



4 September 2015

Keston Ruxton
Manager, Market Assessment and Dairy Regulation Branch
Commerce Commission
PO Box 2351
Wellington 6140
by email

Dear Keston

CROSS-SUBMISSION ON COMMERCE COMMISSION'S INPUT METHODOLOGIES REVIEW PROBLEM DEFINITION PAPER

Introduction and summary

- 1 Thank you for the opportunity to provide a cross-submission in response to submissions made on the Commission's problem definition paper. Wellington International Airport Limited (Wellington Airport) supports and provided input to the cross-submission made by the New Zealand Airports Association (NZ Airports).
- 2 This cross-submission responds to aspects of the submission made by the Board of Airline Representatives New Zealand (BARNZ) that relate to land valuation. Whilst we understand that the Commission has set aside a fast track process regarding land valuation, we felt compelled to respond to a couple of points raised by BARNZ in its submission.
- 3 Wellington Airport supports the Commission's decision to fast track consideration of whether Schedule A can be improved to reduce the range of valuations being produced by expert valuers. We look forward to discussing the causes of variation in expert evaluations and, importantly, proposals for a robust process going forward.
- 4 We also support the practical proposal to identifying a 2010 valuation by interpolating from existing valuations. The BARNZ submission unhelpfully re-litigates arguments made by BARNZ during the Commission's section 56G process for Wellington Airport with the objective of re-opening valuations from 2009 and 2011. This is despite statements on the record from our valuer and the valuer engaged by BARNZ¹ that the valuations at that time were consistent with the input methodologies.
- 5 We recommend that the Commission should give the strongest possible guidance to all submitters that this review should be forward looking and any changes will not be applied with retrospective effect.

¹ Letter from Property Advisory Limited to BARNZ, 14 July 2011, page 4

Variations in expert land valuations

- 6 Wellington Airport ensured a robust valuation process by engaging professional advisers and responding to feedback from the airlines and Commission's advisers. The 2009 and 2011 MVAU valuations commissioned by Wellington Airport were discussed with airlines in the PSE2 consultation, before being evaluated by the Commission during its section 56G reviews.
- 7 As stated above, Wellington Airport notes that Telfer Young, engaged by Wellington Airport, and Property Advisory Limited (PAL), engaged by BARNZ, both expressed the opinion that the valuation process undertaken by Telfer Young complied with the requirements of Schedule A at that time.
- 8 However, the expert valuers engaged by Wellington Airport, BARNZ and the Commission each expressed different opinions at times on certain aspects of the valuations. We consider that this reflects the differences in professional judgment of the experts as they grappled with a new valuation approach under Schedule A and complex issues for a hypothetical valuation scenario (and in some cases, simply reflects a desire for additional supporting information) rather than "non-compliance" with the IM.
- 9 The main differences in land valuation approach were as follows:
 - 9.1 The alternative land use mix in the MVAU approach;
 - 9.2 Whether any timing allowance is required for zoning changes, and if so how long; and
 - 9.3 The appropriate amount of information needed to support an expert assessment.
- 10 As a result, different valuations were produced by Telfer Young and PAL. This was somewhat frustrating for all parties, but not unexpected given the different objectives in consultation between airlines and airports. We contracted expert valuers (Telfer Young) who in turn commissioned professional urban planners (Boffa Miskell). We instructed our experts to follow Schedule A and required them to certify consistency with the input methodologies. We also asked our experts to respond to comments received during consultation and the section 56G process. No doubt BARNZ and the Commission did something similar, but the experts came to different expert judgments.
- 11 We also note that as part of the Commission's s56G report for Wellington Airport it published advice from its advisors Darroch regarding their review of the MVAU land valuations for 2009 and 2011. This advice reported a couple of areas of non compliance. We in turn asked our advisors Telfer Young to provide comment on the Darroch advice and consequently provided this feedback to the Commission in our letter dated 7 December 2012. In short this letter reiterated that our valuations were compliant with the IMs.
- 12 Notwithstanding this, we consider that the IMs and Schedule A should be able to be improved to ensure that the valuation approach is more clearly understood. We expect that the Commission's fast track process will address the current ambiguities and enable increased certainty to be achieved for future valuations.

13 However, we consider that the Commission must remain mindful that:

(a) while the Commission desires a narrowing of the range of valuations, the valuations will still rely on expert assessment and expert opinions will vary. In addition, Wellington Airport has significant concerns about the principles underlying the approaches taken by the valuers for BARNZ. As a result, focus should be on ensuring that clarity is provided in terms of the economic and valuation principles which guide the required valuations; and

(b) a principled approach requires that any changes to the valuation methodology to be forward-looking rather than retrospective.

A 2010 valuation

14 We support the proposal to identify a 2010 valuation by interpolating between the 2009 and 2011 valuations. As far as we are aware this exercise is of historic interest only and will make no difference to any long term evaluation of Wellington Airport's actual outcomes.

15 While our view is that a retrospective change to the 2009 and 2011 valuations is unwarranted, even if the earlier land valuations were reduced by an amount of \$11 million (being equivalent to the valuation reduction made in 2013), this would not be material to Wellington Airport's total regulatory asset base (which is over \$400 million) or a return on assets assessment.

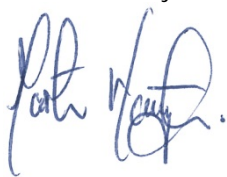
16 WIAL considers that all stakeholders should be working towards an efficient, low cost method of filling the gap in the historical record with adoption of an interpolated 2010 valuation.

17 As a result we are disappointed with this aspect of the BARNZ submission, and consider that the IM Review is not advanced by re-litigating valuations undertaken between 4 and 6 years ago.

18 However, we consider that the land valuation issues can be addressed going forward and we look forward to engaging with the Commission on this further as part of the fast track process.

If you should have any questions about the topics contained in this submission, please contact Martin Harrington at martin.harrington@wellingtonairport.co.nz.

Yours sincerely



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