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New Zealand Commerce Commission
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By email: infrastructure.regulation@comcom.govt.nz

Cross Submission

The Qantas Group (“Qantas”) welcomes the opportunity to respond to Auckland Airport’s (“AIAL”) response to the Commission.

Qantas notes that AIAL continues to prosecute points that mirror those that they have already raised in the 2023 Input Methodologies consultation process. Given the repetitive nature of AIAL’s points, we do not intend to respond to their submission in detail. Instead, we include below a brief rebuttal of new points made in AIAL’s response.

Leverage

AIAL has argued for a higher in-band WACC to reflect the uniquely high leverage expected by the airport during PSE4.

An airport’s WACC should have regard only to an objectively efficient gearing structure. More aggressive capital structures that airports may employ from time to time are a matter for its shareholders - not its customers. As stated in our cross submission we believe that the leverage assumption should be aligned to CIAL 2023 PSE4 decision of 23%.

We note also that AIAL did not seek a custom leverage consideration during previous periods in which it had lower leverage than its peers.

Depreciation

AIAL has mentioned that airlines showed some support for straight line depreciation, rather than alternatives.

We reiterate to the Commission that we support the tilted annuity depreciation model as the most appropriate methodology (see Qantas Group submission Section 4.4).

Terminal design

AIAL has continued to dismiss the Arup design as “incomplete” without actively engaging stakeholders to discuss their objectives. In a proper consultation, objectives and solutions are workshopped with customers rather than dismissed. Workarounds, compromises and alternatives can be found to deliver

the same financial and operational objectives. Auckland Airport's inflexible approach should be regarded as a symptom of its failure to consult, rather than a valid rebuttal of counterfactual proposals.

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AIAL's statement that the Arup design "offered a low level of integration" is not a valid basis to refute the design. Integration is not an objective to be met at all costs - it should be efficient and economically viable. Enhancements should only be included in a design if they deliver value that airlines or passengers are willing to pay for. The Arup proposal reflects an improved cost-benefit balance, and Qantas believes that further efficiencies are available.

BBM Inputs

Qantas notes the limited BBM revenue offsets for fees that AIAL may earn from the use of aeronautical assets such as licences, levies, space permits and other usage charges eg. to airline suppliers. Any revenues generated from aeronautical assets must be offset against allowable revenue.

Whilst we debate detail-level facts of design and BBM inputs, the costs of wasted investment continue to grow, impacting consumers, investors and the economy. We urge the Commission to promptly reduce the incentive to over-invest by confirming that it does not accept the excessive returns demanded by AIAL. We also encourage the Commission to expedite a review of the method of regulation and engage airlines, Airways New Zealand and other aviation stakeholders to address how we can quickly conclude an effective consultation and deliver the efficient infrastructure that Auckland needs and that AIAL has been unwilling to deliver.

Yours sincerely,



Seb Mackinnon
Head of Commercial Airports