



COMMERCE COMMISSION

965146_1

ASSET PLANNING AND FORECAST INFORMATION DISCLOSURE FOR AIRPORTS

WORKING SESSION PAPERS

29 JANUARY 2010

Introduction:

These papers are background for the Commerce Commission's working session on asset planning and forecast information disclosure for suppliers of specified airports services. This forms part of the Airports workshop being run on 17 and 18 February.

These papers are intended to inform attendees of the content for discussion and likely agenda of the working session. This session is scheduled for the afternoon of February 18th.

Included in this pack are the following materials:

- *Airport Information Disclosure: Asset Planning and Forecast Information Disclosure Working Session Agenda, 18th February 2010; and*
- *Overview of the Commission's amended preliminary view on asset planning and forecast information disclosure for airports (February 2010).*

Airports Information Disclosure - Asset Planning and Forecast Information Disclosure Working Session Agenda

Thursday 18 February 2010, 1pm – 5pm

Purpose of the Working Session

The purpose of the working session is to assist the Commission to consider how to most appropriately specify information disclosure requirements for asset planning and forecast information, for specified airport services. Issues out of scope for this working session are:

- other categories of information disclosure for specified airport services, including pricing methodology disclosures; and
- asset planning/forecast information disclosure for other regulated sectors.

Session 1

1:00pm - 1:15pm

Introduction & overview of Part 4 Information Disclosure for airports (Overview Paper)

The purpose of the introduction is to confirm with participants the purpose of the working session, and to:

- briefly outline the background to the disclosure of asset planning information for airports. Specifically, this opening session will outline the Commission's view of its need to require asset planning and forecast information to ensure sufficient is available for interested persons to assess whether the purpose of Part 4 is being met; and
- provide a brief overview of the context for the work within the broader work programme.

1:15pm - 2:45pm

Attendees comment on the Commission's approach (Overview Paper)

This period allows attendees the opportunity to discuss and present their views regarding the Commission's overall approach to the proposed disclosure of asset planning information. It is expected that the following topics will be discussed (non-exhaustive)

- Ex-Ante vs. Ex-post disclosure of information; and
- Timing and Frequency of Disclosures (i.e. when pricing is reset).

Afternoon Tea (30 Minutes)

Session 2

3:15pm – 4.45pm

Proposed Asset Planning and Forecast Information Disclosures Review

This session will review the Commission's specific proposed asset planning and forecast disclosures as outlined in Table 1 in the overview paper. It is expected that the following topics will be discussed (non-exhaustive):

- Disclosure forecast period;
- The availability of the requested information;
- Internal changes that would be required of Airports if the proposed disclosures were implemented; and
- Any issues regarding commercial sensitivity and confidentiality.

4:45pm – 5pm

Conclusion

The Commission will summarise the key points covered within the working session.

OVERVIEW OF THE COMMISSION'S AMENDED PRELIMINARY VIEW ON ASSET PLANNING AND FORECAST INFORMATION DISCLOSURE FOR AIRPORTS

Purpose of this paper

1. This paper:
 - provides an overview of the Commission's amended preliminary view on the disclosure of asset planning and forecast information for specified airport services regulated under Part 4 of the Commerce Act; and
 - provides current thinking for the revised approach in the light of submissions received.
2. The revised approach outlined in this paper will provide the basis for the working session on forecast information disclosure for airports scheduled for 18 February 2010.

Consultation on Proposal to disclose Asset Management Plans and other forecast information

3. On 29th July 2009 the Commission released its *Information Disclosure Discussion Paper*¹ (discussion paper). In the discussion paper the Commission proposed that Asset Management Plan (AMP) disclosures should be required for specified airport services and include:
 - Assets covered;
 - Service levels;
 - Development planning;
 - Lifecycle asset management planning;
 - Risk management; and
 - Evaluation of performance.
4. In addition, the Commission proposed that the financial information disclosures include:
 - capital and operational expenditure forecasts;²
 - demand forecasts;³ and
 - the key components of regulated total revenue and costs.⁴
5. The Commission's preliminary view in the discussion paper was that the disclosure of AMPs is integral to ensuring that, over the longer term, interested persons can monitor whether or not regulated suppliers face appropriate incentives to improve efficiency and to innovate, as well as provide services at a price and quality that reflects consumer demands.
6. Submissions received from suppliers of airport services did not generally support the disclosure of AMPs as outlined in the Discussion Paper, or the disclosure of forecast

¹ Commerce Commission, *Information Disclosure Discussion Paper*, 29th July 2009

² *Ibid.*, para 467

³ *Ibid.*, para 454

⁴ *Ibid.*, para 484

information generally. The New Zealand Airports Association (NZAA) suggested that AMP disclosures are not suitable for the Airports sector. In particular NZAA expressed concern that the costs of AMP disclosures are disproportionate to the benefits.⁵ NZAA also suggested that the objective of the Commission's proposals was to encourage efficient investment, which (in their view) is moving beyond the purpose of information disclosure under the Act.⁶

7. The Commission is cognisant of the need to ensure that the costs of requirements are proportionate to the benefits of introducing new requirements. It intends therefore, to explore as part of the February working session the extent of the current availability or otherwise of the various kinds of asset planning and forecast information.
8. BARNZ, in its submission, supported a requirement to disclose forecast and asset management planning information. BARNZ generally supported the Commission's preliminary views, and made suggestions beyond the Commission's proposals in terms of descriptions of assets covered, including justification for newly developed assets.
9. In NZAA's view the disclosure of capital expenditure forecasts as proposed for asset planning disclosures are not necessary as they are part of consultation under the Airports Authorities Act (AAA).⁷ NZAA note that consultation processes under the AAA meet the requirement for the review of forecast capital expenditure and address any potential for the 'gaming' of forecasts.⁸ NZAA further assert that it is not necessary to make this information available to all interested parties under Part 4.⁹ NZAA argued that key objectives of Part 4 could be met through the disclosure of the Master Plan, Annual Master Plan update comments, Annual Capital Expenditure updates, Innovation Statements and Customer Service Perception Reporting.¹⁰
10. The Commission recognises that airports undertake substantial investments associated with asset management planning. To the extent that the requirements created by the Commission reflect existing good business practice, compliance costs can be avoided.
11. However, the Commission is of the view that the role of information disclosure, as specified by s53A, implies the *public* disclosure of information as being necessary. Accordingly, the Commission considers the disclosure of consultation process material (such as forecast capital expenditure information) as being necessary to meet the purpose of information disclosure.
12. The Commission also notes that BARNZ does not agree that consultation under the AAA meets the role of reviewing forecasts of capital expenditure or addresses potential for 'gaming' of forecasts. In BARNZ's view public debate is restricted on the appropriateness or timing of planned investment by the restriction of consultation to substantial customers, and by consultation confidentiality restrictions placed upon airlines by the airport companies. BARNZ also note that 'gaming' on forecasts has previously occurred.¹¹

⁵ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, para 162.

⁶ *Ibid.*, para 170

⁷ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, p.46

⁸ NZAA submission, 11 September 2009, p.80

⁹ *Ibid.*, para 97

¹⁰ *Ibid.*, pp.40-41

¹¹ BARNZ, *Cross-submission by BARNZ on NZ Airports' submission with respect to the Commission's information disclosure discussion document*, 2 November 2009, p.7

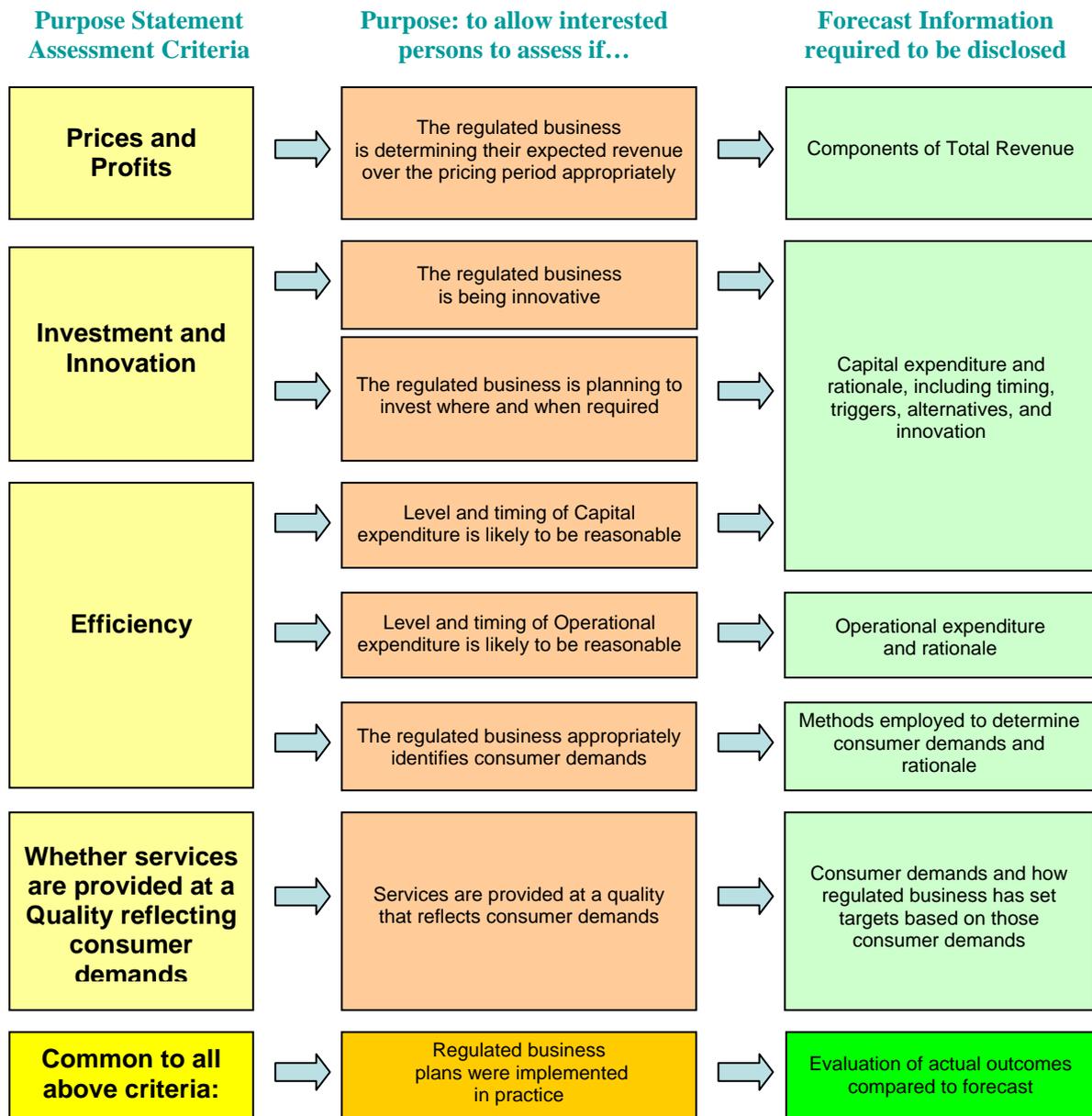
13. The Commission further notes that BARNZ disagrees with the proposal to provide Master Plans as a means of meeting Part 4 objectives. BARNZ has indicated that Master Plans contain no quantifiable information regarding the likely costs of forecast investments, and provide only vague indications on likely timing or phasing of forecast investments, and the triggers for such investments.¹²
14. The Commission remains of the view that disclosure of prospective information is relevant to the purpose of information disclosure regulation. For example, the Commission notes that s53(C)(2) of Part 4 provides for disclosure of a broad range of both historical and future focussed information. Additionally, as outlined in the Input Methodologies (Airports Services) emerging views paper, information disclosure regulation, by its very nature, influences the performance of regulated suppliers to meet the outcomes specified in s 52A.¹³

Commission's Amended Preliminary View

15. In the light of issues raised in the consultation, the Commission has amended its preliminary view to the disclosure of forecast financial and asset related information.
16. In particular, the Commission has taken into account:
- the relationship between information disclosure and airports' price setting and consultation processes under the AAA;
 - the differences between airports and other businesses regulated under Part 4 of the Commerce Act;
 - information that is currently available, including AAA consultation material; and
 - consequent consideration of the frequency and cost of disclosure requirements.
17. In addition, the amended preliminary view dovetails with the AAA consultation and price setting process, and increases its focus on forecast profitability and financial performance.
18. The following diagram displays the Commission's framework for the specification of asset planning and forecast information disclosures:

¹² Ibid. p.6

¹³ Commerce Commission, *Input Methodologies (Airport Services) Emerging Views Paper*, 23 December 2009, para 59

Diagram 1: Asset planning and Forecast Information Disclosure Framework

19. Key features of the proposed asset planning and forecast information disclosures are:

- there would not be a requirement to disclose an “Asset Management Plan” as a stand alone document;
- the regulated airports services would be required to publicly disclose the basis for setting their total revenue requirements over five years immediately following the setting of prices under the AAA. This disclosure would include:
 - disclosure of the core elements used for setting the total forecast revenue requirement (e.g. return on capital, opex requirements, tax, depreciation);
 - supporting information for the revenue methodology used (e.g. capex requirements and demand information); and
 - key forecast metrics for an additional five-year period covering longer-term plans for investment and associated expenditure. Consistent with the focus on long-term

capital expenditure, this is to assist interested persons to make an assessment about airports' medium term capital expenditure;

- subsequent disclosures of this information would follow the subsequent setting of prices within each airport (i.e. within five years of the previous prices being set); and
- there would be no requirement to disclose the revenue methodology in accordance with input methodologies; however, historical financial information would be disclosed in accordance with input methodologies; and
- there would remain an annual disclosure of actuals against forecasts during the period covered by the forecast.

20. Table 1 below provides an initial model of the kinds of forecast information that would be disclosed under this approach:

Table 1: Proposed Asset planning and forecast Information Disclosures

21. The following tables outline the Commission's proposed total revenue requirement disclosures for suppliers of specified airport services.
22. The Commission's amended preliminary view is that total revenue requirement disclosures for airports should be divided into two separate disclosures a) the components of total revenue for the 5-year period for which prices shall apply; and b) key forecast metrics to cover an additional 5-year period.

A) Components of Total Revenue – for the immediate 5-year pricing period

Category	Disclosure	Detail
Revenue Methodology	Revenue Methodology	Details of the revenue methodology used to determine the revenue requirement
	Required Return on Capital	Details of the forecast WACC assumptions and the extent to which they are used to determine the revenue requirement.
	Operating Costs	Details of forecasted operating costs by cost category and the extent to which they are used to determine the revenue requirement.
	Depreciation on Assets	Details of forecast depreciation and average depreciation rates for each asset class and the extent to which they are used to determine the revenue requirement.
	Taxation	Details of forecast tax expense, including permanent and temporary differences, RAB (tax value) roll-forward and reconciliation of tax losses and the extent to which they are used to determine the revenue requirement.
	Revaluation Gains/Losses	Details of forecast CPI and land revaluations and the extent to which they are used to determine the revenue requirement.
	Any other amounts that are included in total revenue	Details of any other factors that are considered in determining the appropriate revenue requirement.
Information Supporting the	RAB roll-forward	Forecast roll-forward of the starting RAB by asset class.

Revenue Methodology	Works under Construction Reconciliation	Forecast works under construction Reconciliation.
	Capital Expenditure Forecast	Forecast capital expenditure by category, including: <ul style="list-style-type: none"> ▪ Overall description including aims and objectives of proposed investments, including how it satisfies demand, and quality; ▪ Details on deliverability; and ▪ Overview of alternatives to the forecast expenditure considered.
	Demand	Demand forecasts for each variable used in the pricing methodology and including at least forecast passenger, aircraft and MCTOW demand.
	Overview of Key Capital Expenditure Projects	Details of key capital expenditure projects, including: <ul style="list-style-type: none"> ▪ Overall description including aims and objectives of proposed investment; ▪ Requirements for the project, including the available evidence to support this; ▪ Details on any customer engagement entered to support objectives; and ▪ Outline of any alternative options considered, and why not adopted.

B) Components of Longer - Term Asset Planning Information/Capital Plans

23. The Commission also proposes disclosure of the following metrics for a 5-year forecast period beyond the initial 5-year pricing term. In the Commission's amended preliminary view, a lesser level of detail would be required beyond the initial 5-year pricing period.

Disclosure	Detail
Capital Expenditure Forecast	Forecast capital expenditure and assumptions by category for 5 years following the relevant pricing period, including: <ul style="list-style-type: none"> ▪ Overview of key projects; and ▪ Overall description including aims and objectives of proposed investments.
Operational Expenditure Forecast	Forecasts and assumptions by category for 5 years following the relevant pricing period including high-level details of forecasted operating costs by cost category.
Demand Forecast	Demand forecasts for each variable used in the pricing methodology and including at least forecast passenger, aircraft and MCTOW demand.

24. The benefit of this approach is that it would allow interested parties to review the outcome of the price setting process, and assess:

- whether a supplier of specified airport services is planning both to make efficiency gains in respect of its costs, and to share those efficiency gains with consumers (through lower prices, on average); and
 - whether suppliers' forecasts reflect attempts to earn excessive profits; and
 - the appropriateness and timing of airports' proposed investments.
25. An additional benefit is that there are likely to be fewer additional costs for regulated services than if a full AMP was required to be disclosed, as the information disclosed should come from the outcome of existing planning processes. This is an assumption that the Commission will seek to test at the workshop planned for 18 February.
26. For clarity, the Commission notes that the disclosure of forecast revenue is entirely distinct from the proposed Pricing Methodology, which will be addressed at a later date. For the purposes of this work "pricing methodology" refers to the methodology by which an airport sets charges for different customers of the regulated services.

Purpose of the February 18th Working Session

27. Given the substantive revision to the proposal outlined in the July Information Disclosure Discussion Paper, the focus of the 18 February working session will be on the amended preliminary view to the disclosure of forecast information. The workshop will assist the Commission to consider how best to specify information disclosure requirements for asset planning and forecast information, for specified airport services. The Commission will present its working position and is interested in learning the views of attendees regarding the specific nature of each component of the proposed disclosures, in particular:
- the degree to which each component should be mandatory;
 - confidentiality concerns of regulated airports; and
 - the availability of the information proposed to be disclosed.
28. Issues out of scope for this working session are:
- other categories of information disclosure for specified airport services, including pricing methodology disclosures; and
 - asset planning/forecast information disclosure for other regulated sectors.

Further Consultation and Next Steps

29. Attendees are welcome to submit further written comments on topics covered within the working session. Such comments should reach the Commission by **Friday 26th February**. Comments should be sent to:

NPB@comcom.govt.nz

or

Laurence Walls
 Regulation Branch
 Commerce Commission
 PO Box 2351
 Wellington 6140

30. Following the working session, the next formal step in the consultation process is the release of the Commission's Information Disclosure Draft Determination for specified airport services, accompanied by a supporting reasons paper. This will include draft requirements specifying how information disclosure regulation is to apply to specified airport services.

Update on Process to Determine Information Disclosure Requirements

31. The table below sets out the process throughout 2010 to determine information disclosure requirements for suppliers of specified airport services. This is an update of the process signalled by the Commission in December 2009. The main change is that the determination workshop is planned prior to the deadline for submissions. Timeframes have been amended to allow for this.

Commission's Process for Information Disclosure – Airports

Key Step	Indicative Date
Asset Planning and Forecast Information Workshop	18 February 2010
Commission Releases Draft Determination Papers	May 2010
Draft Determination Workshop	June 2010
Submissions due on Draft Determination Papers	July 2010
Cross-submissions due on Draft Determination Papers	late July 2010/early August
Consultation on technical drafting of Determination	October/ November 2010
Final Information Disclosure Determination	Late November/ early December 2010