports Association. In this cross-submission we comment briefly on specific issues of particular relevance to *CIAL*.
- 3 In particular, we wish to comment on the suggestions in the *BARNZ* submission that the Commission should develop IMs to prescribe alternative depreciation approaches, and, separately, smoothed price paths options. As the *BARNZ* submission notes, all of the major airports may eventually grapple with these approaches, for different reasons. However, as the Commission is aware, *CIAL* has had the most recent experience with the approaches. We also face the most immediate need to implement these approaches, in the lead up to our 2017 price reset.
- 4 In brief, our response to the suggestion of new IMs prescribing possible approaches is:
 - 4.1 we doubt whether a new IM would be helpful in practice. When it came to actually drafting such an IM it would be difficult to come up with principles that are both more prescriptive than the section 52A purpose statement and yet not so prescriptive as to rule out sensible choices or distort the exploration of tailored solutions;
 - 4.2 the fact of lessons learned with *CIAL*'s first smoothed price path removes the need for future prescription, rather than supporting the need. The reality is that a lot of lessons have been learned over the last couple of years and all stakeholders are better informed on the approaches to alternative depreciation and smoothed price paths;
 - 4.3 as noted in our submission, we are committed to exploring more simple approaches in the next pricing period. We will work with our customers on the options for a more simple approach to alternative depreciation and smoothed price paths in PSE3; and

- 4.4 the Commission's approach of requiring transparency and explanation remains the correct one.
- 5 As a practical matter, we also note that we will need to consult with our customers on more simple approaches to alternative depreciation and smoothed price paths well before the Commission finalises its reviewed IMs at the end of 2016. This has several implications:
- 5.1 this consultation process will be an opportunity to work through views on appropriate principles and approaches, including with the Commission; and
- 5.2 prescription in the reviewed IMs will open CIAL up to the risk of being measured against rules that are only put in place after we have had to make our commercial decisions.
- 6 On other issues, we are concerned by BARNZ proposals for more detailed disclosure of financial incentives offered by airports. By their nature, these incentives are more likely to be offered to new entrants and challengers than incumbent airlines - they are pro-competitive. New Zealand travellers benefit greatly if an airport is successful in negotiating the entry of a new airline or the addition of a new route. However airports will be less likely to offer incentives if the disclosure requirements are too granular, exposing the airport to claims from its airline customer base and driving negotiations to the lowest common discount. We don't assume this is BARNZ's intention but we do ask that the Commission be vigilant it is not the effect.
- 7 We would be happy to discuss any aspect of this cross-submission, and our principal submission, with the Commission.

Yours sincerely



Michael Singleton

GENERAL MANAGER LEGAL AND CORPORATE AFFAIRS

DDI: (+64 3) 353 7046

Email: michael.singleton@cial.co.nz