



PO Box 14001
Christchurch 8544
New Zealand
Telephone (+64 3) 358 5029
Facsimile (+64 3) 353 7730
christchurchairport.co.nz

3 September 2024

Commerce Commission
Level 9
44 The Terrace
Wellington 6011

DRAFT REPORT ON AUCKLAND INTERNATIONAL AIRPORT LTD'S PSE4 PRICING DECISIONS

Introduction

- 1 Christchurch International Airport Ltd (*CIAL*) welcomes the opportunity to respond to the Commission's draft report on Auckland International Airport Ltd.'s (*AIAL*'s) PSE4 pricing decisions.
- 2 There is no confidential information in this submission, and it can be published in full on the Commission's website.
- 3 *CIAL* has also had input into the submission prepared by the New Zealand Airports Association (*NZAA*).

General comments

- 4 The draft report continues to demonstrate that the Part 4 information disclosure regime is working well, in that the Commission is able to, and does subject regulated airports to detailed public scrutiny.
- 5 The Commission has identified several areas where *AIAL* has performed and is intending to perform in a manner that is endorsed by the Commission. Where the Commission has sought further information or justification, the draft report phase provides an opportunity for the airport to engage and respond.

Target Returns

- 6 In relation to target returns, the regulatory framework requires an airport to explain any differences between its target returns and the Commission's midpoint WACC estimate.
- 7 In the draft report the Commission has concluded that *AIAL* is targeting a weighted average cost of capital that differs from the Commission's mid-point estimate. The Commission also notes that one of the key areas where *AIAL* has departed from the Input Methodologies (*IMs*) is in relation to its estimate of asset beta.

- 8 CIAL notes that the Commission did update its estimate of asset beta as part of the 2023 IM Review and believe that AIAL was justified in departing from the 2016 IMs to reflect more recent economic evidence.
- 9 CIAL also notes that the most recent 2023 IMs are currently subject to merits review and that NZ Airports has previously written to the Commission highlighting some technical errors in those methodologies. It is problematic that these matters remain unresolved at the time of this report. This uncertainty should be addressed or factored into any final conclusions on targeted WACC.

Aeronautical Pricing Comparisons

- 10 We note the Commission’s commentary in the draft report in relation to pricing comparisons of AIAL’s proposed prices with domestic and peer international airports. CIAL agrees that this provides important context when evaluating whether prices promote competition in markets for the benefit of relevant consumers.
- 11 However, when looking at a comparison of international charges we note that the Commission has adopted peer airports outside of New Zealand. We consider that CIAL should be added to the list of peer international airports, given our relevance as the other main international port of entry in New Zealand for inbound international passengers and outbound New Zealand consumer’s travelling internationally. We recommend the table in your draft report be updated, to include CIAL’s international passenger charge as the next most relevant comparator.

(FY23 \$NZD)	FY24
Auckland	\$31.73
Christchurch	\$14.10
Sydney International	\$40.82
Melbourne	\$34.77
Brisbane	\$54.85

- 12 In PSE3, CIAL adopted a single per passenger charge for domestic and international passengers to help align the airport’s interests (and risks) with that of airlines in regard to passenger growth.

Tilted Annuity Depreciation

- 13 We note the Commission’s interest in obtaining further information from AIAL in respect to a tilted annuity approach to the recovery of depreciation.
- 14 CIAL has successfully used the tilted annuity method for recovering depreciation of its regulated asset base since its PSE3 decision. We would be happy to engage further with AIAL and/or the Commission to further explore how this was implemented at CIAL.

We look forward to discussing any of these matters further with the Commission.

Yours sincerely

