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COMMENTS ON THE DRAFT CONCLUSIONS OF THE REVIEW OF AUCKLAND AIRPORT'S 2022-2027 PRICE SETTING EVENT

IATA appreciates the opportunity to provide comments to the Commerce Commission concerning the draft conclusions of the review of Auckland Airport's PSE4. This submission will focus on the key areas in which further considerations by the Commission are called for, in light of new information in the consultation paper that IATA was not privy to previously.

Deficiencies in the Current Regulatory Regime and Consultation Approach

The Commission highlighted the existence of consultations by Auckland Airport with its substantial customers. The substantial customers that Auckland Airport has consulted with during PSE4 were subject to a non-disclosure agreement with the consultation process made confidential. The pertinent question here is if the consultations and engagements by Auckland Airport were meaningful, effective and have yielded the desired joint outcomes and necessary alignment. Feedback from the airport users clearly shows otherwise.

In alignment with best practice consultation, IATA recommends an open multilateral consultation (rather than bilateral) that can still sufficiently address the confidentiality concerns of Auckland Airport. This would lead to better and balanced outcomes for the airline community and airport users with the same information being shared transparently and all views discussed and considered collectively. We request the Commission to consider IATA's best practice user consultation for airport infrastructure investment appended to this submission.

The Commission has also heard from IATA and stakeholders concerning gaps within the Information Disclosure (ID) regime such as the unregulated activities and commercial till of Auckland Airport which falls outside the scope of the existing requirements. There is a fundamental issue with the inability of the Commission as the regulator to conduct a holistic assessment of the regulated airports without the necessary access to the required information.

While changes to the ID regime will be welcomed, an inquiry into the economic regulatory control for airports is called for, in light of the deficiencies of the current regulatory framework given the divergence in views and non-alignment between Auckland Airport and its customers. This inquiry should lead to outcomes that will help promote the long-term interest of consumers and increase the effectiveness of the Commission in evaluating future PSEs more holistically in a proactive manner.

Excessive Return

IATA concurs with the Commission's conclusion that Auckland Airport is targeting excess profits in the PSE4 and their estimate of WACC is not justified and inconsistent with the purpose of Part 4 of the Act. The two scenarios considered by the commission have resulted in mid-point WACCs that more closely reflect reality: estimates of 7.28% for scenario 1 and 7.51% for scenario 2. Between the two, the first scenario based on the selected estimation date of 1 July 2022 is sound and more closely aligned with the expectation that the 2016 IM will be used as the

primary reference for inputs. This is also consistent with the approach applied in the price setting event for Christchurch Airport.

Two-way Revenue wash-up: It is unclear how a revenue wash-up mechanism is compatible with the risks the airport is intended to bear as part of the WACC allowance. We note that the Commission indicates that the WACC is a sector-wide measure, however we do not see how the asset beta would not be affected by the airport passing on risks to users (in comparison to airports that do not).

It is worth noting that while Auckland Airport has signaled that it will consider lowering its charges, this will only happen from 1 July 2025. Airlines and passengers would have paid excessive charges for 2 years since they were set in 2023. This outcome does not serve the interests of consumers.

Capital Investment

The overall reasonableness and affordability of major capital investments should be assessed and consulted upon with the airline community in greater detail and transparency. Given the complete lack of alignment between Auckland Airport and the airline community regarding the scale of capital investments, phasing, capital efficiency, and planning inputs such as level of service, we request an independent review of the terminals, piers and related airfield infrastructure for assurance purposes, and further consultation to align with the airline community before proceeding any further.

Airlines are the primary users and customers of airports and a major source of revenue for them. There is a direct cost relatedness between airport infrastructure and airport charges that airlines pay. Therefore investments need to be affordable, fit for purpose, and only proceed where a business case exists supported by airport users. The alternative is the situation we now face – substantial disagreements regarding the scale and cost of investments that need to be urgently addressed before proceeding any further. The goal is to ensure aligned plans that meet the needs of airlines and the airport by agreeing to investments that are prioritized based on user benefits, service quality that meets the needs of customers and results in operational efficiencies while balancing capacity and demand, and focusing on minimizing operational disruption.

This can only be facilitated by effective and meaningful consultation, requiring a structured process and the involvement of users during the design stages of projects while opportunities to develop and refine options and consider strategic choices can still be reviewed and influenced. In practice, this typically takes between 6 months – 1 year with the involvement of subject matter experts working collaboratively towards a consensus position, in advance of submissions being made to the regulator. While the existing regulatory framework is ineffective at facilitating this engagement, a pause and review now is recommended to address scale, cost and level of service issues before irreversible decisions are taken that impact airlines and other airport users for decades to come.

IATA helps to facilitate best practice consultation and governance structures to support alignment across investment plans and a range of topics and geographical locations, from light touch to very detailed engagements. As a result, we have developed short position papers that articulate what best consultation is, its objectives, component parts and the benefits for all parties involved. IATA's Airport Infrastructure Investment – User Consultation papers, and IATA Airport Infrastructure Business Cases illustrate what is required, as referenced in the "Deficiencies in the Current Regulatory Regime and Consultation Approach section" above and later in this section.

Successful programs include both regulated and unregulated airports, including Airport Authority Hong Kong regarding the third runway, redeveloped Terminal 2 and concourse, Suvarnabhumi Bangkok master plans and short to medium-term investments, Beijing Daxing airport regarding infrastructure and operational processes, Dublin Airport's detailed consultation regarding capital investments, and Manchester airport regarding their transformation plans, to name a few examples.

An important aspect to carefully consider and agree on is the level of service intricately linked to other areas including demand, passenger comfort and operational efficiency. Agreeing on a functional baseline for investments with the airline community is essential to deliver an acceptable passenger experience as an input to project optioneering processes, including elements such as peak hour passenger numbers, space per passenger and waiting times, planning assumptions, the concept of operations being assumed including the application of technology, and phasing strategies to balance capacity and demand. Ultimately, consultation based on transparency, collaboration with the goal of reaching a consensus, and a business case agreed with users is required before investments should proceed.

There is little information disclosed to indicate a transparent, reasonable, and structured consultation process has been undertaken by Auckland Airport with airline customers who are expected to fund without user engagement or agreement. Given the scale of investments being proposed, it is essential key airport customers have sufficient information available to provide well-informed feedback to Auckland Airport and the Commission. The fact that major airlines operating at AKL continue to challenge the scale of investment plans, cost increases and important elements such as passenger levels of service indicates a failure of the consultation process and underlying regulation that risks adversely impact users and consumers unless action is taken.

IATA does not have access to sufficient levels of information to provide detailed feedback on investment proposals. However, we will take the opportunity to raise a few standout points for consideration:

- Air New Zealand analysis of alternative proposals raises valid points regarding the design and capital efficiency of Auckland Airport's preferred option, by indicating the forecast demand can be delivered more cost-effectively with an alternative proposal for a new domestic pier and redeveloped domestic terminal. A substantial Capex delta compared with Auckland Airport's proposal driven by a smaller footprint and facilities more suited to domestic passengers should trigger a review of the selected options and the associated costs before any further investment commitments are allowed. Further, an independent assessment of Auckland Airport's plans by Air New Zealand's consultant indicates their baseline gross floor area is incorrect reinforcing the need for a review. There are fundamental differences between Auckland Airport and its major customers, that should be reviewed and addressed before proceeding any further, that will impact the broader airline community in terms of airport charges and the development strategy of the airport.

  Qantas has also suggested an alternative approach to Auckland Airport's proposal to wind down the domestic terminal to solve the short term contingent runway challenge. Qantas considers that retaining the domestic terminal and building the integrated terminal incrementally would defer further investment; and potentially generate further reductions in PSE5 as the build-out of the terminal is phased.

While these are alternative proposals based on independent analysis, both indicate more cost-efficient solutions may exist than the airport's that merit close scrutiny given the impacts on airlines and passengers.

- IATA also notes Auckland Airport's model includes provision for international passenger facilities that could be removed from its proposal based on domestic passenger requirements. For instance, domestic passengers will turn up to the airport much closer to their departure time than international passengers resulting, less airside dwell time in resulting in fewer retail facilities and the associated space. Piers can be sized appropriately for passenger volumes and narrow body stands, that may otherwise be sized for a mixture of aircraft types driving unnecessary scale and costs. Control authority functions and complex baggage system operations with early bag stores and integrated transfer facilities may also not be needed.

- Irreversible decisions are being made by Auckland Airport that commit airlines to Capex and related costs well beyond PSE4, given the proposed development plans span 10 years and beyond. The total Capex costs linked to the current proposals commit users to substantially more costs than are being consulted upon. Linked to phasing strategies, development plans should include natural break points to ensure they account for changes in demand and market dynamics. However, there is little evidence in Auckland Airport's proposal of this.

- Phasing investment plans to balance capacity with demand, linked to demand triggers are unclear, yet are an essential part of an effective design process per IATA guidelines – given the cost relatedness between capital expenditure and airport charges.

- Detailed planning assumptions, metrics and KPIs are critical to share and agree on as input to developing concepts and options. However, they are unclear in this case. For example, details on the design year, processor levels, available footprint, peak hour planning forecasts, check-in mix and turn-up profile, queuing time alignment, processing rates, baggage system performance from bag drop minimum check-in to transfer minimum connection times, assisted passenger walking distances, aircraft pier service etc.

- The IATA Level of Service (LoS) guidelines are integrated with the IATA Airport Development Reference Manual (ADRM) (12th Edition). For reference, the ADRM is one of the industry's most important guides providing best practices and recommendations to develop airports in a high-quality, sustainable and cost-effective manner. It is a comprehensive guide to airport planning spanning almost 1000 pages, is produced in collaboration with the Airports Council International (ACI), the aviation industry and is recognized by ICAO regarding terminal capacity and related service level matters. The ADRM is universal and used extensively by airports, planners, regulators, and governments to help plan airport facilities.

  The LoS objectives are to provide sufficient capacity, efficient and cost-effective facilities, and good service levels and passenger experience to meet demand to neither under, nor over-provide facilities. The LoS framework covers space, queuing, baggage delivery and seating elements, and is used as input to inform airport planning and design, and assess operational performance.

  The ADRM LoS does not however take account of sizing other areas within the terminal building such as circulation spaces, back of house, or retail areas. This is important to recognize to ensure an accurate building footprint is identified.

Typical passenger handling sub-systems are covered throughout the passenger journey including the public departure hall, check-in, (kiosk, desk, bag drop), security control, emigration control, gate holdrooms, immigration control, baggage reclaim and delivery, and the public arrivals hall.

Two important variables form the LoS, being Space and Maximum waiting time. The space axis defines the amount of space available per occupant, while the time axis denotes the maximum passenger queuing time. Both axes are required to define the resulting LoS of the analyzed terminal processing system.

The LoS framework is designed to reflect the dynamic nature of terminal operations, traffic demand and actual throughput capacity. It is based on three LoS parameters defined as follows:

LoS Parameter	Space	Time
Over-Design	Excessive or empty space.	Overprovision of resources.
Optimum	Sufficient space to accommodate the necessary functions in a comfortable environment.	Acceptable queueing times.
Sub-Optimum	Crowded and uncomfortable.	Unacceptable queueing times.

Facilities designed for a planning horizon that will be substantially busier than current operations will result in a higher LoS in the shorter term. Therefore, the interpretation of the LoS table must take into account the planning horizon and the time at which a LoS evaluation is being conducted. For instance, when assessing the current LoS situation of facilities planned for a future traffic throughput falling in the 'Over-Design' category could also be interpreted as having spare capacity.

Regarding the difference of views between Auckland Airport and some of its key airline customers, the ADRM provides for a range within the 'Optimum' parameter to reflect different levels of service for customer types and regional variations, for instance between domestic and international passengers as Air New Zealand has stated. Taking into account capital investment costs, and operating costs of both the airport and users is equally important to consider.

The critical point to recognize is the need to establish the appropriate level of service values in consultation with the airline community and other stakeholders from an early stage in the planning process. This is a fundamental requirement to capture Users' requirements and work towards consensus and informed joint decision-making, and that the associated costs are affordable. Ultimately, airlines that are operating in a tough competitive environment and funding airport investment should agree to airport development proposals before they proceed.

Based on the information disclosed, there is little evidence Auckland Airport has consulted meaningfully and sufficiently with major airline customers which is a major concern given the emphasis placed on the LoS. In the context of large-scale capital investments being proposed, aligning on LoS metrics, in addition to terminal concepts and the overall customer experience strategy is crucial.

- The pier width proposed by Auckland Airport is generous considering domestic operations that is a point well made by Air New Zealand who are well placed to provide feedback on regional trends. While the nature

of IATA's work in this area is most focused on international facilities, a pier width of 30m or feasibly less would seem entirely sufficient to accommodate the required demand and seating provisions.

- Concerning the planning and design of passenger and baggage processing, IATA is unaware if Auckland Airport has included or safeguarded for technology-based processing including biometrics and off-airport processing. How is the adoption of technology and innovation considered in the development of its capital program? A technology strategy should be clear and agreed with users as supporting the overlap customer experience strategy, integrated with, and consulted upon with users.

- Regarding the size and scope of the planned new domestic terminal or for that matter the Air New Zealand alternative proposal the key here is to balance capacity and demand with the appropriate design period in the future. A suitable phasing strategy is required based on demand triggers to avoid excessive capital investment and the associated costs until traffic materializes. While traffic forecasts are almost always wrong, agreeing on the path with airline users is important. For key considerations see the following IATA best practice paper on demand triggers.

- The Commission should form a view on what is an efficient level over the life of the investment program rather than using what the airport is proposing as a starting point to assess its reasonableness. This should include operating cost assumptions and include a clear Business Case and return on investment for users funding these projects. Inefficient capital investments must not be allowed.

- Notwithstanding the individual consultations and information shared with the substantial customers which IATA does not have visibility of, we/the Commission need to better understand the detailed business case for the integration of international and domestic at the (starting) cost of NZD 1.7 billion, and the associated aprons. Principles regarding best practices for Business Case is available in IATA's airport infrastructure business cases best practices paper.

- The Commission should hold a longer-term view of the overall affordability of the capital expenses across PSE4, PSE5 and beyond. Logically (in the absence of detailed information), based on the user-pay principle, we would expect that the charges for the domestic services will experience much higher escalations than those for international services over the long term once the proposed domestic infrastructures are fully capitalized and full cost recovery kicks in. This could demonstrate that the proposed investments would be even more unaffordable than what we have established in PSE4 if the longer-term translation/impact of the investments is considered along with this review, including the adverse impact on demand due to the higher costs. In our view, the current capital outlays and their outcomes do not serve the long-term interest of consumers.

Operating Costs

The Commission noted that on Jacobs Airport Performance Indicators 2022 Auckland was ranked 43rd in the Opex per passenger table. It should be recognized that in the following year (Jacobs Airport Performance Indicators 2023) Auckland Airport ranked 26th, above Brisbane (28th), Perth (30th), and Melbourne (39th). This may merit a further examination by the Commission.

Depreciation

Accelerated depreciation for the DTB: IATA reiterates that such an approach should only be allowed with the support of airport users paying for the infrastructure. It shouldn't be a unilateral commercial decision by Auckland Airport. In addition, the Commission must also consider the significant investments already made by airlines e.g. upgrade and refurbishment costs in its assessment of the appropriateness of the approach adopted by Auckland Airport. We understand that the DTB's life is potentially extendable and could remain operational until mid-2030's with some building maintenance. This should nevertheless warrant a re-examination by the Commission to exclude the associated costs built into the PSE4 by Auckland Airport.

Tilted depreciation: IATA fully supports the Commission's proposal for using the tilted annual depreciation, as such an approach would better spread the cost of the asset over time and according to its usage. Some of the examples of such an approach being used are Dublin Airport T2 and Amsterdam Airport (Polderbaan runway).

Cost and Asset Allocation

While there is an outline of the methodology for the cost and asset allocation process employed by Auckland Airport with the claim that priced assets make up approximately 80% of the total RAB, the allocation process is not transparent to IATA to assure us that the allocation treatment has been done correctly/fairly.

It is prudent for the Commission to assess the appropriateness of the asset and cost allocation employed by Auckland Airport to ensure a fair distribution of the costs and recovery from the various user segments through to their translation into the pricing. It should apply to all common assets such as terminal buildings, roads, and drainage including operating expenses such as salary, and maintenance. An independent validation/assessment is best practice and has proven to be effective in curtailing the abuse of market power by airport operators.

A thorough assessment by the Commission or an independent party review concerning the asset and cost allocations by Auckland Airport is needed particularly as Auckland Airport operates under a dual-till regime with no disclosure of its non-regulated services. The reasonableness/fairness of the allocation outcomes remains unclear in the information made available, at least those visible to IATA to date.

Benchmarking Charges

Simply benchmarking charges with other New Zealand airports and major Australian airports is irrelevant and not an acceptable justification for assessing the appropriateness of Auckland Airport's pricing and its pricing trajectory in PSE4. This misplaced notion must be corrected.

As a start, the pricing and cost structure would be different e.g. some costs being recovered from passengers while some being recovered from airlines or different user segments. There are also various funding arrangements, commercial agreements and additional considerations applicable to the local circumstances. The focus should be on examining each airport on its own and ensuring that airport users' interests are safeguarded, examining the overall cost for AKL and ensure cost efficiency and affordability to consumers, in alignment with the purpose of the Commerce Act.

The overall unit cost translated to charges should be affordable despite capital investments made to increase the overall airport capacity to serve a larger volume of traffic/users. IATA reiterates our position that greater

transparency is needed with the necessary information shared with the wider community, beyond the substantial customers who are bound by the confidentiality requirement.

Pricing and Cost Recovery

Greater clarity of the linkages and how the costs are translated to the pricing, specifically between international and domestic/regional users is needed. Given that a significant portion is related to capital investments for domestic infrastructure, we expect that the impact would be much more dominant for this user group, particularly beyond PSE4 following their full capitalization. This leads to the conclusion that capital investments in their present forms become more unaffordable over the longer term, noting that Auckland Airport's Vision 2050 and additional Capex investments beyond those known in PSE4/5 to date.

A holistic approach is needed in reviewing both the regulated and non-regulated activities to accord greater transparency and provide the Commission with the necessary insight into all the business segments of Auckland Airport. While the concept of building block was mentioned, IATA does not have the necessary visibility of the information that would otherwise assure us of Auckland Airport's adherence to ICAO's Policies[1] on airport charges particularly the principles of cost-relatedness and user pay principles.

Concerning the demand analysis, the airline community has highlighted several noticeable flaws of the approach employed by Auckland Airport, leading to the conclusion that Auckland Airport has underestimated the impact of its pricing trajectory on demand, which will become increasingly evident going into PSE5. The profound disagreement on the results adopted by Auckland Airport referencing the Intervistas study warrants a closer examination by the Commission, despite the airport claiming that consultations have been held.

While demand is expected to grow, necessitating new capacity, it has become increasingly evident that the overall trajectory of travel costs to Aotearoa New Zealand will increase not only as a result of airport charges escalation but also increases in existing and/or introduction of new taxes and fees, and the supply chain costs. This risk must be factored in in the forecast and adjusted based on recent developments such as the increase in visa processing costs and the trebling of the International Visitor Levy from the current NZD35 to NZD100 effective 1 October 2024, amongst others.

Innovation

With regards to capacity, we are not certain if Auckland Airport has considered other aspects such as off-airport processing, greater adoption of automation and self-service in the planning of the proposed capital investments.

Besides capital costs, innovation should be evident in driving improvements in the overall operating costs. This calls for greater transparency of the performance of the airport where the key metrics should have been agreed to, monitored and reviewed with airlines/users on a regular basis. This would also support the assessment of the business case for investments.

As highlighted in our previous submission, it would be useful for the Commission, airlines and other airport users to understand Auckland Airport's overall technology and innovation roadmap. It is also prudent to recognize that innovation cannot be implemented without the necessary alignment and participation by others in the airport

[1] **ICAO's Policies on Charges for Airports and Air Navigation Services Doc 9082**

ecosystem. In most instances, investments are needed by users to facilitate these adoptions. Thus, achieving alignment and obtaining agreement/support for the overall strategy and roadmap is critical.

IATA trusts that the Commission will give its due consideration to the points and concerns raised in this submission, backed by our international perspective and close involvement in many similar discussions globally. Given the unresolved impasse, we request a pause on further capital delivery pending meaningful consultations with users to achieve the necessary alignment. In addition, there is a need for the Commission and users to have clarity over the treatment of certain costs such as sunk costs and disputed Capex in the interim.

Given the specialized nature of some of the topics covered, IATA would welcome the opportunity to provide further clarification and conduct an introductory session for the Commission on the IATA ADRM and the LoS concept. Feel free to reach out to me to make the necessary arrangements.

Yours sincerely,

[redacted]

cc [redacted]