



# Profitability Workshop

Tuesday 26<sup>th</sup> April:  
Enabling transparency for Auckland Airport pricing and returns

**A** | Auckland  
Airport

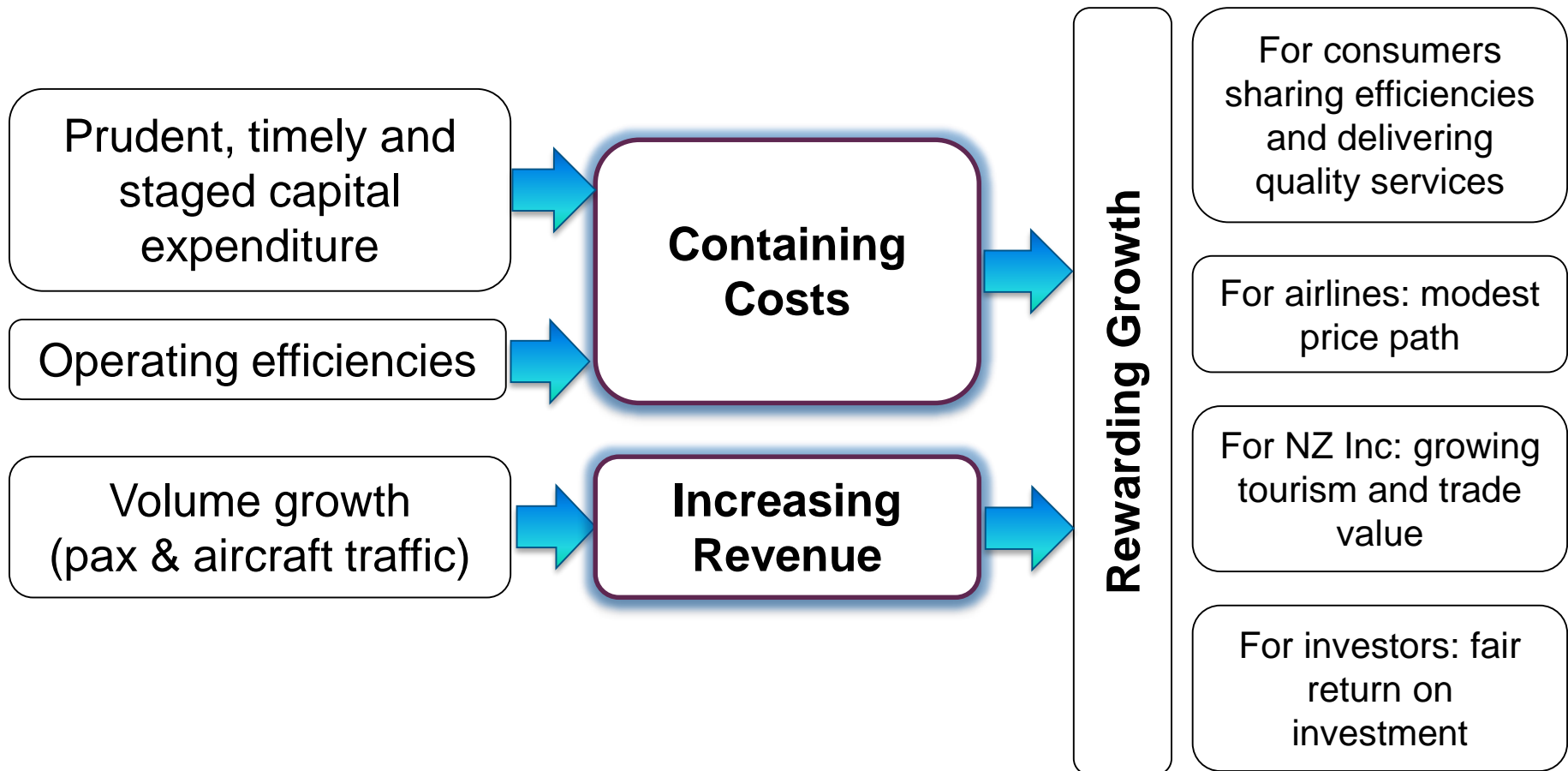
# FOCUS TODAY

**AUCKLAND  
AIRPORT PRICING  
CONTEXT**

**WORKING WITH  
THE INPUT  
METHODOLOGIES**

**TRANSPARENT  
TREATMENT OF  
REVALUATIONS**

# OUR FY12 PRICING VISION – REWARDING GROWTH



# ECONOMIC EFFICIENCY PRINCIPLES

- Pricing is about affecting the efficiency of a decision that affects the future
  - Inefficient not to signal how demand growth is driving the need for a step change in investment
  - There are inequities in pricing services by not signalling the cost of growing demand, & instead pricing the services upwards just after a significant increase in the avoidable supply of the service
- Focus – Price efficiently, then to work with ID to enable transparency

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# POSSIBLE APPROACHES

- Offset to “Assets held for future use” carrying value
- Offset to future revenues – carry forward
- Use of “Non standard depreciation” of existing assets

# NZCC templated options

## LHFU SOLUTION

- Disclose revenues specifically tied to future use assets separately from the general profitability indicator and track these against the value of the future use assets, on both an ex ante and ex post basis

### Forecast LFHU balance

	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21
Opening Balance		100	104	108	112	117
Holding costs		7	7	8	8	8
Revaluations		2	2	2	2	2
Special levy		7	7	7	7	7
Costs		1	1	1	1	1
Closing Balance	100	104	108	112	117	122

# AHFU – specific IM change required

- There is a mechanical error in the treatment of tax in the IM, which reduces its ability to effectively track future use asset values and revenues
- We understand that:
  - If Auckland Airport earns interim revenues on an asset held for future use this should be subtracted from the carrying value of the assets. This seems logical and fair.
  - However, Auckland Airport is required to pay tax on any interim revenue that may be earned on a future use asset, but is required to subtract the gross revenue from the carrying value of the assets. We consider this to be an error in the IM.
- We request the Commission document its position on this matter as soon as possible



# NZCC templated options

## Carryforward solution

- Disclose any additional revenue in the general profitability indicator and account for its impact through carry-forward adjustments to reflect that this revenue will be offset in the future

### IRR Calculation

Opening RAB  
 Opening carry forward adjustment  
 Opening Investment Value  
 Revenue  
 less Opex  
 less Capex  
 less Tax  
 add asset disposals  
 Closing RAB  
 Closing carry forward adjustment  
 Closing Investment value

### Use carry forward mechanism to signal value of revenues to be returned in future

31-Mar-16 31-Mar-17 31-Mar-18 31-Mar-19 31-Mar-20 31-Mar-21

	500					
	-					
	500					
		72	72	72	72	72
		(15)	(15)	(15)	(15)	(15)
		(20)	(20)	(20)	(20)	(20)
		(12)	(12)	(12)	(12)	(12)
		-	-	-	-	-
						586
						(27)
						559
Total cash flows	(500)	25	25	25	25	584

Effective return targeted by airport

7.0%

# Use of non-standard depreciation

- Could be used to mimic the accelerated utilisation of assets prior to the commissioning of new material assets.
- We propose to explore in consultation airline views on the further use of non-standard depreciation for airfield or terminal assets
- We are keen to understand lessons from stakeholders on the application of ID in this area

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# EARLY STAGE PROPOSAL TO TAKE INTO CONSULTATION

- Status quo proposed for PSE3
- Open to consultation feedback
- Commitment to a principled approach
- The key is to provide transparency to enable assessment of returns now and into the future for a range of possible scenarios

[airportofthefuture.co.nz](http://airportofthefuture.co.nz)

