



Auckland
Airport

PO Box 73020
Auckland Airport
Manukau 2150
New Zealand

12 February 2021

Regulation Branch
Commerce Commission
Level 6, 44-52 The Terrace
PO Box 2351
WELLINGTON 6011

Dear Simon

Re: Part 4 Levy Funding Proposal

The Commerce Commission (“Commission”) has requested feedback on the preferred funding option and the type of economic regulator stakeholders believe will best serve New Zealand into the future. The discussion paper is primarily focussed on the energy sector.

We understand that the requested feedback is intended to inform MBIE’s advice to the Minister of Commerce and Consumer Affairs on funding the Commission’s regulatory work under Part 4 from July 2021 onwards and to help shape the medium-term planning of the Commission’s work programme. Our feedback focusses on elements of the paper affecting airports.

We acknowledge that the Commission needs to plan to meet its statutory requirements. We support the Commission’s proposal to “hold the line” on airport funding. This is consistent with a position that the current economic regulatory regime is well placed to serve New Zealand now and into the future. The most recent pricing activity (which was Auckland Airport’s 2017 price setting) has illustrated that the regulatory regime for airports provides transparency and is effective in causing change when the regulator considers pricing elements (e.g. targeted returns) are not commensurate with the risks of the sector. The Input Methodologies Review will provide a good opportunity to revisit the risks of investing in the airport sector and the systematic risk of the three airports in New Zealand regulated under Part 4 of the Commerce Act 1986.

COVID-19 has had devastating impact on Auckland Airport and our customers. Losses to date from COVID exceed \$100m. Aeronautical volumes are more than 70% below pre-COVID levels and this is anticipated to continue whilst the border is closed. To date it has been difficult to broach resetting aeronautical prices in an environment where customers, the airlines, face similar cashflow and profitability challenges to the airport. To maintain liquidity we have raised \$1.2b of equity to bolster our balance sheet after losing well over two thirds of revenues practically overnight. We have also materially reduced capital investment and exercised extreme cost control. We have negotiated the longest ever waiver period agreed by lenders for the financial covenants relating to our bank and US borrowing programmes. We may have to extend these waivers if NZ does not open up quarantine-free travel with Australia in the second half of calendar 2021 and cannot rule out the need for further redundancies and other cost control measures.

In this very challenging environment airlines and airports are directing their scarce resource and cash towards maintaining safe operations. Effort is also being extended to support policy development to enable a safe quarantine-free border opening at the appropriate time. In the meantime we are seeking to minimise costs and financial losses to ensure that New Zealand has a viable aviation sector to service consumer demand when the recovery materialises.

Whilst we support the proposal to “hold the line” to maintain a stable economic regulatory environment for airports, we encourage the Commission to consider any means possible to target savings in costs that can be passed on to regulated entities. Businesses across the country are seeking to sustain services with less and the same level of focus is desired from the public sector.

Approach to the Input Methodology (“IM”) review

We agree that it is not appropriate at this time to take the “bridging the gap+” approach to IM review. For example spending an additional \$5m to simplify the input methodologies and more comprehensively engage has not been adequately justified by the likely benefits in this COVID-impacted environment.

Instead the Commission is proposing to invest \$8M for the next review of the input methodologies (or ‘IMs’), to be spread over two years (2021/22 and 2022/23).

The Commission has indicated it expects this next IM review will be “significantly more targeted in its approach” and referred to a range of energy related items to include in its workplan, including emerging technology and innovation, changing needs of consumers and reflecting consumers’ views on preparation for a low carbon future.

The Commerce (Levy on Suppliers of Regulated Goods and Services) Regulations 2009 provides limited flexibility for Ministry of Business Innovation and Employment (“MBIE”) on how to attribute the costs of the Input Methodology. Currently all costs relating to “other functions relating to input methodologies” are treated as a shared cost to all suppliers of regulated goods and services across a range of regulated industries and are based on relative asset values. Notwithstanding the relatively low airport-related activity, Auckland Airport would pay ~ 7% of the total input methodology review or \$540,000 over two years.

We request that the review of WACC IM make appropriate provision for a thorough review of the risks facing the airport sector globally and more specifically how systematic risk and incentives for investment at New Zealand airports may differ to other global airport companies in the Commission’s data set because of different COVID-related border closure policy settings across the globe.

Beyond WACC we consider the current Input Methodologies provide stability and sufficient flexibility for airports to set prices and transparently disclose outcomes.

Whilst it is unfortunate that airports will arguably pay more than their fair share of this Input Methodology review at a time of such fiscal challenge we support the near-term priority for policy development for governments, airports and airlines focusing on developing an operating model that enables the safe travel, rather than fine tuning airport economic regulation.

Please feel free to contact me on 0275300707 if you have any queries regarding the matters raised in this letter.

Yours faithfully



Adrienne Darling
Head of Economic Regulation and Pricing