

## APPENDIX 1

Airline Submissions	Points addressed in submissions
<b>Air NZ</b>	
<p><u>Comparator sample</u></p> <p>Agrees with Commission’s comparator sample for asset beta with the exception of Beijing Capital International Airport, which should be removed on the same basis as for other Chinese airports.</p>	<p>Paragraphs [58] to [109] of WIAL submission</p> <p>Sections 3.1 and 3.2 of HoustonKemp report</p> <p>Paragraphs [39] to [61] and [133] to [162] of NZ Airports submission</p> <p>Sections 2.3, 4.2, 4.3 and 6.1 of CEG report</p> <p>Sections 2.1 to 2.6 of Incenta report</p> <p>Paragraphs [25] to [30] and [34] to [41] of WIAL’s cross-submission</p> <p>Section 2 of HoustonKemp report for cross-submissions</p>
<p><u>Reasonableness checks</u></p> <p>Reasonableness checks suggest midpoint WACC is generous (e.g. RAB multiples).</p>	<p>Paragraphs [116] to [118] of WIAL submission</p> <p>Section 5 of HoustonKemp report</p> <p>Paragraph [44] of NZ Airports submission</p> <p>Section 7.4 of CEG report</p> <p>Paragraphs [71] to [75] of WIAL cross-submission</p>
<p><u>Other issues</u></p> <p>Asset beta is generous. As TDB argues, airports are closer to a utility beta (“core economic infrastructure”).</p> <p>AIAL share price did not materially shift when draft decision issued.</p>	<p>Paragraphs [116] to [118] and [126] to [136] of WIAL submission</p> <p>Section 2 of HoustonKemp report</p> <p>Paragraphs [37] to [38] of NZ Airports submission</p>
<b>Castalia for Air NZ</b>	
<p><u>Comparator sample</u></p> <p>Use of judgement and lack of underlying data makes it difficult to independently verify the Commission’s application of its stated method. So have approached this from first principles.</p> <p>Do not support the Commission’s exclusion of firms with unusually variable beta estimates: no</p>	<p>Paragraphs [58] to [109] of WIAL submission</p> <p>Sections 3.1 and 3.2 of HoustonKemp report</p> <p>Paragraphs [133] to [162] of NZ Airports submission</p>

<p>theoretical/empirical basis for that.</p> <p>Agree that comparator sample should include only firms that operate in developed markets. Agree with CEG that systematic risk of emerging markets is accounted for in MRP rather than beta. But there are other reasons to exclude emerging markets.</p> <p>In emerging markets, capital movements are restricted in idiosyncratic ways, which affects the observed relationship between average market returns and individual stocks.</p> <p>Airports disproportionately affected by arbitrary government action, which is more likely in emerging markets, and this non-systematic effect is seen in beta rather than MRP (e.g. China).</p> <p>Beijing Capital International Airport should therefore be excluded as its operations are in China (despite being listed in Hong Kong).</p>	<p>Sections 4.2, 4.3 and 6.1 of CEG report</p> <p>Sections 2.1 to 2.6 of Incenta report</p> <p>Paragraphs [25] to [30], [34] to [41] and [43] to [44] of WIAL’s cross-submission</p> <p>Section 2 of HoustonKemp report for cross-submissions</p>
<p><u>COVID impact</u></p> <p>Has elements of both systematic and unsystematic risk.</p> <p>Commission’s approach of adjusting pre-pandemic betas (option 3) is preferable given the post-pandemic data sample (first best solution) is too small.</p> <p>Using the average of the last two five year periods (option 4: approach to date) should only be used as the absolute upper bound estimate.</p> <p>Cross-checks support the Commission’s approach, suggesting the market has priced in a frequency of COVID events (20-50 years) comparable to TDB’s implementation of Flint’s method. Intuitively this makes sense.</p>	<p>Paragraphs [13] to [15] and [110] to [118] of WIAL submission</p> <p>Section 4.1 and 4.2 of HoustonKemp report</p> <p>Paragraphs [163] to [190] of NZ Airports submission</p> <p>Sections 2.5, 8.2 and 9.1 of CEG report</p> <p>Section 2.7 of Incenta report</p> <p>Paragraphs [19] to [24] and [55] to [63] of WIAL’s cross-submission</p>
<p><b>A4ANZ</b></p>	
<p><u>Comparator sample</u></p> <p>Supports Commission position.</p>	<p>Paragraphs [58] to [109] of WIAL submission</p> <p>Sections 3.1 and 3.2 of HoustonKemp report</p> <p>Paragraphs [39] to [61] and [133] to [162] of NZ Airports submission</p> <p>Sections 2.3, 4.2, 4.3 and 6.1 of CEG report</p> <p>Sections 2.1 to 2.6 of Incenta report</p> <p>Paragraphs [25] to [30] and [34] to [41] of WIAL’s cross-submission</p> <p>Section 2 of HoustonKemp report for cross-submissions</p>
<p><u>COVID impact</u></p>	<p>Paragraphs [13] to [14] and [110] to [115] of WIAL submission</p>

<p>Supports Commission position.</p>	<p>Sections 4.1 and 4.2 of HoustonKemp report</p> <p>Paragraphs [163] to [190] of NZ Airports submission</p> <p>Sections 2.5, 8.2 and 9.1 of CEG report</p> <p>Section 2.7 of Incenta report</p> <p>Paragraphs [19] to [24] and [55] to [63] of WIAL’s cross-submission</p>
<p><u>Reasonableness checks</u></p> <p>AIAL experience indicates regulation of airports is not achieving s 52A purpose. Pre-COVID, Frontier Economics finds AIAL had made more than \$3.6b in excess profits and failed to invest properly.</p> <p>AIAL is now proposing to spend \$5.6b in capex at a WACC of 8.73%. Suggests that airport regulation should be ratcheted up.</p>	<p>Paragraphs [18] to [27] and [126] to [136] of WIAL submission</p> <p>Sections 2.2.1 and 5 of HoustonKemp report</p> <p>Paragraphs [33] to [35],[44] and [74] to [76] of NZ Airports submission</p> <p>Paragraphs [71] to [75] of WIAL cross-submission</p>
<p><b>BARNZ</b></p>	
<p><u>Comparator sample</u></p> <p>Supports Commission position.</p>	<p>Paragraphs [58] to [109] of WIAL submission</p> <p>Sections 3.1 and 3.2 of HoustonKemp report</p> <p>Paragraphs [39] to [61] and [133] to [162] of NZ Airports submission</p> <p>Sections 2.3, 4.2, 4.3 and 6.1 of CEG report</p> <p>Sections 2.1 to 2.6 of Incenta report</p> <p>Paragraphs [25] to [30] and [34] to [41] of WIAL’s cross-submission</p> <p>Section 2 of HoustonKemp report for cross-submissions</p>
<p><u>COVID impact</u></p> <p>Using the customary approach will make COVID impact “permanent” in this IMs Review cycle, overstating COVID impact on asset betas.</p> <p>Future pandemics are unlikely to result in border closures to the same degree because states have “learned much from their experience”.</p>	<p>Paragraphs [110] to [118] of WIAL submission</p> <p>Sections 4.1.1 and 4.3 of HoustonKemp report</p> <p>Paragraphs [163] to [190] of NZ Airports submission</p> <p>Sections 2.5, 8.2 and 9.1 of CEG report</p> <p>Section 2.7 of Incenta report</p>

	Paragraphs [19] to [24] and [55] to [63] of WIAL's cross-submission
<p><u>Other issues</u></p> <p>IMs Review and PSEs: AIAL is purporting to price against its assumption of what IM Review will eventually conclude. Commission should consider intervening to prevent airports gaming timing of PSEs relative to IMs Reviews. Specifically, airports should not be able to adopt inputs from future IMs decisions and apply them to PSEs occurring now.</p>	<p>Paragraphs [131] to [136] of WIAL submission</p> <p>Paragraphs [37] to [38] of NZ Airports submission</p>
<b>TDB for BARNZ</b>	
<p><u>Comparator sample</u></p> <p>Agree with Commission's position.</p>	<p>Paragraphs [58] to [109] of WIAL submission</p> <p>Section 3.1 and 3.2 of HoustonKemp report</p> <p>Paragraphs [39] to [61] and [133] to [162] of NZ Airports submission</p> <p>Sections 2.3, 4.2, 4.3 and 6.1 of CEG report</p> <p>Sections 2.1 to 2.6 of Incenta report</p> <p>Paragraphs [25] to [30] and [34] to [41] of WIAL's cross-submission</p> <p>Section 2 of HoustonKemp report for cross-submissions</p>
<p><u>COVID impact</u></p> <p>Agree with the Commission's position. COVID-type events will be rare and impact of future COVID-type events would be mitigated by lessons learned by policy-makers.</p> <p>Continuing the Commission's traditional approach would overstate the likely systematic impact of the pandemic going forward.</p>	<p>Paragraphs [110] to [118] of WIAL submission</p> <p>Section 4.1 and 4.2 of HoustonKemp report</p> <p>Paragraphs [163] to [190] of NZ Airports submission</p> <p>Sections 2.5, 8.2 and 9.1 of CEG report</p> <p>Section 2.7 of Incenta report</p> <p>Paragraphs [19] to [24] and [55] to [63] of WIAL's cross-submission</p>
<p><u>Downward adjustment</u></p> <p>Broadly comfortable that no downward adjustment is applied for multi-divisional firms because it is addressed through selection of the sample. But still a case for a downward adjustment.</p> <p>But suppliers that are "largely focused on providing/using core economic infrastructure tend to have lower asset betas than those...dependent on discretionary consumer-driven preferences". Airports similar to traditional utilities in that respect.</p> <p>The two airports in the Commission's sample with highest proportion of aero services have below-</p>	<p>Paragraph [9] of WIAL submission</p> <p>Section 1 of HoustonKemp report</p> <p>Paragraphs [58] to [61] of NZ Airports submission</p>

average betas and vice versa.	
<p><u>Reasonableness checks</u></p> <p>7.19% WACC positioned appropriately between yields on high quality corporate bonds and the share market as a whole. Within the range of investment bank WACC estimates for airports. Commission correctly follows court guidance to cross-check based on NZ evidence.</p> <p>RAB multiples provide a more robust test. Support the Commission’s reliance on RAB multiples in the 1.3-1.9 range, which demonstrates investors are adequately compensated. Eastland also provides an example. Note also AIAL’s long-term share price.</p>	<p>Paragraphs [13] to [15] of WIAL Submission</p> <p>Section 5 of HoustonKemp report</p> <p>Paragraphs [33] to [35] and [44] of NZ Airports submission</p> <p>Sections 7.1 and 7.4 of CEG report</p> <p>Paragraphs [71] to [75] of WIAL cross-submission</p>
<b>Dr Martin Lally</b>	
<p><u>COVID impact</u></p> <p>Acknowledges that merits of Commission’s approach are contentious given difficulty of estimating long-term probability of events.</p> <p>Comments on the mechanism of the Commission’s adjustment.</p>	<p>Paragraphs [110] to [118] of WIAL submission</p> <p>Section 4.1 and 4.2 of HoustonKemp report</p> <p>Paragraphs [163] to [190] of NZ Airports submission</p> <p>Sections 2.5, 8.2 and 9.1 of CEG report</p> <p>Section 2.7 of Incenta report</p> <p>Paragraphs [19] to [24] and [55] to [63] of WIAL’s cross-submission</p>
<b>IATA</b>	
<p><u>Comparator sample</u></p> <p>Supports narrower sample, but should exclude Beijing.</p>	<p>Paragraphs [58] to [109] of WIAL submission</p> <p>Sections 3.1 and 3.2 of HoustonKemp report</p> <p>Paragraphs [39] to [61] and [133] to [162] of NZ Airports submission</p> <p>Sections 2.3, 4.2, 4.3 and 6.1 of CEG report</p> <p>Sections 2.1 to 2.6 of Incenta report</p> <p>Paragraphs [25] to [30], [34] to [41] and [51] to [54] of WIAL’s cross-submission</p> <p>Section 2 of HoustonKemp report for cross-submissions</p>
<p><u>Covid impact</u></p> <p>Prefers Commission’s option 2 on COVID impact (rather than option 3).</p>	<p>Paragraphs [110] to [118] of WIAL submission</p> <p>Section 4.1 and 4.2 of HoustonKemp report</p>

	<p>Paragraphs [163] to [190] of NZ Airports submission</p> <p>Sections 2.5, 8.2 and 9.1 of CEG report</p> <p>Section 2.7 of Incenta report</p> <p>Paragraphs [19] to [24] and [55] to [63] of WIAL's cross-submission</p>
<p><u>Downward adjustment</u></p> <p>Commission should reconsider removing downwards adjustment as airports in the sample all have activities that could increase their business risk.</p>	<p>Paragraph [9] of WIAL submission</p> <p>Section 1 of HoustonKemp report</p> <p>Paragraphs [58] to [61] of NZ Airports submission</p> <p>Paragraphs [12] to [15] and [64] to [70] of WIAL cross-submission</p> <p>Section 3 of HoustonKemp report for cross-submissions</p>
<b>Qantas</b>	
<p><u>Comparator sample</u></p> <p>Commission should have applied a market diversification filter to recognise that AIAL is overweighted in the NZX (~6%). AIAL's share of the index distorts its equity beta estimate and introduces an upward bias.</p> <p>Qantas recommends removing AIAL from the sample!</p>	<p>Paragraphs [58] to [109] and [119] to [121] of WIAL submission</p> <p>Sections 3.1, 3.2 and 5.2 of HoustonKemp report</p> <p>Paragraphs [133] to [162] of NZ Airports submission</p> <p>Sections 4.1, 4.4 and 4.5 CEG report</p> <p>Sections 1.1 and 2.2 of Incenta report</p> <p>Paragraphs [25] to [30], [34] to [41] and [45] to [50] of WIAL's cross-submission</p> <p>Sections 2 and 4 of HoustonKemp report for cross-submissions</p>
<p><u>COVID impact</u></p> <p>Supports Commission's position.</p>	<p>Paragraphs [110] to [118] of WIAL submission</p> <p>Sections 4.1 and 4.2 of HoustonKemp report</p> <p>Paragraphs [163] to [190] of NZ Airports submission</p> <p>Sections 2.5, 8.2 and 9.1 of CEG report</p> <p>Section 2.7 of Incenta report</p> <p>Paragraphs [19] to [24] and [55] to [63] of WIAL's cross-submission</p>

<p><u>Downward adjustment</u></p> <p>The sample shows a correlation between percentage of revenue that is aero and asset beta.</p> <p>As an alternative to removing AIAL from the sample, Qantas recommends a downward adjustment to correct for AIAL's low share of aero revenue and large share of the market.</p>	<p>Paragraph [9] of WIAL submission</p> <p>Section 1 of HoustonKemp report</p> <p>Paragraphs [58] to [61] of NZ Airports submission</p> <p>Paragraphs [12] to [15] and [64] to [70] of WIAL cross-submission</p> <p>Section 2 of HoustonKemp report for cross-submissions</p>
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