

Introduction

1. The Commerce Commission ("**Commission**") has invited submissions responding to its proposed amendments to information disclosure determinations for airport services, electricity distribution services, and gas pipeline services of 30 June 2017 ("**proposed amendments**").
2. The New Zealand Airports Association ("**NZ Airports**") contact for this submission is:

Kevin Ward
Chief Executive
PO Box 11 369
Manners Street
Wellington 6011

Email: kevin.ward@nzairports.co.nz

3. NZ Airports has not identified any material issues regarding the Commission's proposed amendments, as they largely implement decisions previously made and/or align the information disclosure ("**ID**") requirements with updated input methodologies. The following briefly comments on each proposal.

Proposed conditional exemption for AIAL and CIAL from Report on Return on Investment pending a future ID change

4. The Commission is proposing a conditional exemption for Auckland International Airport and Christchurch International Airport from complying with the return on investment requirements of the airport services information disclosure determination ("**ID Determination**") for their disclosure years 2018 and 2019.
5. An exemption is considered necessary because since the completion of the 2016 input methodologies review ("**IM Review**"), and until further ID amendments are made, there will be an inconsistency in approach for assessing profitability between the Commission's backward-looking financial return requirements and its forward-looking financial return requirements for Auckland International Airport and Christchurch International Airport.
6. NZ Airports supports the approach the Commission is proposing to take while a more permanent amendment to the ID requirements is developed. However, where the Commission receives information that will assist a full contextual assessment of the price setting disclosures, including backward-looking financial returns, NZ Airports would expect the Commission will take this into account notwithstanding any technical inconsistencies.

Interpolated initial regulatory asset base value for land

7. The Commission proposes to introduce a transitional schedule requiring the disclosure of information used to calculate the initial regulated asset based ("**RAB**") value for land as at calendar year 2010. The intent is that this amendment will assist the Commission in its summary and analysis process by providing an objective starting point for the assessment of airports' financial returns from the beginning of the regulatory regime.

8. In the IM Review reasons paper, the Commission proposed a solution designed to address the problem that arose from the High Court judgment that required the initial RAB value for land to be assessed as at 2010. The solution contained in the IM Review reasons paper was:¹
- (a) To set the initial RAB value for airport land as at 2010 using a pragmatic proxy by interpolating 2009 and 2011 MVAU land values based on existing MVAU land valuations; and then
 - (b) To add to the calculated proxy the value of any capex and disposals related to the land that occurred up to the date of the interpolated value.
9. As the Commission has noted, NZ Airports supports the solution contained in the IM Review reasons paper.² NZ Airports believes that the proposed amendments will implement this solution, and agrees with the approach of introducing a one-off transitional schedule.

Cost allocation information

10. The proposed amendments include requiring that, where proxy allocators are used, airports explain why they have used a proxy allocator and why they have used a particular quantifiable measure as the proxy allocator. The proposed amendments are designed to implement the decisions made in the IM Review.
11. NZ Airport's view on this matter as expressed during the IM Review has not changed. We did not support the IM amendments to require additional explanation where a proxy allocator has been used, because in our view the additional disclosures simply require greater explanation that do not serve any real purpose.³
12. NZ Airports is therefore concerned to ensure the proposed amendment to clause 2.3(4) of the ID Determination is workable and imposes the least cost possible. As NZ Airports understands it, the Commission's intent is for airports to explain why a proxy allocator has been used instead of a causal allocator and why a particular quantifiable measure was used.
13. We note that airports must disclose the rationale for all allocators (eg including proxy allocators) under the ID Determination as it currently stands.
14. Accordingly, NZ Airports understands that the proposed new requirements will simply require airports to more clearly explain why a proxy allocator has been used instead of a causal allocator – and to ensure that airports continue to explain the rationale for the proxy allocator used. We ask that the Commission provides further explanation in the final decision if our understanding is incorrect.
15. We also believe that clause 2.3(4)(b)(i) should be amended as follows:
- Why a causal relationship cannot be established **or it is impractical to use a causal relationship**; and
- [proposed new wording in bold]
16. This proposed wording more accurately reflects the Commission's stated intent during the IM Review to allow the use of proxy allocators if using a causal relationship is impractical, and

¹ Commerce Commission *Input methodologies review consolidated reasons paper* 20 December 2016, para 715, p 1063.

² Commerce Commission *Input methodologies review consolidated reasons paper* 20 December 2016, para 722, p 1064.

³ NZ Airports *Cross-submission on Commerce Commission's input methodologies review draft decision* 18 August 2016, para 76, p 15.

the requirements of the amended IM.⁴ NZ Airports suggested during the IM Review, and the Commission accepted, that the ability for airports and airlines to develop commercial solutions to cost allocation should not be limited by a requirement that if a causal relationship exists then it must be used.⁵ Since then, some airports have quite reasonably set prices on the assumption that the impracticality test expressed during the IM Review would be included in clause 2.3(4)(b)(i).

Cost of capital

17. The Commission proposes a number of amendments to the ID Determination in respect of cost of capital:
 - (a) To adjust the leverage from 17% to 19%;
 - (b) To change references to the term "debt premium estimates" to "average debt premium estimates" in the definition for "cost of debt assumption"; and
 - (c) To amend the formula for ascertaining the "cost of debt assumption" by adding "debt issuance costs".
18. NZ Airports agrees that the proposed amendments will align the requirements of the ID Determination with the changes made during the IM Review.

Cross-reference updates

19. The Commission proposes amending cross-references to the Input Methodologies Determination in the ID Determination to no longer reference the specific clause in the Input Methodologies Determination.
20. NZ Airports has no issues with this proposed approach.

Matters deferred to future rounds of amendments

21. The Commission has provided an overview of the matters deferred for consideration during this round of amendments. Below, NZ Airports suggests some additional topics for the Commission's consideration of whether they should be addressed during future rounds of amendments (and we trust that that Commission will remain open to receiving further suggestions as and when potential topics are identified):
 - (a) Schedules 4(b)(ii) and (iii) of the ID Determination concern disclosure where a non-standard depreciation methodology has been used. It is unclear to NZ Airports why this disclosure remains relevant given that clause 3.4(5) of the input methodologies prescribes that the application of non-standard depreciation is to be considered as part of a price setting event, with disclosure of the use of a non-standard depreciation methodology to take place in price setting disclosures;
 - (b) NZ Airports would suggest that a comment is added to Schedule 4(b)(iv) of the ID Determination to make it clear that the schedule is only to be completed if an airport elects to revalue assets for the pricing period; and
 - (c) The Consolidation Statement provided for in Schedule 8 of the ID Determination adds little value to the regime and its purpose should be considered as part of a future round of amendments.

⁴ Commerce Commission *Input methodologies review decisions: Report on the IM review* 20 December 2016, para 59, p 15.

⁵ NZ Airports *Cross-submission on Commerce Commission's input methodologies review draft decision* 18 August 2016, paras 74-75, pages 14-15.