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Keston Ruxton
Manager, IM Review
Regulation Branch
Commerce Commission

Email: im.review@comcom.govt.nz

Dear Keston

Input Methodologies Review Draft Decision – Cross Submissions

The Commission, on 22 June 2016, published its draft decisions arising out of the Input Methodologies review it has been progressing since February 2015. Submissions on the draft decisions were published by the Commission on 5 August.

As with the initial submission, Air New Zealand has been working closely with BARNZ to respond to submissions made by the airports and NZAA. Air New Zealand endorses the BARNZ cross-submission as well as BARNZ's technical drafting comments on the draft Input Methodologies and Information Disclosure determinations.

Air New Zealand has also viewed and supports the cross-submission from IATA.

Air New Zealand, in particular, is concerned at airport submissions down-playing the importance of the ex-ante profitability indicator in assessing whether airport behavior is consistent with promoting the long-term benefits of consumers. The suggestion by NZ Airports that judgement should be reserved until the Commission has the full picture of airport performance, including ex-post assessment of actual outcomes¹, will simply result in consumers paying more than is appropriate over a pricing period, with no mechanism for that excess revenue to be returned. Targeted returns and supplier intentions and expectations when setting prices are key issues to consider in any assessment of whether the Part 4 Purpose is being promoted.

Contrary to NZ Airports' submission², Air New Zealand considers the proposed new Schedule 19 pricing asset base disclosure to be a significant enhancement to the information disclosure regime. As was evident during the Section 56G reviews of airport pricing decisions, there is a great degree of confusion as to the linkage

¹ NZ Airports, para. 197

² NZ Airports, para. 247-251

between airport price setting pursuant to the Airport Authorities Act and the regulatory asset base subject to regulation pursuant to the Commerce Act. Establishing a clear link between how airports actually set prices and the returns those prices are intended to deliver on the actual assets employed will deliver a great deal more transparency for all interested parties. As NZ Airports notes, while airlines currently have more detailed information than other parties through the AAA consultation processes, this level of detail is not available across the board and hence results in a lack of understanding and appreciation of the concerns raised by airlines regarding pricing outcomes.

Air New Zealand completely agrees with BARNZ's submission regarding publication of the mid-point WACC estimate only. Adopting airport proposals to publish a range of estimates will simply create wider uncertainty and complexity for interested parties. The mid-point estimate has the greatest uncertainty and provides the only appropriate starting point for assessing airport performance. Given the Commission has recognized that airports may target returns which vary from this point, subject to appropriate justification, publication of any other estimate is unnecessary and likely to create further confusion. It is also apparent that publishing returns above the mid-point simply results in suppliers tending to target returns towards the upper level of the range.

NZ Airports' also states³ that the onus will be on the Commission to prove that target returns above the mid-point are not in the long term interests of consumers. Air New Zealand completely disagrees with this, and notes that this contradicts NZ Airports acceptance (at para 202 of its submission) of the need for airports to articulate reasons why a return in excess of the Commission's estimated WACC is appropriate. As noted by BARNZ, in any case, airports will need to demonstrate how their target level of returns promote the long term interests of consumers.

Please contact me if you have any queries regarding this cross-submission.

Yours sincerely



Sean Ford
Manager Aeronautical Suppliers

³ NZ Airports, para. 111