

## Appendix A: Responses on specific Commerce Commission questions / comments

Issue	Draft Report comment	Auckland Airport response
<p>“Key capital expenditure projects” vs “other capital”</p>	<p><i>“We do agree however, that spending on ‘other capital’ was significant over the PSE2 period. Auckland Airport spent \$158m against a forecast \$88m. Given that this category is approximately 30% of total capital expenditure, we consider there could be better explanations for the \$70m overspend in the PSE2 pricing disclosures.</i></p> <p><i>Further, it would be useful to understand the criteria/threshold that Auckland Airport uses when deciding whether to classify a project as a key capital project or include it as ‘other capital’. We note in Auckland Airport’s PSE3 forecast ‘other capital’ is forecast to fall below 1%, which implies a high degree of confidence that the vast majority of capital expenditure requirements for PSE3 will be met through forecast key capital projects.”</i></p>	<p>We acknowledge that spending on ‘other capital’ was significant over PSE2. We found during PSE2 that projects when specified did not always have the same boundaries as the projects set out in pricing and were more specific than was necessary. For example we specified particular locations for stands, when in practice the locational options for delivering stands can be subject of discussion during the pricing period. There was also a material degree of repurposing of project spend as explained in our disclosures.</p> <p>One of the more challenging aspects to deal with when comparing actuals to forecast are that the design process and its testing of constructability can efficiently lead sub-projects to be bundled in a way that differs from what was expected pre-feasibility or during feasibility.</p> <p>During the planning process for PSE3 we spent considerable time reviewing the programme taxonomy with a goal of improving our ability to track projects through the design process to the forecast. In practice it is still possible that project sub-elements may be bundled differently than anticipated when prices were set.</p> <p>The projects set out in Schedule 18 contribute to one output or a set of broadly overlapping outputs. For each of these Auckland Airport has consulted with airlines on the aims and objectives, followed a structured process to determine the need and shared this with airlines through the consultation process. All projects are at least over \$5m in value.</p>
<p>Peak pricing differential – general</p>	<p><i>“Overall, our draft conclusion is that Auckland Airport’s decision not to include peak pricing over the PSE3 period does not necessarily raise any significant efficiency concerns. The submissions from BARNZ and Air New Zealand, and the views of IATA and ICAO, suggest there may be little demand response from airlines. Consequently peak pricing will probably not make much difference to congestion and thereby improve efficiency.</i></p> <p><i>However the potential to lower off-peak pricing implicit in peak pricing could be a more efficient way to recoup Auckland Airport’s fixed costs and increase airport utilisation. This is an area Auckland Airport’s</i></p>	<p>The Commission has noted that an expert report by Estina for Auckland Airport addressed the issue of peak differentials in detail. As noted by the Commission, Estina acknowledged that there would be some merit to introducing a peak pricing differential, but also noted that there are a number of complex issues that need to be considered when deciding on such a charge and, on balance, there was no compelling reason to introduce peak pricing at Auckland Airport for PSE3.<sup>1</sup></p> <p>For PSE3, Auckland Airport concluded that the cost of implementation would be high, and the benefits of introducing peak pricing would be highly uncertain. We were also grappling with the implementation practicalities of a number of price structure challenges, which would have been stretched even further had we attempted to introduce a peak pricing differential.</p> <p>At the time we set prices, the specific technical issue raised by the Commission (its view that peak pricing differentials may be a way of implementing Ramsey Pricing principles and lowering charges for user groups with potentially higher demand responsiveness) was not a</p>

<sup>1</sup> Estina Advice on Peak Price Differentials June 2017.

	<p><i>price setting should have given greater consideration to. Nonetheless we do not have reasons to believe their pricing is necessarily inefficient.”</i></p>	<p>major feature of the pricing consultation – although Auckland Airport did carefully consider the concept of peak charging more generally, including reflecting on airline feedback.</p> <p>We will carefully reflect on the Commission’s suggestion for future pricing periods. In the interim, Auckland Airport will continue to test the elasticity of demand to peak and off-peak services through its route development function and the allocation of route development or other off-peak incentives throughout the period.</p>
<p>Peak pricing differential – Runway Land Charge</p>	<p><i>“We accept that airlines are unlikely to meaningfully alter their demand at peak times, and as a result peak-based charging is unlikely to have a meaningful impact on reducing congestion. We also accept it may not be possible to identify the extent to which different users can be expected to benefit from the second runway, making it difficult to apportion the RLC on this basis. In particular, it is not clear that it is the current peak time users that stand to benefit most from the second runway. For example, there may currently be off-peak users that will benefit from using the second runway at peak times. In addition, new demand may emerge for peak time slots on the second runway, which generates network efficiencies to the benefit of other airlines and New Zealand airports.</i></p> <p><i>Consistent with this view, we do not consider Auckland Airport’s decision to apply the RLC as a flat-rate charge necessarily raises significant efficiency concerns. Nonetheless, decreasing the charge on non-peak users relative to peak users could improve allocative efficiency, relative to the flat-rate charge, by minimising the impact on demand of these higher charges. Auckland Airport should have given relevant consideration to this.”</i></p>	<p>We agree with the Commission’s view that our decision to apply the RLC as a flat-rate charge (rather than differentiated between peak and off-peak users) does not raise significant efficiency concerns. As part of developing the RLC, we carefully considered whether the charge should apply to all users or just at peak times. We also considered whether peak charging could provide an alternative to the RLC following feedback from airline customers. Ultimately, we considered that a flat charge was appropriate.</p> <p>As noted above, we had not specifically turned our mind to the Ramsey Pricing question of whether allocative efficiency may be enhanced by recovering the RLC from users with lower demand responsiveness. As Auckland gets nearer to the commissioning of the second runway, we may need to re-evaluate the mechanisms of the RLC at future pricing periods (and our consultation obligations will require us to reconsider the charge when we reset prices in any event). Auckland Airport will carefully reflect on the Commission’s feedback at that time.</p>