Auckland Airport

10 October 2024

Infrastructure Regulation Branch

Commerce Commission

Wellington

By email: Infrastructure.regulation@comcom.govt.nz

To whom it may concern

Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4)

Thank you for the opportunity to respond to submissions on the Commerce Commission's draft decision on Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4).

This cover letter contains the key points Auckland Airport would like to highlight as part of our submission.

1. **Auckland Airport is acting in the best interests of consumers – as is the intention of Part 4 of the Commerce Act**

   Auckland Airport is a critical driver of growth for Auckland and New Zealand. It is the gateway for 18.5 million travellers each year and $26.6 billion in trade annually[1], making it our country's third largest port by value. We are proud to support 27[2] airlines flying to and from Auckland Airport, generating $35 billion in economic output. Tourism is New Zealand's second largest export earner and contributed to 11.4% of New Zealand's total exports of goods and services for the year ending March 2023.

   As the country's gateway and largest domestic hub airport, Auckland Airport needs to be resilient and fit for purpose for travellers today, while ensuring we have the capacity to facilitate future growth in visitation.

   Our long-term investment programme and PSE4 pricing reflects this responsibility and our obligations under part 4 of the Commerce Act – to promote the long-term interests of consumers.

[1] Source: Stats NZ, for the year to 30 June 2024
[2] As at 30 June 2024

This remains our priority, even if these decisions conflict with the short-term financial drivers of airlines.

2. Auckland Airport's upgrade is the right size for New Zealand

Travel through Auckland Airport is expected to double by 2044 based on independent forecasts of future growth.

Auckland Airport's infrastructure programme spans airfield, transport, utilities and terminals, and is essential for the future resilience of the airport.

The integrated terminal is the right size to competitively and cost-effectively serve New Zealand, as both the principal gateway for international travel and freight, and as the country's busiest domestic airport. Our international benchmarking and rigorous expert analysis shows the footprint and facilities are appropriately sized for the number of passengers it will serve coming into our country and facilitating tourism growth. Airlines heavily influenced the design over many years of discussion and consultation and previously backed it.

New terminal infrastructure will benefit New Zealand and consumers, creating the capacity for competition that puts downward pressure on airfares, promoting tourism and creating opportunities for growth to the regions.

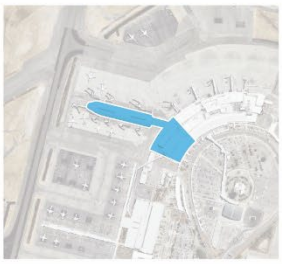
Delays to our infrastructure programme, which has been 10 years in the making, would only make the build more expensive.

Auckland Airport

AKL

Auckland Airport

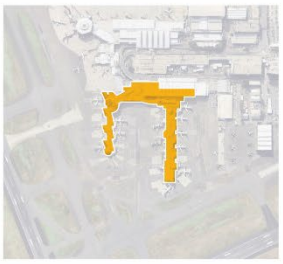
Domestic terminals in the region



Perth Airport (AU) T1

- Built in 2015

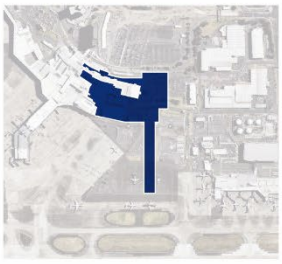
2.5 mil pax in FY 2018, ability to accommodate up to 5 mil pax	40,000 sqm DOM only



Sydney Airport (AU) T2

- Built in 1970
- Redeveloped for 2000 Olympic Games
- Capacity growth at Western Sydney Airport (under construction)

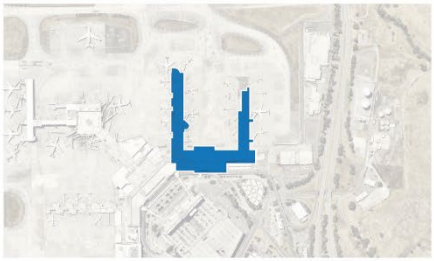
14.9 mil pax* 2023	65,000 sqm DOM only



Auckland Airport (NZ) DJT

- Planned completion in 2029
- Replacement facilities
- DOM area: 67,000

8.4 mil pax based on 2033 forecasted travellers	73,000 sqm DOM w/ shared INT



Melbourne Airport (AU) T1

- Built in 1970s
- Undergone several expansions and upgrades (i.e. 1990s, 2000s)

9.2 mil pax* FY 2024	80,000 sqm DOM only

Perth Airport (AU) – Proposed new Terminal

- Replacement facility
- Early stages of development (currently at pre-concept design)

17.0 mil pax based on 2035 forecasted travellers	120,000 sqm (indicative) DOM / INT

To scale.

* Estimate based on ACCC market share data and airport passsenger number reports.

3. **Airlines are lobbying for more market power for airlines – not doing what's right for consumers.**

The public attacks and hostility displayed towards Auckland Airport in recent months by airlines are designed to support an agenda of regulatory change, rather than genuine engagement in the PSE4 review.

This most recent airline campaigns have involved what could only be described as scaremongering tactics and providing unbalanced information with a strong bias to undermine Auckland Airport's investment plans and the current regulatory regime. It's a tactic we see from airlines both here and in Australia every time airports set charges or seek to make significant investments.

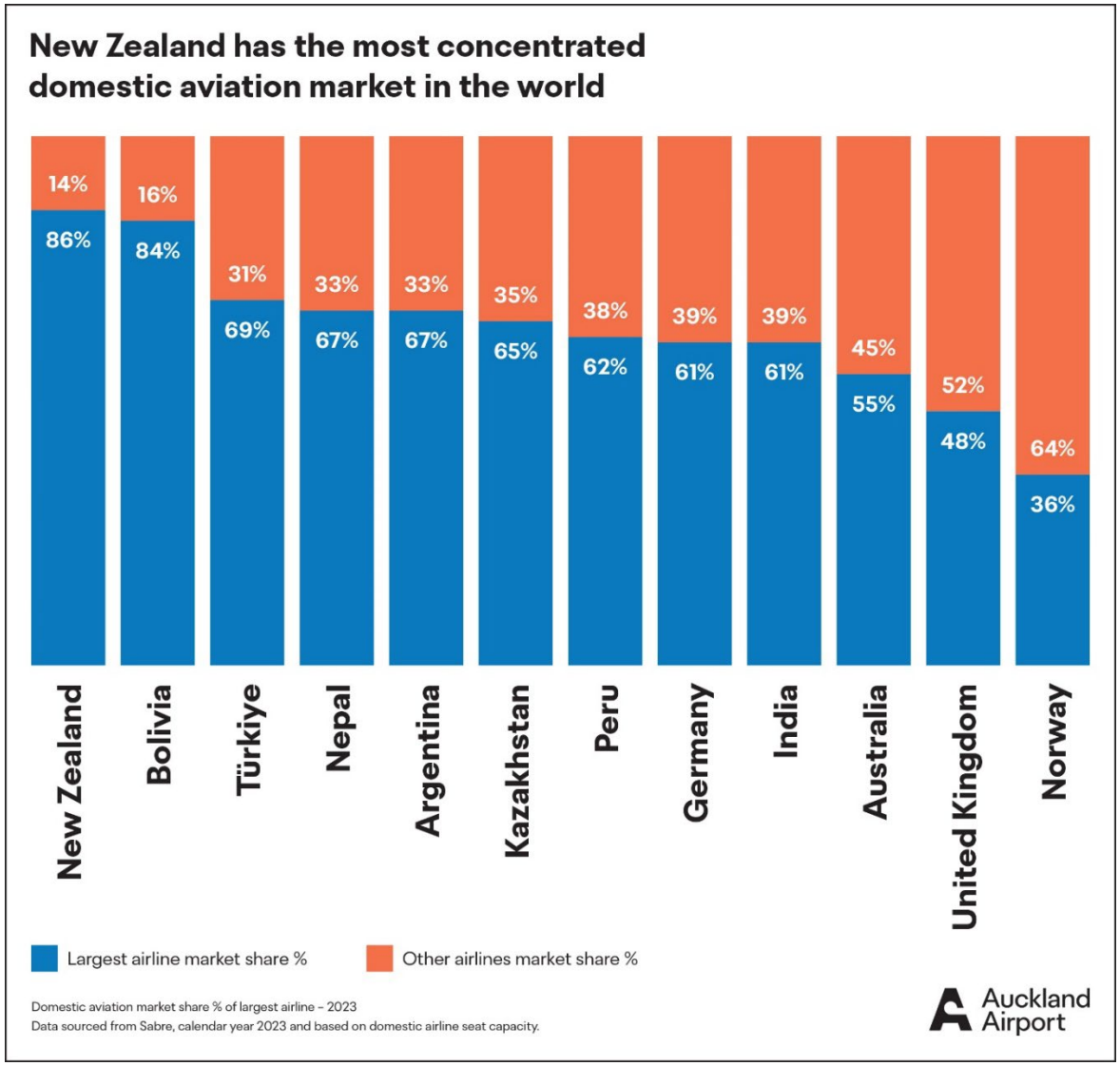
New Zealand already has the least competitive domestic market in the world, with the national airline carrying an 86% market share.

Domestic airport capacity is currently constrained with Auckland Airport's domestic terminal full at peak times. This works extremely well for New Zealand's dominant airline. It makes it very difficult for existing competitors to grow their scale and presence in Auckland and essentially rules out the likely entry of new airline competitors.

With this market structure, putting more power in the hands of airlines would be high risk and would cost consumers.

The risk of regulatory change with such a dominant national carrier, that has no economic regulatory oversight, is that you would see delay to investment and constrained airport capacity to support short term airline profit drivers. This would also keep airfares higher and protect market share dominance, rather than doing what's best for the travelling public and New Zealand's economy.

The current regulatory regime puts consumers' interests first.


New Zealand has the most concentrated domestic aviation market in the world
14%
86%
16%
84%
31%
69%
33%
67%
33%
67%
35%
65%
38%
62%
39%
61%
39%
61%
45%
55%
52%
48%
64%
36%
New Zealand
Bolivia
Türkiye
Nepal
Argentina
Kazakhstan
Peru
Germany
India
Australia
United Kingdom
Norway
Largest airline market share %
Other airlines market share %
Domestic aviation market share % of largest airline – 2023
Data sourced from Sabre, calendar year 2023 and based on domestic airline seat capacity.
Auckland Airport

4. **Auckland Airport's upgrade of airfield and terminals is a necessary once-in-a-generation investment.**

   We have taken great care to build a capital plan that responds to resilience and capacity requirements and our regulatory obligations, as well as providing a pathway to replace ageing infrastructure; all in the context of affordability and access to funding.

   This prudent approach to capital management has enabled Auckland Airport to raise both new debt and equity to fund this investment, ensuring critical infrastructure is delivered and reducing the cost of funding.

   As a public company, we have based this investment on our confidence in New Zealand's long-term future. Similarly, investors have the same view. They value a stable regulatory environment and are willing to support the investment when the return balances the risks associated with infrastructure of the scale contemplated by Auckland Airport.

5. **Auckland Airport's PSE4 pricing is below or in line with the pricing of other major airports in New Zealand**

   Auckland Airport's domestic prices are currently 4-6% of an average domestic jet airfare ($11.75). This user pays charge covers the cost of terminal facilities, runway and emergency services to support traveller journeys.

   As a comparison, Air New Zealand now charges from $5 to select a seat on a domestic flight, and between $14 and $30 to check a bag.

   Against a backdrop of constrained capacity and strong traveler demand, New Zealand's domestic travel market has proven highly lucrative for incumbent airlines.

   Auckland Airport's domestic charges have been extremely low for a long time, less than half of Wellington and Christchurch airports since 2011, reflecting the age of our assets. These low charges have reduced the cost of domestic operations for Air New Zealand and with it benefited its shareholders since 2011 by over $470 million.[3]

6. **Auckland Airport can only conclude that airlines' approach to PSE4 is an overt attempt to increase regulation of airports and in doing so suppress competition.**

   Airlines, which are not economically regulated, have strong commercial incentives to protect dominant and lucrative positions on many domestic (particularly regional) routes and a comfortable duopoly on main trunk routes, opposing airport investment that will enable 26% new domestic seat capacity to be added.

[3] Compared to the average prices charged by Wellington and Christchurch Airports

If more power were put in the hands of airlines, their behaviour in New Zealand and across the Tasman shows they would seek to limit investment in airports in order to squeeze capacity and prevent future competitor entry which keeps airfares high.

Airlines have used the opening of Mānawa Bay Bay, a new outlet mall, to again advance their lobbying for a review of the regulatory regime. Their basic claim is that the success of Auckland Airport's non-aeronautical activities comes at the cost of aeronautical services.

Airports having a diversified business, and only the aeronautical business being regulated, is a core and intentional part of the regulatory regime. It implements the clear principle that only services with limited competition can be regulated under Part 4 (a principle that does not only apply to services provided by airports). We note that airlines do not pay for retail development.

Auckland Airport raises equity or borrows to fund critical national infrastructure, and we are able to do so on the strength of our whole balance sheet. This allows us to secure funding and get on with delivery of critical infrastructure in a timely way, which is vitally important when New Zealand faces an estimated $200 billion infrastructure deficit.

7. Airports are being invested in all around the world

The United Nations agency, the International Civil Aviation Organization (ICAO), reflected in 2019 that global aviation has become the enabler of global business. Further stating that projected increased demand for air transport, at an average of 4.3% per annum over the next 20 years, was "dazzling" and reflected "a dynamic sector".

In 2023 the Airports Council International (ACI) World predicted an average annual growth of 5.8% in passenger traffic between 2022 and 2040. ACI also record that globally around $US2.4 trillion (NZ$3.82 trillion) needs to be spent on airport infrastructure over the next two decades, with more than half of that investment in the Asia Pacific region. These projections propose a reasonable and sustainable future for both airlines and airports.

Closer to home we are seeing significant investment being made in airports on this side of the world. Melbourne Airport plan to invest $3 billion AUD to construct a new runway, plus a $500 million to upgrade its baggage systems. Perth Airport has recently announced an estimated $3 billion AUD of airfield and terminal investments that are planned as part of a $5 billion AUD redevelopment of the airport to co-locate all domestic and international services. Brisbane Airport has also recently announced $5 billion AUD of terminal works for domestic and international services. These airports are all investing for the future just as we are.

Auckland Airport has responsibly approached setting charges for **PSE4,** and looking ahead toward PSE5.

The current regime incentivises Auckland Airport to make decisions that are in the national interest, and deliver the essential public infrastructure that is needed today and into the

future. We appreciate that the Commission recognised this in its draft report when it found our infrastructure investment plans to be reasonable, and believe the Commission will reach the same conclusion once it considers the submission that is now before it.

Kind regards

[redacted]

[redacted]

Auckland Airport

Cross-Submission on Commerce Commission Draft Report for its review of Auckland Airport's 2022 – 2027 price setting event

10 October 2024

1 Executive summary

Auckland Airport welcomes this section 53B review which follows the pricing decision for PSE4. These reviews play an important role in the information disclosure ("**ID**") regulatory framework for airports in New Zealand.

Inaccurate claims have been made about Auckland Airport's investment plans

In response to the Commission's findings in its Draft Report that Auckland Airport's investment plans, while substantial, were reasonable and appropriately costed, airline submissions have responded with a set of claims that contradict previous feedback, and include analysis that is either incorrect or lacks essential context.

This approach appears to have been taken in an effort to undermine Auckland Airport's investment plans, and to change the Commission's mind on its assessment of Auckland Airport's capital investment plans.

It is a key reason why Auckland Airport's pricing disclosures must be the primary reference point for the Commission's review (in addition to the proper scope of the review being a summary and analysis of the disclosures). Auckland Airport prepares its disclosures knowing it is subject to penalties and/or commits an offence if they are false or misleading. Airlines are not subject to the same discipline when they make their submissions.

The Domestic Jet Terminal has been designed to an efficient and appropriate size for the traffic volumes it will service

Air New Zealand submissions that claim the Domestic Jet Terminal design is too large are based upon what appears to have been a deliberate misapplication of IATA Levels of Service design guidelines. Air New Zealand's approach is in direct contradiction to advice from both Airbiz and Mott MacDonald - two independent airport design experts, as well as IATA itself. The truth is that the terminal has been developed with reference to the IATA guidelines. Comparable terminal benchmarks indicate that the terminal is appropriately sized for the number of passengers it will serve.

It also makes further untrue claims that the Domestic Jet Terminal has more retail space than the international terminal, and that retail space is over-provisioned in the design – both claims are disproven in this submission. Auckland Airport estimates that 19% of the costs of the terminal building will not be allocated airport charges, and recovered by other means including retail activities. Air New Zealand disputes these cost estimates not on the basis of the design that is being delivered, but rather the hypothetical alternative design it now proposes but never raised during consultation. Regardless - airlines do not pay for retail facilities.

Consultation with airlines has been extensive and shaped the design of what is now being delivered

Airline submissions also claim that Auckland Airport has not adequately or properly consulted on our investment plans. This could not be further from the truth. Key decisions that informed the design, including the decision to integrate the terminals received substantial support from Air New Zealand and shaped the solution that is now being delivered.

Air New Zealand now claim that the design of the domestic pier is too large, yet it is of the same design where it told Auckland Airport previously [redacted]

[redacted], and is also the same design of the plans in 2021 that were supported by Air New Zealand.

Auckland Airport has considered all feedback received, and this has resulted in material changes to the design, including a complete re-design of the combined domestic and international check-in hall to reduce its size in order to save cost, in response to airline feedback.

Auckland Airport has long signalled the substantial capital cost involved with the Domestic Jet Terminal

Air New Zealand claims that the cost of the Auckland Airport capital plan was a surprise are unfounded. The significant capital costs in the capital investment plan - including the costs to deliver a new domestic terminal - have long been signalled to airlines, and were supported by airlines. Air New Zealand [redacted] following the release of the Draft Capital Plan to airlines in July 2022, with [redacted] The final capital plan for PSE4 was then substantially reduced by $1.6 billion over the 10 years[1] through the consultation process.

Auckland Airport is now well progressed on delivering the Domestic Jet Terminal

With the signing of the contract to manage the construction and delivery of the new Domestic Jet Terminal, Auckland Airport raised $1.4 billion from shareholders to partly fund the planned $6.6 billion upgrade to airport infrastructure. This prudent approach to capital management provides greater certainty that the programme of work can be funded through to completion, ensuring that critical infrastructure is delivered and reducing the cost of funding.

An essential feature of this project is that allows jet services operating on the southern face of the existing Domestic Terminal Building to be relocated to the new Domestic Jet Terminal. This enables efficient contingent runway operations which will facilitate renewals of concrete slabs on the main runway in the future.

Auckland Airport has identified a viable pathway for PSE5 charges

Auckland Airport also considers that it is important to recognise that prices for PSE5 have not yet been set, and will be subject to further consultation with airlines. Auckland Airport has identified a viable pathway for domestic jet charges to average $25 per passenger across PSE5. **This is lower than the price paths for PSE5 shared with airlines in 2021, when BARNZ and Air New Zealand publicly supported Auckland Airport's investment plans including the Integrated Domestic Jet Terminal.** Regional charges for PSE5 are expected to fall within a range of $12-20 per passenger.

Cost of capital assessment must be forward-looking and reflect pandemic risk

Airline submissions support the Commission's assessment of the cost of capital, favouring scenario 1 as a relevant benchmark. As Auckland Airport set out in our submission to the Draft Report this scenario is not forward-looking in that it does not reflect pandemic risk, and continues to apply a downwards adjustment related to aeronautical risk which has now been disproven. A

[1] Change in value of priced assets commissioned across PSE4 and PSE5

forward-looking estimate is an essential criteria of the Commission's approach to estimating the cost of capital.

Airline study on price elasticity of demand overstates impacts due to discredited modelling assumptions

The price elasticity study submitted by BARNZ presents results that are completely dependent on disproven assumptions – adoption of these assumptions greatly exaggerates the estimated impacts on demand. These assumptions were not only disputed by expert advisors InterVISTAS - who are global experts and have advised IATA - but were also questioned by Skylark consulting, the peer reviewer of the study that was commissioned by BARNZ. Most importantly, real world examples of fare increases by Air New Zealand, alongside public comments by its Chief Executive on recent fare increases also invalidate these assumptions being applied in the real world. Accordingly, the results of this study should be disregarded.

Airlines conduct in this review has been driven by a desire to increase airline influence over airport investment for their own commercial benefit

The evidence before this review, as demonstrated in detail in this submission, exhibits a consistent pattern of inaccurate and incomplete claims by airlines about Auckland Airport's pricing and investment plans. The contradictory messaging, changing of positions over time, and selective presentation of information, demonstrates a behaviour that is driven by airlines' unconstrained commitment to seeking to obtain an outcome that meets their short-term commercial interests. There is no cost to the airlines for this type of behaviour - with an evident strategy of making whatever claims that suit their objectives and seeing if they pay off.

If such change was not in their own commercial interests, then it is not clear why they would expend such time, energy and resource to effect such change, including repeated attempts to encourage the Commerce Commission to draw incorrect conclusions as part of this review.

This behaviour validates the importance of maintaining the current regulatory settings

Airports are best placed to see through any unfounded claims from airlines to make the best decisions for consumers and NZ Inc. Although the volume of contradictory information provided to the Commission means it has a difficult task, we are confident that it will carefully assess the material to achieve the purpose of the review – to provide an objective and factually accurate analysis that will assist interest persons to understand Auckland Airport's decision-making and performance. To the extent that the Commission has concerns about Auckland Airport's decisions, then we are prepared to respond to them. This is effective regulation.

The number of inappropriate behaviours undertaken by airlines throughout this review demonstrates the challenges airports would face under the type of negotiate-arbitrate regime preferred by airlines. Examples include claims based on incorrect data, what appears to be a deliberate misapplication of guidelines for airport planning standards, provision of views that are contradictory to previous feedback and engagement, undertaking demand impact studies based on invalid assumptions, or wilfully ignoring highly relevant information when it does not suit their objectives – these are all behaviours we have seen in this review.

2 Introduction

The Commerce Commission ("**Commission**") has commenced its review of Auckland Airport's fourth price setting event, covering prices for the July 2022 – June 2027 period ("**PSE4**"). Recently the Commission published submissions on its "Review of Auckland Airport's 2022-2027 Price Setting Event - Consultation Paper" ("**Draft Report**"). In this cross-submission, Auckland Airport:

- endorses NZ Airports' views on the Commission's draft findings and their response to submissions; and
- responds to the key points raised in submissions on the Commission's Draft Report, particularly focused on submissions by airlines including Auckland Airport's three Substantial Customers.

This submission should be read alongside Auckland Airport's price setting disclosure for PSE4 ("**PSE4 PSD**"), published on 17 August 2023, Auckland Airport's submissions and cross-submissions to the Commission's Process and Issues Paper and Auckland Airport's submissions on the Draft Report. These documents provide extensive details of Auckland Airport's pricing decision, supporting rationale, and relevant information and forecasts. This submission should also be read alongside the cross-submission from the NZ Airports Association on the Commission's Draft Report, which Auckland Airport is a party to and supports.

Auckland Airport

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3 Investment

Airline submissions on the Draft Report challenge the design of the Domestic Jet Terminal, the cost of Auckland Airport's capital investment plans, and Auckland Airport's future plans to transition operations away from the Domestic Jet Terminal.

These submissions are based on claims that omit critical context, incorrectly apply planning guidelines, or contradict the feedback provided to Auckland Airport over the extensive consultation period.

With regard to the design of the Domestic Jet Terminal:

- Submissions claim Auckland Airport has not adequately consulted with airlines on its investment plans – **this is simply untrue**. We set out in detail in this submission just a fraction of the record of thorough consultation over many years that reflects airline feedback being considered and taken on board as the design has been developed. This demonstrates that airline feedback has materially shaped the solution that is being developed, including the integrated solution which is now claimed to be inefficient by airlines.
- Air New Zealand's submission on the application of the IATA 'Optimum' Level of Service ("**LoS**") design parameters **is incorrect.** Advice from experts Airbiz, Mott MacDonald, and even submissions from IATA all demonstrate that Air New Zealand has applied the guidelines incorrectly. This incorrect application has been used as a basis to make arguments that the terminal should be materially smaller under these guidelines.
- Airline submissions claim Auckland Airport has not adequately made adjustments to the design. **This is also untrue.** Auckland Airport has considered all feedback on the design on its merits. This has resulted in material changes to the design in response to this feedback, including a complete re-design of the check-in hall.
- Air New Zealand submits the design of the domestic pier is too large, [redacted]
- Submissions from both Qantas and Air New Zealand include benchmarks of the size of other comparable terminal developments, which can easily be misinterpreted **without the appropriate context**. Alongside the relevant context, these benchmarks do not indicate that the design is unreasonable.
- Air New Zealand has **made incorrect claims concerning the provision of retail space in the Domestic Jet Terminal**. These incorrect claims include how the costs of retail space are proposed to be allocated. It also makes comparisons to retail space in the international terminal, but the international terminal data is materially under-stated. Auckland Airport estimates that 19% of the overall Domestic Jet Terminal building project costs (excluding airfield assets) will not be allocated to airport charges paid by airlines. In the terminal headhouse (where the majority of retail is located) 17% of the costs are estimated to be allocated to retail. Claims that dispute retail allocations are not based on the designs that are being progressed by Auckland Airport, but rather the unjustified assertion that aeronautical

costs of the Domestic Jet Terminal should be based on the hypothetical alternative design favoured by Air New Zealand.

With regard to the cost of the Domestic Jet Terminal and the overall capital investment plan:

- Air New Zealand claims that the cost of the Auckland Airport capital plan was a surprise are unfounded. **Air New Zealand chooses to ignore the detail of the consultation record** which demonstrates that the main capital costs in the capital investment plan - including the costs to deliver a new domestic terminal - have long been signalled to airlines, and that airlines for an extended period of time supported the plans that had these costs attached.
- Air New Zealand [redacted] following the release of the Draft Capital Plan to airlines in July 2022, which indicated investment of up to $7.3 billion in priced assets over PSE4 and PSE5 (this has since been reduced). On 30 August 2022, Air New Zealand [redacted][2]
- This section also includes further detail and analysis on cost comparisons and benchmarks that have been included in airline submissions. This shows that **many of the benchmarks cited by airlines are either not valid or require further context** than what has been submitted in order to make a balanced assessment. Taking this into account, benchmarks that are relevant or have appropriate context support the estimated cost of the Domestic Jet Terminal.

Auckland Airport has identified a viable pathway for PSE5 charges

Auckland Airport also considers that it is important to recognise that prices for PSE5 have not yet been set, and will be subject to further consultation with airlines. Auckland Airport has identified a viable pathway for domestic jet charges to average $25 per passenger across PSE5. **This is lower than the price paths for PSE5 shared with airlines in 2021, when BARNZ and Air New Zealand publicly supported Auckland Airport's investment plans.** Regional charges for PSE5 are expected to fall within a range of $12-20 per passenger.

With regard to the use of the existing Domestic Terminal Building:

- Auckland Airport has **signalled for a long-time that the existing Domestic Terminal Building was no longer fit-for-purpose,** and would be decommissioned. Air New Zealand [redacted]
- [redacted]
- The plan for jet services operating on the southern face of the existing Domestic Terminal Building to be relocated to the new Domestic Jet Terminal, which enables efficient contingent runway operations, continues to hold.

[2] Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*"

- Submissions that claim the new Domestic Jet Terminal is not adding sufficient additional capacity ignore the clearly stated issue that the Domestic Jet Terminal is a replacement facility for the existing Domestic Terminal Building which is an aging facility, as well as a long-run constraint on growth that does not allow for contingent runway operations necessary to enable essential renewals for resilience of the main runway.

Auckland Airport is now well progressed on delivering the Domestic Jet Terminal

With the signing of the contract to manage the construction and delivery of the new Domestic Jet Terminal, Auckland Airport raised $1.4 billion from shareholders to partly fund the planned $6.6 billion upgrade to airport infrastructure. This prudent approach to capital management provides greater certainty that the programme of work can be funded through to completion, ensuring that critical infrastructure is delivered and reducing the cost of funding.

3.1 Design of the Domestic Jet Terminal

This section of the submission should be read in conjunction with Mott MacDonald's review of Air New Zealand's submissions on level of service, capacity and benchmarks, which is also submitted to this review.

3.1.1 Consultation to develop an Integrated Terminal facility at Auckland Airport

Auckland Airport has consulted on integration of domestic and international facilities over an extended period of time, and this consultation has informed the solution that has been developed. We consider this is important context to consider given the submissions to this review.

Air New Zealand's support for a smaller terminal is based on a proposal it has provided for an adjacent terminal to be provided at Auckland Airport, rather than the integrated Domestic Jet Terminal that is now being developed. [3]

Other submissions have disputed whether Auckland Airport has consulted sufficiently or adequately.

IATA submitted:

> *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.* [4]

[3] This proposal does consider integration will take place in the future and ignores the terminal integration work that has already being undertaken and supported by Air NZ (Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*").
[4] IATA (3 September 2024), *"Comments on the draft conclusions of the review of Auckland Airport's 2022-2027 price setting event"*, page 1

> *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* [5]
>
> *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* [6]

Auckland Airport has extensively consulted with airlines on the development of an integrated terminal, well beyond the requirements of the guidelines as stipulated by IATA. The consultation was undertaken through collective sessions with Substantial Customers as well as through bilateral meetings.

It is this consultation which has led to the development of the design of the Domestic Jet Terminal that is being progressed today. This is demonstrated below where we outline relevant extracts from documents that have formed part of the consultation process that supported Auckland Airport's development of the delivery of an integrated terminal solution.

3.1.1.1 July 2016

Air New Zealand provided the following feedback on 19 July 2016:

[5] IATA (3 September 2024), *"Comments on the draft conclusions of the review of Auckland Airport's 2022-2027 price setting event"*, page 3
[6] IATA (3 September 2024), *"Comments on the draft conclusions of the review of Auckland Airport's 2022-2027 price setting event"*, page 2

[redacted][7]

Supporting this position, it provided the following further feedback as 'cons' on a standalone domestic processor proposal:

[redacted][8]

3.1.1.2 October 2016

Auckland Airport had begun consultation on PSE3 prices, with various information packs shared with Substantial Customers. Minutes of meetings held with Air New Zealand record the following:

[redacted]

[7] Air New Zealand (19 July 2016), *"Air New Zealand feedback to Auckland Airport Limited: DP/TDP Feasibility Study"*
[8] Air New Zealand (19 July 2016), *"Air New Zealand feedback to Auckland Airport Limited: DP/TDP Feasibility Study"*

[redacted][9]

3.1.1.3 November 2016

Air New Zealand also provided the following feedback in relation to the broader capital plan during consultation on charges for PSE3:

[redacted][10]

[9] Air New Zealand, Airbiz &Auckland Airport, (7 October 2016), *"Minutes: Aeronautical Pricing Consultation: Air NZ meeting re Information Pack 2"*
[10] Air New Zealand, (11 November 2016), *"Aeronautical Pricing Consultation – Information Pack 2: Capital Investment Outlook"*

3.1.1.4 December 2016

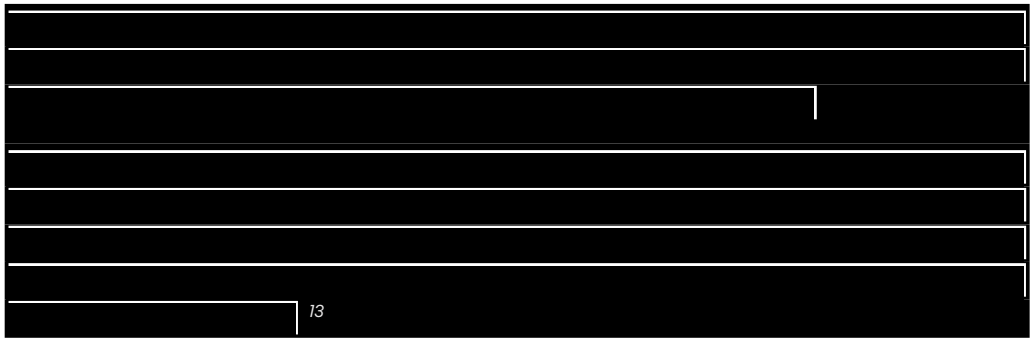
Auckland Airport shared further design information on three domestic concept layouts: an adjacent option, an integrated option, and a hybrid option.[11] Auckland Airport then sought airline feedback on a proposal to progress to concept design:

> *We would like to highlight that Concept design will be another critical stage in the process and is likely to be resource intensive. We are ramping up our internal resources so that we can turn around proposals in a timely fashion. We will be providing an opportunity for stakeholders to contribute to the Concept Design brief during January 2017.*
>
> *We welcome airline feedback by 27 January 2017 ahead of the Board meeting:*
>
> - *Support to move to concept design for the TDP programme and priority areas for deeper focus;*
> - *Whether Scenario 2b (hybrid) represents the best option, of the options developed, to balance the feedback received by Auckland Airport during the consultation process;*
> - *Support for taking this leading option into concept design if the Board approve it in February;*
> - *Concept design process or flow and function priorities from the airline perspective;*
> - *The nominee for your organisation to represent your airline during the concept design phase.*[12]

3.1.1.5 January 2017

Air New Zealand then provided the following feedback in January 2017:

[11] Auckland Airport, (1 December 2016), "*DP Options Update*"
[12] Auckland Airport, (20 December 2016), "*TDP update - December 2016*"



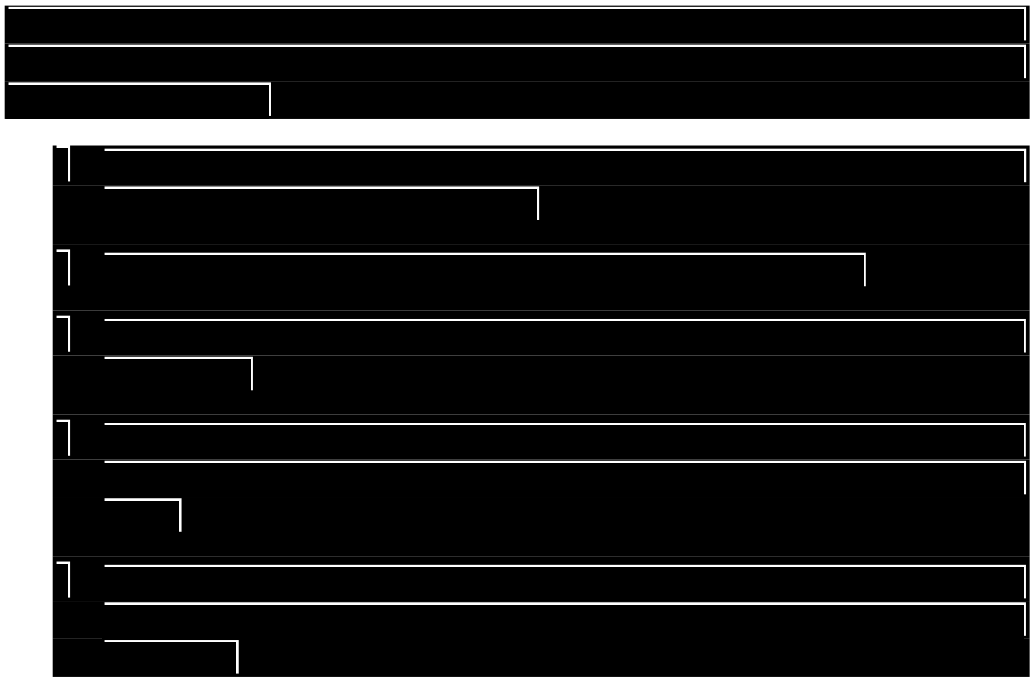
BARNZ also provided the following feedback:

3.1.1.6 January 2018

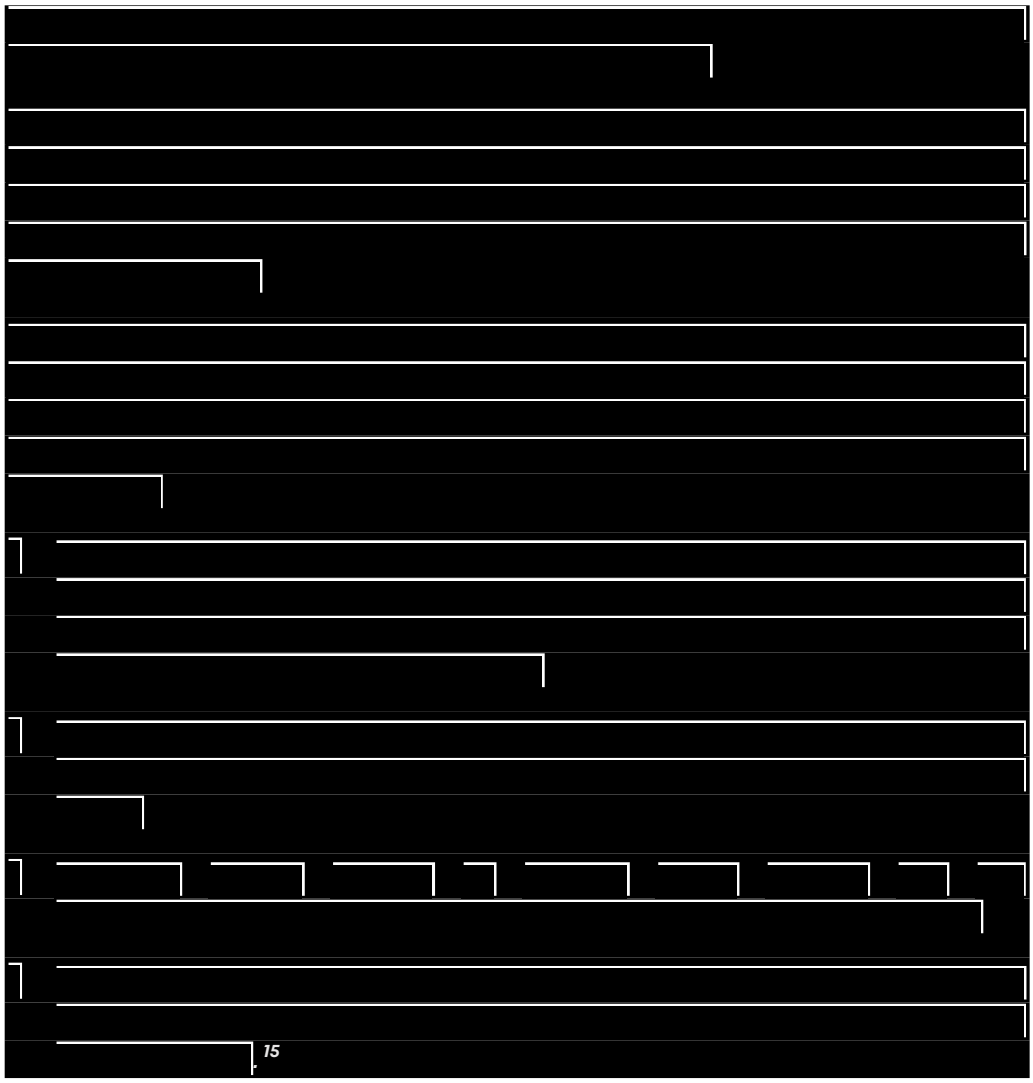
Throughout 2017 Auckland Airport continued to develop designs, which resulted in the Terminal Development Plan concept design being completed in December 2017.

BARNZ provided feedback to Auckland Airport on the Terminal Development Plan, which included feedback from all BARNZ members (including Air New Zealand and Qantas).

(our emphasis added):



[13] Air New Zealand, (27 January 2017), *"Air New Zealand Feedback to Auckland Airport Limited: DP/TDP Feasibility Study, response to letter dated 20 December 2016"*
[14] BARNZ, (26 January 2017), "*TDP Feedback"*



Air New Zealand confirmed via email that this feedback provided by BARNZ represented their views.[16] This feedback prompted Auckland Airport to revisit its designs to identify [redacted]

3.1.1.7 February 2018

The bilateral meeting minutes record the following Air New Zealand feedback:

[15] BARNZ, (23 January 2018), Letter to Auckland Airport
[16] Air New Zealand, (12 February 2018), email *"Design Drop Feedback"*
[17] Air New Zealand & Auckland Airport, (13 February 2018), *"Minutes: TDP Bilateral Meeting – Air NZ"*

3.1.1.8 May 2018

Auckland Airport noted the different options for the Domestic Jet Facility being reviewed, as recorded in the MACPAC minutes.

> *SC presented the 9 different DJF options being reviewed and outlined the 'three families' within these options for 2022 and 2044 respectively, namely 'adjacent/adjacent'; 'adjacent/combined' and 'combined/combined'.*[18]

The options presented reflected alternatives on the extent of integration proposed for the new domestic terminal facility being developed.

3.1.1.9 July 2018

Auckland Airport provided further detail on options for the design of the Domestic Jet Facility. [redacted]

This feedback resulted in the exploration of Option 10 staged combined as the emerging scenario to further pursue, [redacted], but also addressed the constraints of delivering a fully integrated facility while maintaining full airport operations.

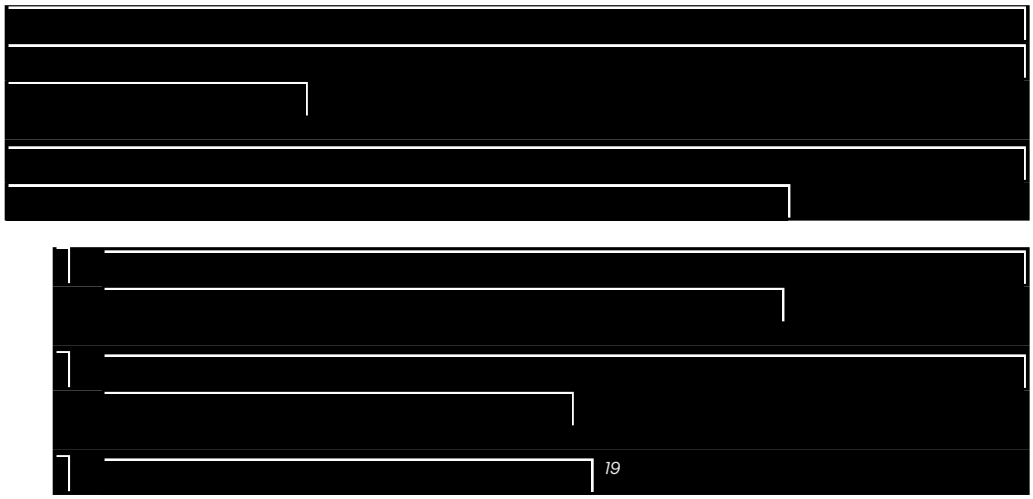
Figure 1: MACPAC materials, July 2018

[18] MACPAC, (23 May 2018), *"Minutes"*

Source: MACPAC Presentation, 25 July 2018

3.1.1.10 August 2018

In response to the design options that were presented by Auckland Airport, Air New Zealand provided the following feedback:



As part of its feedback, Air New Zealand made the following comments on the consultation process that was run by Auckland Airport:

[19] Air New Zealand, (3 August 2018), "*Domestic Jet Facility Options*"

[redacted] [20]

3.1.1.11 April 2019

Air New Zealand provided Auckland Airport with feedback on its baggage requirements:

[redacted] [21]

3.1.1.12 August 2019

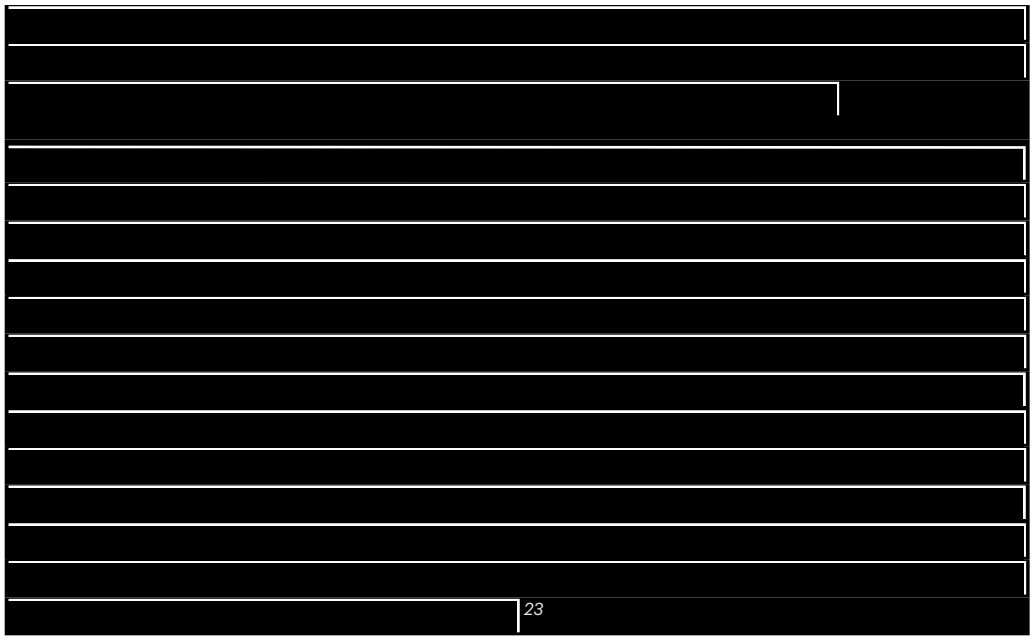
Air New Zealand wrote to Auckland Airport to provide feedback on Project Rialto – an exercise to review the overall capital investment plan at Auckland Airport. This feedback included the following:

[redacted] [22]

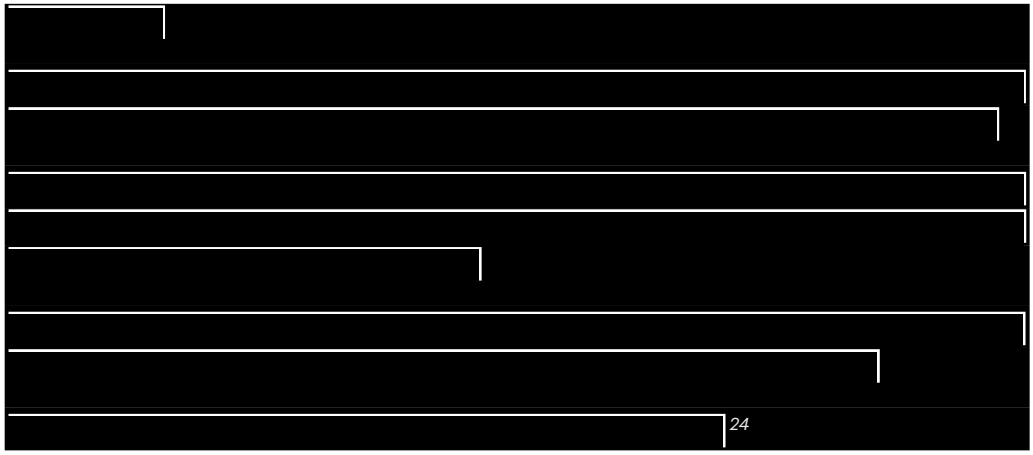
BARNZ also provided the following feedback on project Rialto:

[redacted]

[20] Air New Zealand, (3 August 2018), "*Domestic Jet Facility Options*"
[21] Air New Zealand, (9 April 2019), *"Air NZ Baggage Requirements"*
[22] Air New Zealand, (20 August 2019), Project Rialto feedback


[redacted]
23

Specifically, with regard to domestic terminal developments BARNZ noted:


[redacted]
24

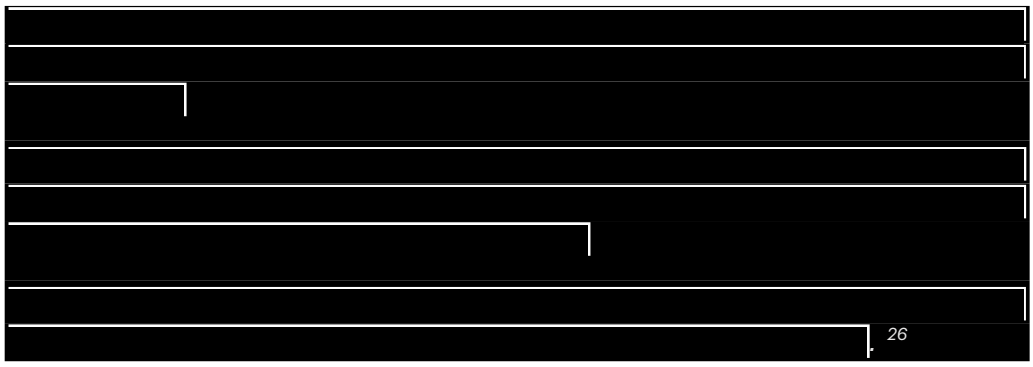
3.1.1.13 December 2019

Auckland Airport presented to the MACPAC the next evolution of the integrated terminal - the Domestic Jet Hub.[25] The Domestic Jet Hub delivered integration to the extent that was possible without materially impacting airline operations. Designs of the Domestic Jet Hub were shared with airlines for feedback.

[23] BARNZ, (19 August 2019), *"BARNZ Feedback on Project Rialto Refreshed Aeronautical Capital Plan"*
[24] BARNZ, (19 August 2019), *"BARNZ Feedback on Project Rialto Refreshed Aeronautical Capital Plan"*
[25] Auckland Airport, (December 2019), *"MACPAC: Domestic JetHub – Right sized and resilient up to 2028 and beyond"*

3.1.1.14 March 2020

Air New Zealand provided the following feedback on the Preliminary Design of the Domestic Jet Hub:



However, as the impacts of the COVID-19 pandemic on aviation became clear during March 2020, Auckland Airport announced a decision to suspend capital investment.

3.1.1.15 October 2020

Project Paheko looked at options to deliver terminal capacity in a post-pandemic environment, working through the MACPAC. Through this work, the benefits of completing works in the pandemic induced low-traffic environment were identified:

> *The reduction in international traffic presents an opportunity to conduct integration work in a safer, more cost efficient environment where disruption to passengers is able to be more effectively managed. The window starts to close beyond FY23 where international recovery is forecast to increase terminal utilization to levels that will require more and more extensive measures (and associated costs) to manage physical works disruption.* [28]

Minutes from the 14 October 2020 MACPAC record the following was noted by BARNZ:

3.1.1.16 April 2021

As project Paheko continued to progress a number of squads to develop and refine the options identified were set up. This included establishment of a demand squad, a health infrastructure

[26] Air New Zealand, (10 March 2020), *"Domestic Jet Hub – Preliminary Design"*
[27] MACPAC, (8 April 2020), *"Minutes"*
[28] Auckland Airport, (14 October 2020), *"Project Pathway and Paheko – MACPAC Discussion Materials"*
[29] MACPAC, (14 October 2020), *"Minutes"*

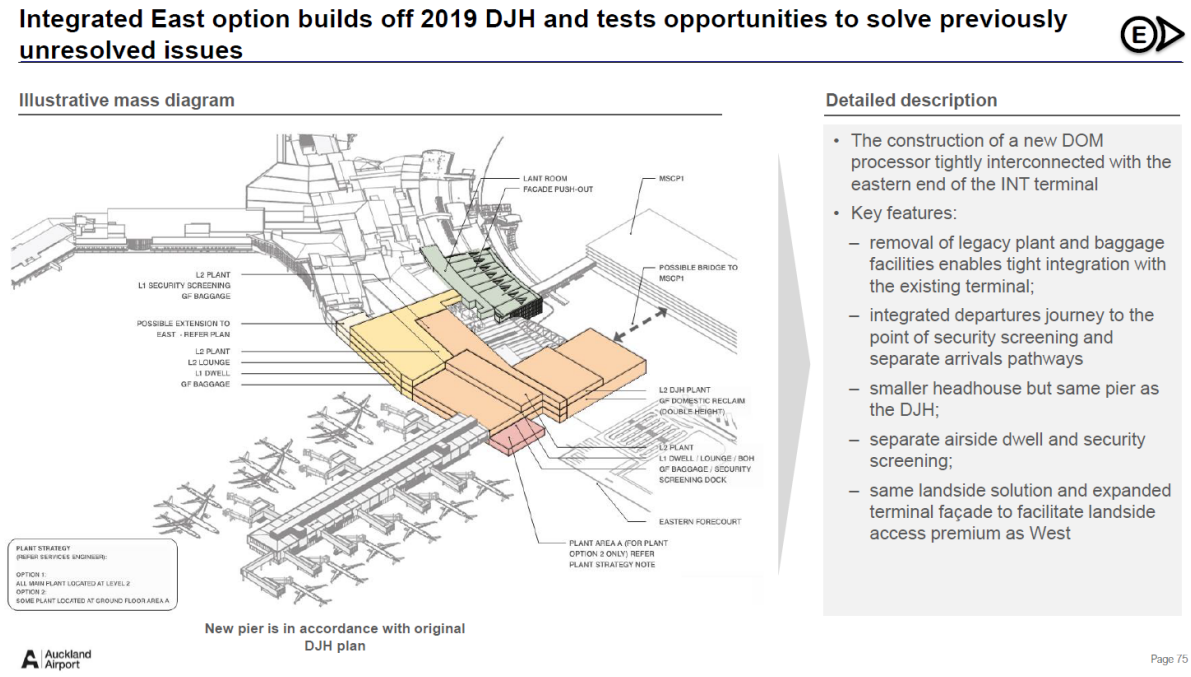
squad, a security pathway squad, a departures pathway squad, and an arrivals pathway squad. These squads comprised of staff from Auckland Airport, airlines and government agencies.[30]

This culminated in a detailed presentation of the findings from Project Paheko, including the two options examined in detail – Integrated East and Integrated West This presentation was provided to airlines ahead of the April MACPAC meeting.

The analysis recommended Integrated East be progressed. Key findings for the Integrated East solution that had been developed included:

- that the new pier for the Integrated East solution was designed in accordance with the original Domestic Jet Hub pier plan;
- the opportunity to upgrade the east bag hall with a new baggage system was a key time-limited opportunity due to low traffic volumes during the pandemic;
- identified high-level indications of the functions of different areas, including the extent of the dwell space that was to be provided in the terminal headhouse;
- the risks associated with pursuing a more integrated build solution, including the importance of taking advantage of the low-traffic environment that the pandemic induced.

Figure 2: Select slides from MACPAC airlines only pre-read, 14 April 2021



[30] Auckland Airport, (14 April 2021), *"MACPAC – Monthly Aeronautical Capital Plan Airline Consultation Meeting"* airlines only pre-read

Auckland Airport

AKL

Integrated East – Ground Floor Baggage

The upgrade of the Eastern Bag Hall is a time limited opportunity created by COVID to address the current limitations of AIA's INT baggage system and provide increased resilience through to 2032+. In doing so, it will enhance the overall performance of the system and deliver benefits valued by airline customers and travellers including an Early Bag Store ("EBS").

Outline of the proposed baggage system upgrade

[redacted]

Description

- Creates **end state baggage system that complies to security regulations**, provides sufficient capacity through to 2032+ and achieves both PAX and reliability benefits
- **All day check in** is enabled by the EBS
- **Reduces build cost** relative to DJH baggage through reduction in headhouse slab build
- **Provides a potential uplift in outbound baggage processing capacity** to accommodate a Central++ growth scenario (should this occur)

Auckland Airport

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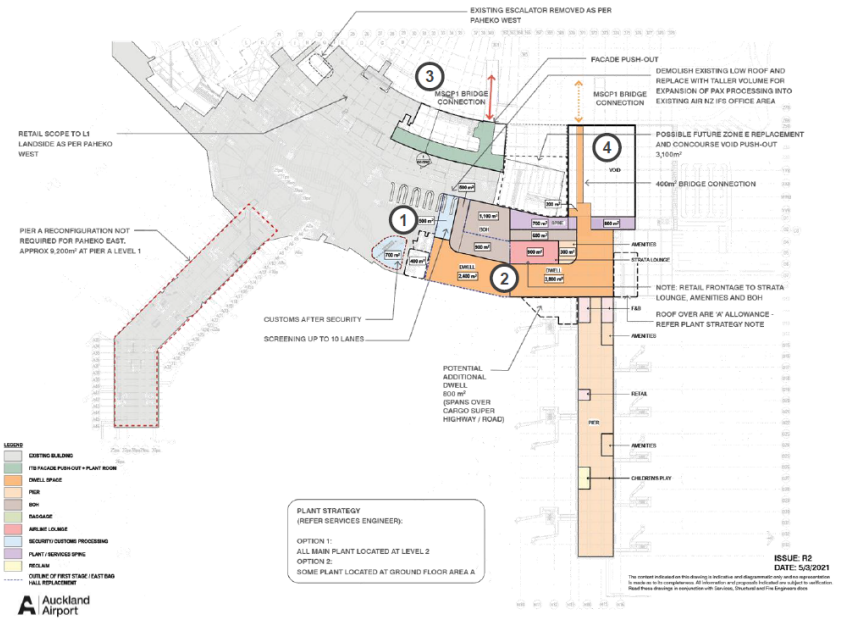
Integrated East – Level 1



Comments

1. Enable separation of border agencies into DOM and INT requirements. Customs relocated to behind AVSEC and security set up for harmonisation at a later date
2. Dedicated DOM dwell space post security in a physical space with a high CX.
3. Façade expansion enables first floor terminal access direct from the MSCP
4. DOM arrivals (with no bags) can access MSCP from first floor level of the new DOM processor in a straight walk out of the pier

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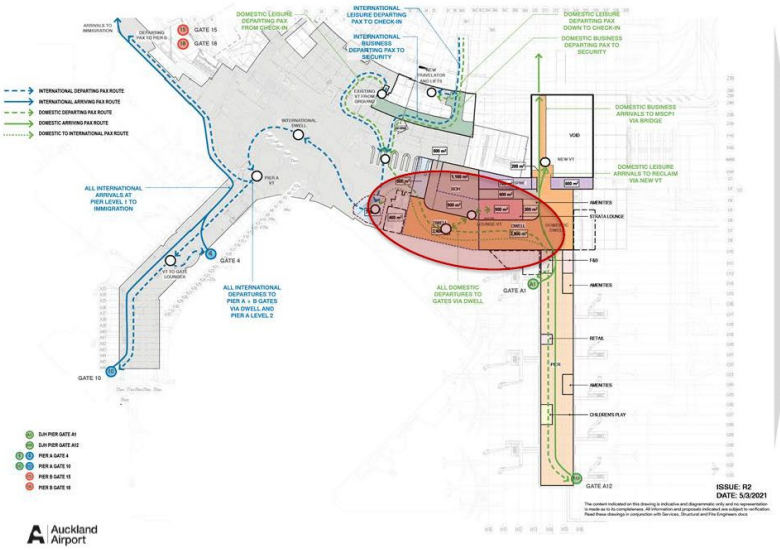
…but comes with some key risks



Key considerations

- Extended timeline to commission driven by:
  - tight integration; and
  - need to limit customer interfaces under construction
- Extended date until commissioning will require improvements in the DTB to alleviate airline and PAX concerns
- Size and scale of build will test, if not exceed, current construction industry capacity
- De-risking of the construction schedule is only achieved if early start of key design and enabling activity is achieved. This including the Eastern Bag Hall, Airport Operations Centre, logistics and traffic management strategies
- Once demand rises the window of opportunity closes. Current modelling indicates late CY23 is the cut off

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Having shared the detailed pack on the options for integration that had been identified, Auckland Airport sought feedback. Auckland Airport received the following feedback from Air NZ:

[redacted] [31]

Further, the following feedback was received from BARNZ: [32]

[redacted]

[31] Air New Zealand, (30 April 2021), *"Re: Project Paheko Pathways: Air New Zealand response"*
[32] BARNZ, (6 May 2021), *"BARNZ Response to Project Paheko Development Pathway Options"*

3.1.1.17 August 2021

Given the feedback received, Auckland Airport released a public statement confirming the Terminal Integration Pathway. The statement was publicly supported at the time by Air New Zealand and BARNZ. The statement included quotes from the Executive Director of BARNZ:

> *BARNZ Executive Director Justin Tighe-Umbers said: "Having their passengers transiting seamlessly between international and domestic flights all under the one roof will be warmly welcomed by international airlines. This will be a major leap forward for travellers and the airport alike, and it is going to be well timed with the recovery of air travel into Auckland. We're looking forward to working with Auckland Airport on making this vision a reality."* [33]

The statement at the time from BARNZ also commented on the size of the development, noting that it would be three-times the size of the existing domestic terminal (Auckland Airport added emphasis):

> ***The new domestic operation will be around three times the size of the current domestic terminal****, when accounting for shared check-in (kiosk-based) for both international and domestic travellers. It will include large, light-filled dwell spaces with views across the airfield to the Manukau Harbour and expanded contiguous security screening.* [34]

3.1.1.18 November 2021 – December 2022

Following the confirmation of the terminal integration pathway, Auckland Airport then proceeded to take the steps required to deliver the development, which involved a series of commitments to

[33] Auckland Airport, (9 August 2021), *"Auckland Airport resets precinct-wide infrastructure plan"*, https://corporate.aucklandairport.co.nz/news/latest-media/2021/auckland-airport-resets-precinct-wide-infrastructure-plan

[34] Auckland Airport, (9 August 2021), *"Auckland Airport resets precinct-wide infrastructure plan"*, https://corporate.aucklandairport.co.nz/news/latest-media/2021/auckland-airport-resets-precinct-wide-infrastructure-plan

deliver the capital works involved. Auckland Airport continued to consult with airlines on decisions on these commitments as they were taken.

Over the period from November 2021 to August 2022, feedback received from Air New Zealand supported [redacted]. Key points raised in this section include that [redacted]

3.1.1.19 March 2023 – December 2023:

As has been detailed elsewhere in this submission, and other submissions to this review, Auckland Airport approved the Terminal Integration Programme in March 2023 without the support of Air New Zealand.

Air New Zealand first presented a feasibility study of an alternative terminal design in October 2023, six months after the decision to proceed with the Terminal Integration Programme and [redacted]

Auckland Airport then assessed this feasibility study to consider if its findings provided any new or alternative information that would cause Auckland Airport to change its decision to deliver the Terminal Integration Programme, which it did not.

3.1.2 Application of IATA 'optimum' Level of Service

A number of submissions have made claims related to the application of the IATA optimum range LoS in the design of the Domestic Jet Terminal. As outlined below these claims misrepresent how the IATA LoS guidelines should be applied, and the extent to which Auckland Airport has engaged with airlines in developing the design of the Domestic Jet Terminal.

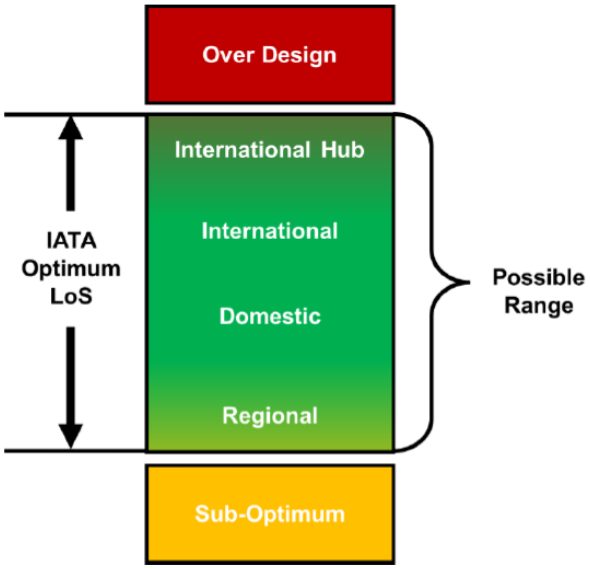
3.1.2.1 The IATA LoS 'optimum' range

Air New Zealand submitted:

> *Applying the IATA LoS to the DP generates an "optimum" spatial range of between 25,000 to 70,000 sqm. AIAL's design is right at the top end of this very wide range, at* [redacted]. [35]

[35] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.43

Figure 5: Indicative illustration of the application of IATA's LoS range[22]



> *However, AIAL has applied a high-end LoS, more appropriate for an international-terminal, to the DP – i.e the DP has been sized to accommodate the demands of an international terminal serving international passengers even though it will only serve domestic services via the pier.* [36]
>
> *However, the actual footprint of the DP has been calculated by Arup at* [redacted] *This is* [redacted] *above the efficient sizing Air NZ believes is appropriate for domestic services within the IATA optimum LoS range. That is, the DP as proposed by AIAL is twice the size required for an efficient domestic terminal.* [37]

A4ANZ submitted:

> *In fact, when assessed against appropriate metrics from IATA's Level of Service framework, the current proposal has been assessed as being oversized, overdesigned, and overdeveloped – with the current proposal more akin to that of a high-end international terminal, than that of an appropriately sized domestic terminal.* [38]

3.1.2.1.1 IATA LoS guidelines do not differentiate between domestic and international services

Auckland Airport draws attention to Figure 5 in the Air New Zealand submission. What it describes as an 'indicative illustration' of the application of the IATA LoS range was prepared for Air New

[36] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.45
[37] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.55
[38] Airlines for Australia and New Zealand (A4ANZ), (3 September 2024), *"RE: Review of Auckland Airport's 2022-2027 Price Setting Event"*, pages 2-3.

Zealand by Arup (according to the footnote, although Arup's advice is not included in the submission).

As per the advice from Mott MacDonald, there is no basis for assigning different points in the IATA optimum range based on the type of travel, as is claimed by Air New Zealand in its submission:

> *As a contributor to the IATA ADRM manual, from which the Level of Service definition derives, Mott MacDonald is well placed to clarify some of the points raised by Air New Zealand.*
>
> ***IATA does not present an equivalence between the type of traffic and the values present within the optimum range of the LoS. – i.e. INT requiring a higher LoS than DOM.*** [39]

The assignment of different traveller types appears to have been manufactured by Air New Zealand and Arup in an 'indicative illustration'. There is no foundation for it, and we query how it was decided that it could be a valid application of the IATA LoS benchmarks, which are not applied in the way claimed by Air New Zealand.

Mott MacDonald also notes the challenges of designing airport terminals in brownfield sites that are subject to constraints that do not apply for greenfield developments:

- *It must be noted that as a **brownfield site and terminal extension** – rather than a new standalone building – the Domestic Processor **includes passenger processes not exclusive to DOM** traffic – i.e. Emigration, INT security, BHS, EBS, terminal logistics.*
- *Brownfield sites also need to navigate **legacy issues**, leading to **increased space requirements** as greenfield sites.* [40]

3.1.2.1.2 IATA LoS guidelines cannot be applied to determine the overall size of a terminal

Air New Zealand claims that an appropriate size for a Domestic Jet Terminal at Auckland Airport, based on applying IATA LoS guidelines to determine terminal size, is 35,000 square metres. These submissions imply that the entire floorplate of Air New Zealand's proposed terminal is based on its application of the IATA LoS.

This is inaccurate, as the IATA LoS guidelines on size only apply to some functional areas of terminal design, and there are many necessary areas of a functioning terminal that do not fall under the IATA LoS guidelines.

Auckland Airport's view is supported by Mott MacDonald:

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[39] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 "*, page 3
[40] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 "*, page 6

> *Air New Zealand proposes an **equivalence between the overall m² of the terminal with the LoS. This is not supported by IATA.** [41]*

Mott MacDonald also comments on the elements of terminal design that do not fall under the IATA LoS guidelines:

> *The **sizing** of these facilities **follows an independent process**, being the result of **stakeholder consultation** (BoH tenancies), building services **engineering** (plant/MEP), **commercial studies** (retail and F&B), and the overall **terminal arrangement** (circulation).* [42]

Mott MacDonald note that Air New Zealand's alternative proposal for a domestic terminal development excludes key elements that are needed for an airport terminal:

> ***Air New Zealand's alternative** GFA submission also **excludes key elements** needed for an airport terminal. These include:*
>
> - ***Back-of-house tenancies** for the various airlines, agencies, retail outlets, airport operator, and baggage handling, typically ranging from an **additional 30% - 60%** of the functional area.*
> - ***Front of house circulation** being the main circulation routes between processes. Typically **ranging from 20% - 30%** of the functional area. 5m wide corridors are provided for unidirectional flows, 8m for bidirectional, and 10m for areas with high loads.*
> - ***Plant, MEP and building services** typically **ranging from 15%-20%** of the functional area. Depending on local conditions such as the level of local services and terminal volume.*
> - ***Commercial areas** including retail, F&B outlets and airline lounges. Sized according to the airlines' and airport's commercial strategy.*
> - ***Amenities,** being a critical component of the ASQ ratings and standardized across the terminal building.*

Auckland Airport's view is also supported by IATA, which noted in its submission that many terminal facilities are not included in the LoS framework:

> *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*

[41] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 ",* page 6
[42] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 ",* page 6

> *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.*[43]

However, Air New Zealand's submission contradicts all of the above expert advice, including that of its own industry association IATA (Auckland Airport emphasis):

> *The headhouse includes provision for required security screening, dwell space and seating,* ***circulation space, passenger services including toilets, back of house operations and supporting retail/F&B.***
>
> *The AIAL design provides for 52,500 m^2 of space to accommodate these functions,* ***whereas the IATA LoS more suitable for domestic customers suggests that around 25,000 sqm is required to accommodate these functions****.*
>
> *An example of this in practice would be Perth Airport Domestic T1. Consequently, Air NZ considers the headhouse is oversized by 27,500 m^2, or, 110%.* [44]

IATA LoS guidelines do not exist for the functions that Air New Zealand claims are oversized under the IATA LoS guidelines. The claims made by Air New Zealand are completely unfounded and should be disregarded.

3.1.2.1.2.1 Comparison to Perth T1

Air New Zealand submits that Perth Terminal 1 provides an example of how space should have been provisioned. Perth Terminal 1 serves only Virgin Australia domestic traffic. A key differentiating factor is that, compared to the Domestic Jet Terminal, it serviced a much lower volume of passengers upon opening. Auckland Airport outlines below, in section 3.1.3.2 on relevant terminal benchmarks, additional factors that must be considered when using Perth Terminal 1 as a comparator to the Domestic Jet Terminal design.

3.1.2.2 Consultation on IATA levels of service

Air New Zealand submitted:

> *Air NZ believes the fundamental reason for the disconnect between AIAL and its substantial airline customers on this matter stems from an inadequate consultation process. In particular, Air NZ submits that AIAL has failed to*

[43] IATA (3 September 2024), *"comments on the draft conclusions of the review of Auckland Airport's 2022-2027 price setting event"*, page 4
[44] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.55 – 3.56

substantively consult substantial airline customers around LoS design parameters and instead decided unilaterally what its 'optimum' was. [45]

IATA submitted:

> *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* [46]

Air New Zealand also submitted:

> *Air NZ submits that AIAL has fallen far short of IATA's recommended best practice for consultation with their airline customers. In particular, AIAL did not consult with airline customers on the appropriate range of levels of service in advance of the design process. Instead AIAL has unilaterally imposed its own, higher than required, LoS, which is the fundamental reason for the disconnect which eventuated between AIAL and its airline customers.* [47]
>
> *This is a significant failure in consultation. AIAL's failure in consultation on the appropriate LoS values, at an early stage in the planning process, was integral to the broader failure of AIAL's consultation with its substantial airline customers.* [48]
>
> *This issue could have been remedied, at an early stage, had AIAL consulted with airlines on the application of LoS guidance. As a result, there has been a fundamental failure in design. The DP is significantly larger than is required, with dwell space, gate lounges and retail provision substantially larger than is typical for domestic passenger requirements.* [49]

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[45] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.31
[46] IATA (3 September 2024), *"comments on the draft conclusions of the review of Auckland Airport's 2022-2027 price setting event"*, page 3
[47] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.35
[48] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.36
[49] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.46

Qantas submitted:

3.1.2.2.1 Auckland Airport has consulted with airlines on IATA LoS used in design

Auckland Airport disputes these claims. Consultation on the IATA LoS benchmarks has been undertaken since the very early stages of the development of designing a new domestic terminal facility, as set out below.

The LoS assumptions were embedded in the parameters that were used to design the terminal through various iterations of design refinement. Airline feedback was considered and incorporated as design progressed.

3.1.2.2.1.1 February 2016

In February 2016, early in the development stages of the new terminal, Auckland Airport began to consult with airlines including Air New Zealand on high level design parameters, including levels of service planning parameters.[51] The minutes from these workshops show that Air New Zealand noted:

3.1.2.2.1.2 March 2016

Workshops held with airlines on 8 March 2016 shared IATA level of service principles and metrics, and sought airline feedback on the application and optimisation of level of service metrics – these workshops were attended by Air New Zealand, Qantas and BARNZ.[53]

Further information was shared on the design principles that were being adopted to develop the terminal design, which indicated that the IATA Optimum range was proposed as one of the key design principles. As indicated below in Figure 3, this shows that there is a range for the IATA Optimum standard.

[50] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 3.1
[51] Auckland Airport, (18 February 2016), *"DP/TDP Consultation"*
[52] Air New Zealand, Airbiz, Auckland Airport & Aecon, (18 February 2016), "Air NZ Meeting Minutes", item reference 4
[53] Air New Zealand, Airbiz, Auckland Airport & Aecon, (8 March 2016), "Air NZ Meeting Minutes", item reference 11.5

Figure 3: IATA level of service metrics, shared with airlines during consultation

DESIGN PRINCIPLES

IATA ADRM

		SPACE STANDARDS FOR WAITING AREAS (m^2/pax)			WAITING TIME STANDARDS FOR PROCESSING FACILITIES (Minutes)			WAITING TIME STANDARDS FOR PROCESSING FACILITIES (Minutes)			PROPORTION OF SEATED OCCUPANTS (%)		
Passenger Terminal Processor					Economy Class			Business Class / First Class					
ADRM 9th Edition / ADRM 10th Edition		A B Over design	C Optimum	D E Suboptimum	A B Over design	C Optimum	D E Suboptimum	A B Over design	C Optimum	D E Suboptimum	A B Over design	C Optimum	D E Suboptimum
Public Departure Hall		>2.3	2.3	<2.3									
Check-in	Self-Service Boarding Pass / Tagging	>1.8	1.3 - 1.8	<1.3	0	0-2	>2	0	0 - 2	> 3			
	Bag Drop Desk (queue width 1.4 - 1.6 m)	>1.8	1.3 - 1.8	<1.3	0	0-5	> 5	0	0-3	>3			
	Check-in Desk (queue width 1.4 - 1.6 m)	>1.8	1.3 - 1.8	<1.3	<10	10-20	>20	Business Class Check-in Desk: < 3	3-5	> 5			
								First Class Check-in Desk: 0	0-3	>3			
Security Checkpoint (queue width: 1.2 m)		>1.2	1.0 - 1.2	<1	<5	5-10	>10	Fast Track: 0	0-3	>3			
Emigration (Passport Control) (queue width: 1.2 m)		>1.2	1.0 - 1.2	<1	<5	5-10	>10	Fast Track: 0	0-3	>3			
Boarding Gate Lounge	Seating	>1.7	1.5 - 1.7	<1.5									
	Standing	>1.2	1.0 - 1.2	<1							>70%	50%-70% [1]	<50%
Immigration (Passport Control) (queue width: 1.2 m)		>1.2	1.0 - 1.2	<1	<10	10	>10	Fast Track: <5	5	>5			
Transfers					<5	5	>5	0	0-3	>3			
Baggage Claim Area					First passenger to first bag			First passenger to first bag					
	Narrow Body	>1.7	1.5 - 1.7	<1.5	<0	0-15	>15	0	0-15	> 15			
	Wide Body	>1.7	1.5 - 1.7	<1.5	<0	0-25	>25						
Public Arrival Hall		>1.7	1.2 - 1.7	<1.2				*n.b. Priority bags to be delivered before Economy*			>20%	15%-20% [1]	<15%
CIP Lounges			4.0										

[1] The lower limit is only to be considered if extensive F+B seating is provided in the departure lounge, or, concession zone seating available

Source: Airbiz DP/TDB Baseline Study – Terminal Planning, Design Principles and Planning Parameters, 14 March 2016

3.1.2.2.1.3 April 2016

In the next set of feedback received on 22 April 2016, Air New Zealand noted that it [redacted] [54]

[redacted]

3.1.2.2.1.4 August 2016

In August 2016, in its study report on aeronautical planning for the Domestic Processor and Terminal Development Plan Feasibility Study, Airbiz noted that the planning of terminal functional areas had been based on meeting the "optimum" IATA Level of Service standards. [55] It also commented on the relationship between design horizons and the IATA LoS range:

[54] Air New Zealand, (22 April 2016), *"Air New Zealand Feedback to Auckland Airport Limited: DP/TDP Feasibility Study – Study Report: Aeronautical Planning"*

[55] Airbiz, (18 August 2016),"*Auckland Airport: Domestic Processor and Terminal Development Plan - Feasibility Study – Study Report: Aeronautical Planning*", page 57

> *Generally new terminal developments will provide varying levels of service within the agreed LoS range (in this case 'Optimum') due to the following;*
>
> - *A new development is sized for a passenger demand level at a design horizon*
> - *The development is planned to operate around the target LoS for the majority of its design life*
> - *This infers that at opening day the development will be experiencing a lower demand level that it is planned for (at its design horizon) and therefore a higher LoS*
> - *As passenger volumes grow the development will reach its target demand level and LoS*
> - *As demand grows further above the design demand case LoS will decline*
> - *This will trigger a new stage of development to provide new space and facilities to bring LoS back to the 'optimum' level.* [56]

This advice from AirBiz is consistent with the advice from Mott MacDonald on the application of IATA LoS. [57]

3.1.2.2.1.5 March 2017

Auckland Airport then issued a revised feasibility study in March 2017, in which the application of the IATA LoS continued to specify the optimum range as the basis for the terminal design parameters. [58] As noted by Airbiz:

> *Facility requirements have been assessed by applying agreed planning parameters and "Optimum LoS" targets (formerly "LoS C") to the busy hour passenger forecasts, based on 30th Busy Hour baselines. These have been calculated based on operational mode 2 – integration of landside functions.* [59]

3.1.2.2.1.6 December 2017

In December 2017 Auckland Airport had completed the concept design for the Terminal Development Plan, which again included detail on the application of IATA LoS in the design, and indicated that the mid-point of the Optimum range had been adopted in developing the design.

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[56] Airbiz, (18 August 2016),"*Auckland Airport: Domestic Processor and Terminal Development Plan - Feasibility Study – Study Report: Aeronautical Planning*", page 58
[57] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024"*
[58] Airbiz, (29 March 2017),"*Auckland Airport: Domestic Processor and Terminal Development Plan - Feasibility Study – Volume 3: Aeronautical Planning for pricing proposal*", page 57
[59] Airbiz, (29 March 2017),"*Auckland Airport: Domestic Processor and Terminal Development Plan - Feasibility Study – Volume 3: Aeronautical Planning for pricing proposal*", page 77

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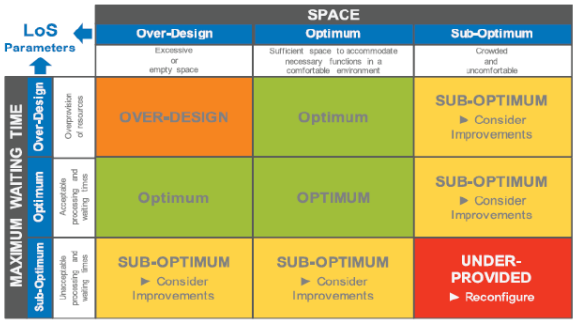
Figure 4: Application of IATA Optimum LoS, Terminal Development Plan Concept Design

Terminal modelling process

- The modelling conducted is based on Mode 2 operation at Optimum LOS. This is considered to be the primary operating mode as per the Operations Plan discussions. Mode 2 consists of a shared landside area but a segregated airside area split by destination status. Separate facilities for certain process will be developed for International, Domestic, and Regional passenger flows.



- The modelling process is conducted using CAST Terminal, a dynamic multi-agent simulation tool.
- The modelling process has three distinct aspects to consider,
- the **inputs** – being the assumptions and data that are collected and used in the model, ;
- the **process** – the running of the dynamic model to integrate and decipher the actions that come from the aforementioned inputs, ; and
- the **outputs** – which are the result of analysis of the logged data where we can test levels of service or determine facility requirements.

Level of Service

Midpoint of IATA LoS Optimum Range Used

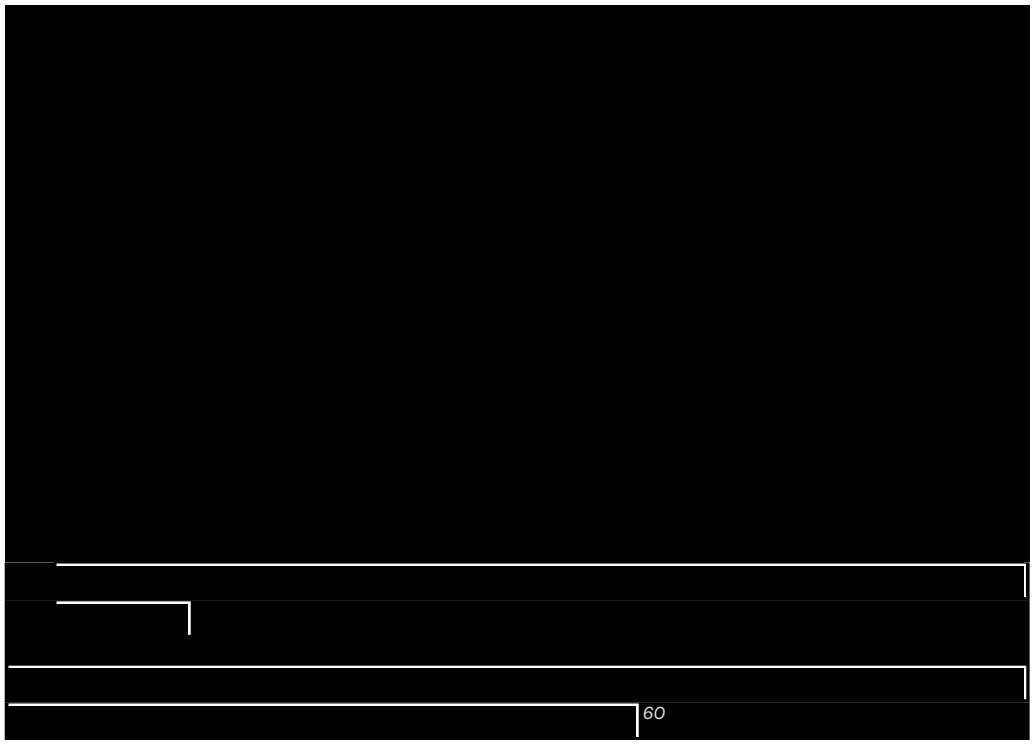
Exhibit 3.4.5.3: LoS Guidelines for Airport Terminal Facilities

		SPACE STANDARDS FOR WAITING AREAS (m²/pax)			WAITING TIME STANDARDS FOR PROCESSING FACILITIES (MINUTES)			WAITING TIME STANDARDS FOR PROCESSING FACILITIES (MINUTES)			PROPORTION OF SEATED OCCUPANTS (%)		
Passenger Terminal Processor					Economy Class			Business Class/First Class					
ADRM 9th Edition / ADRM 10th Edition		A Over Design	C Optimum	E Suboptimum	A Over Design	C Optimum	E Suboptimum	A Over Design	C Optimum	E Suboptimum	A Over Design	C Optimum	E Suboptimum
Public Departure Hall		>2.3	2.3	<2.3									
Check-In	Self-Service Boarding Pass/Tagging	>1.8	1.3 - 1.8	<1.3	0	0 - 2	>2	0	0 - 2	>2			
	Bag Drop Desk (queue width 1.4 - 1.6 m)	>1.8	1.3 - 1.8	<1.3	0	0 - 5	>5	0	0 - 3	>3			
	Check-In Desk (queue width 1.4 - 1.6 m)	>1.8	1.3 - 1.8	<1.3	<10	10 - 20	>20	Business Class Check-In Desk <3	3 - 5	>5			
								First Class Check-In Desk 0	0 - 3	>3			
Security Checkpoint (queue width 1.2 m)		>1.2	1.0 - 1.2	<1	<5	5 - 10	>10	0	Fast Track 0 - 3	>3			
Emigration (Passport Control) (queue width 1.2 m)		>1.2	1.0 - 1.2	<1	<5	5 - 10	>10	0	Fast Track 0 - 3	>3			
Boarding Gate Lounge	Seating	>1.7	1.5 - 1.7	<1.5									
	Standing	>1.2	1.0 - 1.2	<1							>70%	50% - 70%¹	<50%
Immigration (Passport Control) (queue width 1.2m)		>1.2	1.0 - 1.2	<1	<10	10	>10	<5	Fast Track 5	>5			
Transfers					<5	5	>5	0	0 - 3	>3			
Baggage Claim Area					First Passenger to Last Bag			First Passenger to Last Bag					
	Narrow Body	>1.7	1.5 - 1.7	<1.5	<0	0 - 15	>15	0	0-15	>15			
	Wide Body	>1.7	1.5 - 1.7	<1.5	<0	0 - 25	>25						
Public Arrival Hall		>1.7	1.2 - 1.7	<1.2				*n.b. Priority bags to be delivered before economy*			>20%	15% - 20%¹	<15%
CIP Lounges			4.0										

¹ The lower limit is only to be considered if the extensive F+B seating is provided in the departure lounge, or, concession zone seating available

3.1.2.2.1.7 January 2018

BARNZ provided feedback to Auckland Airport on the Terminal Development Plan, which included feedback from all BARNZ members (including Air New Zealand and Qantas in this instance). The feedback included the following:



While this feedback

3.1.2.2.1.8 April 2021

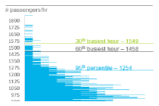
Auckland Airport consulted with airlines on the infrastructure planning parameters and approach that informed the terminal integration pathways, ahead of making a decision on the pathway to terminal integration, as per below. This included IATA LoS parameters.

[60] BARNZ, (23 January 2018), Letter to Auckland Airport

Figure 5: Slide from MACPAC materials, 14 April 2021

Infrastructure Planning Method and Parameters

The squad discussed and generally aligned on infrastructure planning methods and parameters to guide infrastructure development. Key factors were:

Choice of peak hour	30th or 60th busy hour dependent on process, e.g. 30th for security where speed is valued by passengers	
IATA Level of Service (LOS)	Target new infrastructure to hit 'Optimum' LOS circa 5 years post opening; albeit brownfield build practicalities often dictate	
Planning parameters	Standard transaction times, bags per passenger etc. based on data from airport records, border agencies, airlines and benchmarks	
Infrastructure optimisation	Process optimisation, technology and stageable build all considered as means to control tranches of infrastructure spend	

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3.1.2.2.1.9 May 2022

Auckland Airport had completed and shared with airlines the Domestic Processor concept design, which is the concept design that is now being delivered. As noted in the concept design:

> *The DP and the Pier A1 are sized for the FY2032 demand (optimistic scenario). Auckland Airport (AIAL) has developed a dynamic model and provided the team with the airport planning requirements that the design shall meet to achieve the (IATA) Optimum level of service (LOS) for the following processing spaces:*
>
> *– Emigration*
>
> *– Security*
>
> *– D to I*
>
> *A review of the model is not part of this exercise. The size of other areas such as dwell space, retail and F&B, BOH, airline lounges has been made available by Auckland Airport.* [61]

[61] Mott MacDonald, (13 May 2022), *"Auckland Airport: Domestic Processor – Buildings"*

3.1.2.2.1.10 August 2022

On 30 August 2022, in response to the Draft Capital Plan, Air New Zealand provided the following feedback on the design of the Domestic Processor project (now the Domestic Jet Terminal):

[redacted] [62]

3.1.2.3 Independent review of IATA LoS benchmarks

Auckland Airport commissioned Airbiz to review the design of the Domestic Processor (now Domestic Jet Terminal) in the context of the IATA LoS guidelines, and to consider comparisons to relevant peer airports. This analysis gave Auckland Airport reassurance that the terminal that had been designed had been sized appropriately. The executive summary of this analysis is outlined below:

Figure 6: Airbiz review of Domestic Jet Terminal designs, June 2022

Executive Summary

AUCKLAND NEW DOMESTIC PROCESSOR OPERATIONS
LEVEL OF SERVICE COMPARED WITH IATA GUIDELINES

Check-In
- Not yet assessed because configuration and operation of facilities is still under development

Security
- Proposed queue space provision for Domestic meets IATA guidelines
- Domestic expected queuing time (all 6 lanes open) lower than IATA Optimum
- Domestic expected queuing time (one lane closed) lower than IATA Optimum

Airside Dwell
- Proposed airside dwell space (seating) just exceeds IATA Optimum, noting that gate lounge space is also provided and accessible to pax. Primary driver of this is likely to be the practical need to balance Level 1 floor plate with more critical Ground Level space requirements.

Airside Retail
- Proposed retail and concession space in line with industry expectations for domestic terminals.

Gate Lounges
- Proposed gate lounge capacity less than IATA Optimum but appropriate for Domestic terminal with separate airside dwell provision.

Baggage Reclaim
- Proposed reclaim unit presentation length meets IATA Optimum.
- Two inclined units provides appropriate processing capacity for design demand up to 6 Code C arrivals per hour

Landside Arrivals Hall Depth
- Proposed depth of circulation space appropriate for domestic terminal.

AUCKLAND NEW DOMESTIC PROCESSOR OPERATIONS
LEVEL OF SERVICE COMPARED WITH RELEVANT PEER AIRPORTS

Check-In
- Not yet assessed because configuration and operation of facilities is still under development

Security
- AKL proposed security compares equally with relevant new terminal peers which all have queuing time lower than IATA Optimum with all lanes open

Airside Dwell
- AKL proposed Airside Dwell seating space exceeds WSA, and SIN T4 provisions

Airside Retail
- AKL proposed retail and concession space compares equally with relevant new terminal peers .

Gate Lounges
- AKL proposed gate lounge space compares equally with relevant new terminal peers with similar configuration of centralised dwell and separate boarding pier(s) with gate lounges

Baggage Reclaim
- AKL proposed reclaim presentation length compares equally with relevant terminal peers (centrally in range)

Landside Arrivals Hall Depth
- AKL proposed depth of circulation space compares well with relevant new domestic terminal peers (centrally in range) .

5 Auckland New Domestic Terminal: Level of Service Benchmarking

AIRBIZ

Source: Auckland New Domestic Processor, Level of Service Benchmarking, 10 June 2022

3.1.3 The size of the Domestic Jet Terminal

Airline submissions claim that the Domestic Jet Terminal is over-sized. Auckland Airport addresses these claims in this section, including setting out responses to airline submissions and analysis on comparable terminal benchmarks based on the findings of independent experts Airbiz and Mott MacDonald. It also responds directly to the claims made by Air New Zealand and

[62] Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*"

Qantas on how the design was developed and how feedback was considered, and outlines detail on the requests we have received from airlines for space in the new facilities.

This section sets out further evidence that demonstrates that the terminal design is efficient and has been sized correctly, and is in line with relevant comparable airport benchmarks, and that there is no basis to the claims of airlines in their submissions.

3.1.3.1 Gross floor area of the Domestic Jet Terminal

As part of being an integrated facility, the construction programme will deliver space that is used for domestic services, international services, and shared space for both. The Domestic Jet Terminal project includes 70,000m^2 of space used by domestic services (this is aligned to Air New Zealand's assessment), plus a further 3,000m^2 of incremental expansion of the existing international check-in hall.

The total of 73,000m^2 for the Domestic Jet Terminal includes 56,000m^2 of space for domestic services, and 14,000m^2 of space shared between domestic and international in the headhouse (primarily comprises the baggage system). There is a further 8,000m^2 of space is being delivered for international services.

Table 1: Size of the Domestic Jet Terminal project, gross floor area

Space usage by traveller type	Square metres
Domestic only	56,000
Combined (DOM and INT)	14,000
Check-in expansion (DOM and INT)	3,000
Domestic Jet Terminal	**73,000**
International only	8,000
Total gross floor area	*81,000*

Apportioning these shared areas based on peak passenger volumes (with domestic passengers accounting for the 37% of peak volumes), 67,000m^2 of the total space – comprising both new and existing spaces - can be attributed to domestic services, while 28,000m^2 is attributed to international services. For the avoidance of doubt, the 28,000m^2 reflects the international share of the check-in hall and Domestic Jet Terminal projects. It does not reflect the size of the full international terminal.

Table 2: Terminal size by use, end state of Domestic Jet Terminal and check-in hall projects

Space usage by traveller type	Square metres
Domestic areas	67,000
International areas	28,000

3.1.3.2 Benchmarks of terminal size

Air New Zealand submitted:

> *By comparison, Air NZ has previously indicated a more appropriate comparator would be Perth Airport's New Domestic Terminal (T2) which has a gross floor*

area of 21,500 m², aircraft parking for 36 aircraft and was completed for AU$121m in 2013. [63]

Qantas submitted the following terminal comparisons:

Table 3: Terminal Footprints

Terminal	Footprint[10]	Current/Design Pax mppa (million pax per annum)	Gross Floor Area/mppa
SYD T2	80,000m²	15mppa[11]	5,333
SYD T3	60,000m²	10mppa [12]	6,000
MEL T4	28,500m²	10mppa [13]	2,850
PER T1D	40,000m²	5-6mppa [14]	7,200
AKL New	80,000m² [15]	8.3mppa	8,674

Auckland Airport responds to these comparisons below, as well as discussing a very relevant comparator that was notably absent from airline submissions – the new integrated terminal being progressed by Qantas Group at Perth Airport. The below shows further evidence of selective and incomplete submissions from airlines in this review. There is never going to be a perfect benchmark comparator for airport terminals. The circumstances of each airport expansion project will be different, and that context should always be considered.

However, the selective use of data or, use of inappropriate comparisons without the right context means the comparisons provided by airlines are even less reliable. We are concerned that airlines are seeking to present biased comparisons, with a goal of undermining the reasonable and efficient terminal design that is being progressed by Auckland Airport.

3.1.3.2.1 Perth Airport comparators

The Perth Airport 2020 Master Plan sets out details on the terminal operations at Perth Airport, as set out below.

[63] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.63

Figure 7: Perth Airport Terminal Details, 2020 Master Plan

Terminal	Airlines	Pax pa (FY18)	Aerobridge contact gates	Non-aerobridge contact bays	Stand-off bays
T1 International	All international services except Qantas	4,289,477	six (including two swing gates)	1	4
T1 Domestic	Virgin Australia (all interstate and some regional services)	2,498,680	seven-ten (excluding swing gates)	Nil	Nil
T2	Alliance Airlines (regional services, Tigerair (interstate services), Virgin Australia (most regional services), Regional Express Airlines (regional services)	1,379,611	Nil	20	16
T3	Jetstar (interstate and regional), Qantas (international, interstate and regional services)	1,783,451	9	8	34
T4	Qantas (interstate and regional)	3,740,641			

Table 4-1 Perth Airport Terminal Details
Source: Perth Airport

Source: Perth Airport 2020 Master Plan, p. 91

3.1.3.2.1.1 Perth Terminal 2

Air New Zealand considers that Perth Terminal 2 is an appropriate comparator for the Domestic Jet Terminal Development.

Perth Terminal 2 is a regional and low-cost terminal. It predominantly services flights to regional Western Australia and previously serviced interstate low-cost carrier services by Tigerair when it was in operation. Since September this year it is being used for Jetstar domestic services.[64] It does not have contact gates and offers a walk-out only product. In FY18 it served 1.4 million passengers for the year, five-years after it opened in 2013.

Auckland Airport does not consider this to be a valid comparator to the Domestic Jet Terminal, which has been designed for a full-service airline with contact gates and aerobridges. It will also serve over 8 million passengers per year.

3.1.3.2.1.2 Perth Terminal 1

Perth Terminal 1 Domestic was cited by Qantas as a comparator of terminal size. It is a 40,000 square metre terminal used exclusively by Virgin Australia for its domestic services, both its interstate combined with some regional.

As noted above in Figure 7, Perth Terminal 1 Domestic serviced 2.5 million passengers in FY18. Qantas Group does not explain how it found that 5-6 million passengers per annum was the relevant benchmark for the design of Perth Terminal 1 domestic given it is more than double the 2.5 million passengers that used the terminal in FY18. With the terminal constructed in 2015, FY18

[64] Perth Airport, (30 August 2024), "Jetstar is moving to terminal 2", Jetstar is moving to Terminal 2 (perthairport.com.au)https://www.perthairport.com.au/Home/corporate/articles/2024/08/30/01/39/Jetstar-is-moving-to-Terminal-2

passenger volumes of 2.5 million three-years after opening provides a reasonable benchmark for the design horizon of this terminal.

Auckland Airport notes that the source cited by Qantas for the 5-6 million passengers per annum was a 'Qantas external design consultant report 18 May 2023'. This source can therefore not be verified. Based on what is presented, and when compared to the Perth Airport published figures, this metric cited by Qantas Group appears to be inflated.

A more accurate benchmark using correct passenger data for FY18 would indicate a gross floor area / million passengers per annum for Perth Terminal 1 Domestic of 16,000, and not the 7,200 cited by Qantas. This is well above the design for the Domestic Jet Terminal of 8,300 including shared international areas (6,600 excluding international shared areas) and is another indicator that the design adopted by Auckland Airport is reasonable and efficient.

3.1.3.2.1.3 New Perth Terminal Development

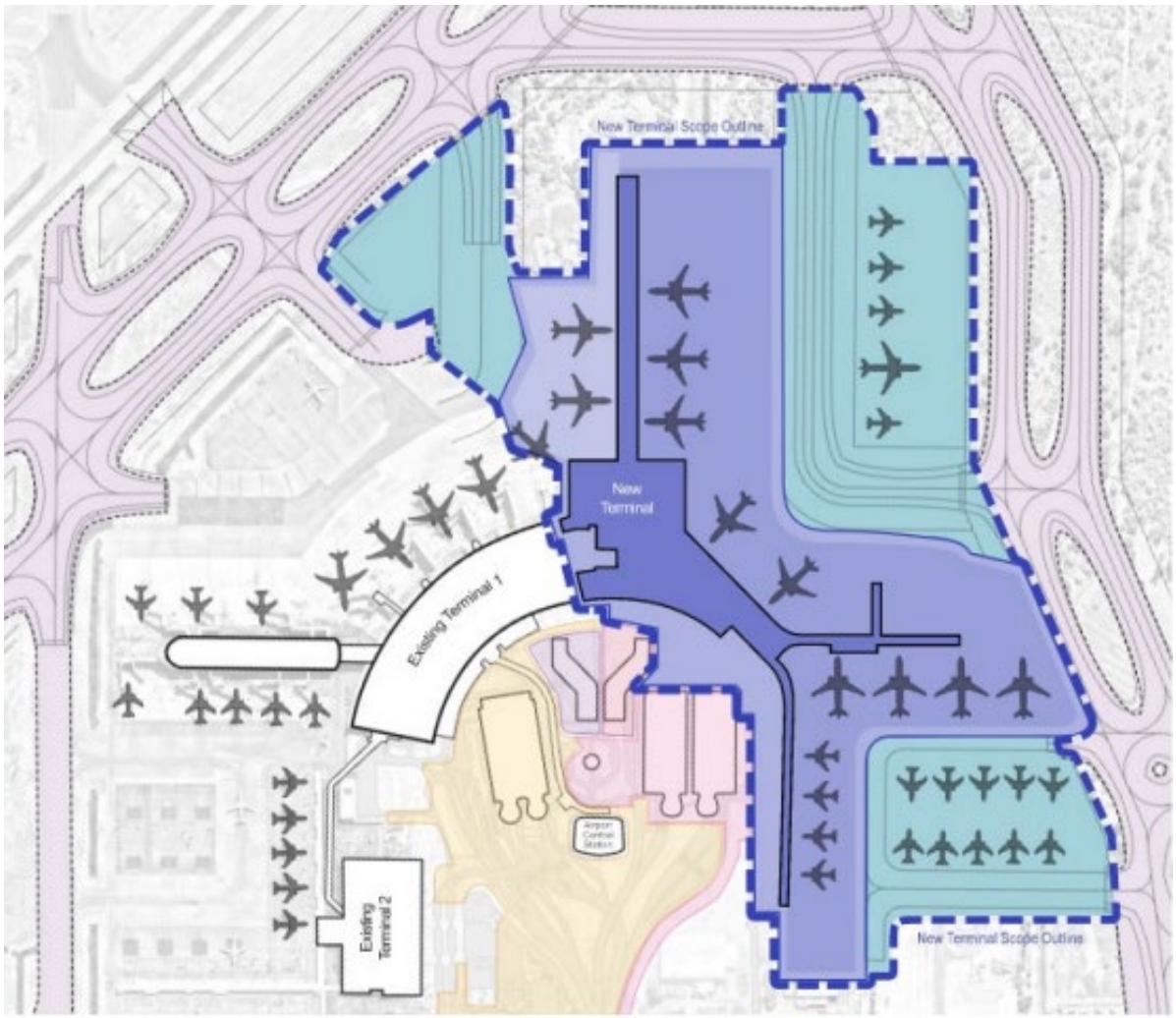
Auckland Airport considers that the most relevant comparator from Perth Airport is the new combined domestic and international facility that is being developed for Qantas Group. This terminal project is currently in the earliest stages of development (pre-concept design), but the following information is currently available:

- the terminal will be designed for 8 million international and 9.5 million domestic annual passengers; [65]
- indicative area for the new terminal is currently estimated at 100,000 – 120,000 square metres; [66]
- while publicly there have been cost estimates released ($3 billion AUD in new terminal and airfield facilities) - through the EOI process Perth Airport indicated that there are no definitive capex estimates for the project based on the current project scope. It also remains unclear if the publicly released estimates are stated in real terms nor whether these include financing costs. [67]

The current extent of the design that is publicly available is outlined below in Figure 8.

[65] Perth Airport, (4 June 2024), *"Invitation for Expression of Interest: Lead Consultant Services for Perth's New Terminal"*, Perth Airport expression of interest process for lead consultant on new terminal development, p. 6
[66] Perth Airport, (4 June 2024), *"Invitation for Expression of Interest: Lead Consultant Services for Perth's New Terminal"*, Perth Airport expression of interest process for lead consultant on new terminal development clarification register, p. 3
[67] Perth Airport, (4 June 2024), *"Invitation for Expression of Interest: Lead Consultant Services for Perth's New Terminal"*, Perth Airport expression of interest process for lead consultant on new terminal development clarification register, p. 3

Figure 8: Perth Airport New terminal scope boundary



Source: Perth Airport expression of interest document

At these early stages of design, the eventual cost and footprint of this facility will be subject to change as design stages are completed and the detail is worked through. Auckland Airport also acknowledges the Perth concept is designed to serve more passengers which warrants its larger size.

However, it is telling that Qantas Group's submission pointed to other smaller terminals as reasonable comparators, but remained silent on the 120,000 square metre footprint of the terminal concept it is proceeding with at Perth Airport while criticising the Domestic Jet Terminal at 73,000 square metres.

3.1.3.2.2 Sydney Terminals 2 and 3

Qantas Group compares the footprint of Sydney Terminals 2 and 3 against what appear to be current day annual passenger numbers. These terminals have been in place for some time, with the last major expansions to the domestic facilities undertaken for the 2000 Olympic Games.[68]

It is not reasonable to compare the design horizon of the Domestic Jet Terminal (within five years of the facility being opened), against current day passenger numbers for facilities that were last expanded over twenty years ago. Such an approach clearly delivers unhelpful and unreliable results as it will materially understate the gross floor area / million passengers per annum benchmark for terminal comparators that are more mature and past their design horizon.

3.1.3.2.3 Melbourne Terminal 4

Melbourne Terminal 4 **is a purpose-built low cost carrier terminal**, with Jetstar the anchor tenant. The terminal is also used by Rex and some limited Virgin services (these are primarily provided in Terminal 3). This terminal was also previously used by the now defunct Bonza. The design is not comparable to the full-service terminal design adopted for the Domestic Jet Terminal.

Qantas also states that the terminal was designed for capacity of up to 10 million passengers per annum. As with the Sydney terminal comparators, this does not appear to reflect a design horizon comparable to the Domestic Jet Terminal.

An approximation of the passengers currently using Terminal 4 at Melbourne would indicate there are currently around 8.3 million passengers using the terminal.[69] Auckland Airport cannot verify if the above numbers are correct, however this approximation indicates how the presentation of analysis by Qantas Group should be treated with caution. It is comparing a passenger volume that appears not to have been reached yet, 10 years after the terminal first opened, against a design horizon forecast for the Domestic Jet Terminal within its first five years of operation.

As with the Sydney terminal comparisons above, this is not a fair or balanced comparison.

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[68] Sydney Airport, (2019), *"100 years of aviation at Sydney Airport"*, SYD100 - Timeline (sydneyairport.com.au)

[69] Based on the following assumptions:

- Melbourne Airport had 24.1 million domestic passengers travel through it in FY24;
- Jetstar, Rex and Bonza had 32.3% market share of the Australian domestic market in FY24. Source: ACCC airline monitoring supplementary data, August 2024, average measure while all three airlines were operating (i.e. while Bonza was operating);
- applied to Melbourne Airport traffic, this equates to 7.8 million passengers for the year -excluding Virgin Australia services. An allowance for Virgin Australia services using the terminal would increase the total to 8.3 million passengers per year. This applies Virgin Australia market share of 31.1% based on ACCC data, assumes 7.4% of Virgin Australia passengers use T4, based on percentage of flights scheduled on 2 October 2024 to use T4.

3.1.3.2.4 Benchmarks identified by Mott MacDonald

Mott MacDonald has identified what it considers to be a set of relevant terminal comparators to benchmark against. These are included in Mott MacDonald's analysis attached to this submission. It summarises its conclusions as follows:

- *AIAL's GFA provision presents similar metrics to airports of comparable size*
- *ANZ's GFA proposal of 35,000m² is akin to airports of 5mppa capacity*[70]

3.1.3.3 Air New Zealand submissions on size of the Domestic Jet Terminal

As outlined above, Air New Zealand has said that the basis for its claim that the Domestic Jet Terminal is oversized is by applying the IATA LoS benchmarks. Air New Zealand has mis-applied the IATA LoS framework when making these claims.

As the basis on which Air New Zealand's claims are made are not valid, Auckland Airport does not address them any further in this submission.

Auckland Airport does, however, note that Air New Zealand publicly supported the terminal development in 2021, which noted the following on the size of the terminal design at the time:

> ***The new domestic operation will be around three times the size of the current domestic terminal****, when accounting for shared check-in (kiosk-based) for both international and domestic travellers. It will include large, light-filled dwell spaces with views across the airfield to the Manukau Harbour and expanded contiguous security screening.* [71]

Air New Zealand has not explained why the size of the terminal in 2021 that it supported being developed is no longer considered to be appropriate or efficient.

3.1.3.4 Qantas Group submissions on size of the Domestic Jet Terminal

Qantas submitted:


[72]

Auckland Airport considered these issues during the design of the Domestic Jet Terminal.

---

[70] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 "*, page 8

[71] Auckland Airport, (9 August 2021), *"Auckland Airport resets precinct-wide infrastructure plan"*, https://corporate.aucklandairport.co.nz/news/latest-media/2021/auckland-airport-resets-precinct-wide-infrastructure-plan

[72] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 2.3

3.1.3.4.1 Space for security screening

Auckland Airport developed a dynamic model to forecast future security requirements to inform the design. This considers projected demand, LoS, and machine throughput. Drivers of space for security screening include:

- Inclusion of space needed by AVSEC to install one Advanced Image Technology body scanner per lane, to allow for 100% passenger screening. A minimum distance of 12 meters between machines to allow for these screening requirements has been included. Alternative proposals from Air New Zealand [redacted]
- The Domestic Jet Terminal will be constructed in a brownfield environment, requiring a corridor to connect the security area to the existing terminal building. This extension increases the floor space of the security area.

During the design process, Auckland Airport commissioned Airbiz to review the designs that were being developed. When it reviewed the security screening space provision Airbiz found that:

- the queue space aligns with IATA optimum LoS guidelines; and
- while queuing time was shorter than the IATA optimum LoS, this is aligned to other new terminals that are comparable peers.

The Airbiz analysis as shared with Qantas Group during consultation is included below.

Figure 9: Airbiz analysis of security screening for Domestic Jet Terminal design

Source: Auckland New Domestic Processor, Level of Service Benchmarking, 10 June 2022

3.1.3.4.2 Space for passenger dwell

When Airbiz undertook its analysis of the domestic terminal designs, it found that while the dwell area was slightly above the IATA Optimum range, this was offset by gate lounges that were designed to be below the IATA Optimum range.

Figure 10: Airbiz analysis of airside dwell and gate lounges for Domestic Jet Terminal design

Source: Auckland New Domestic Processor, Level of Service Benchmarking, Airbiz, 10 June 2022

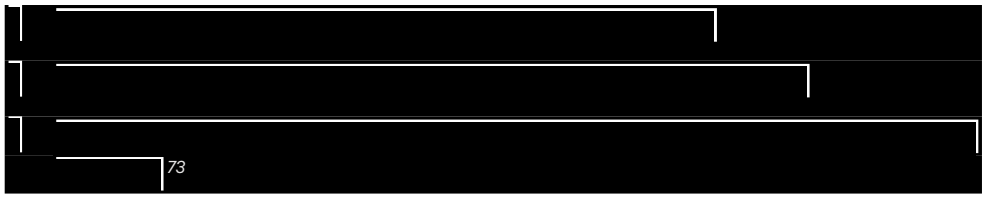
A key driver of the floorplate for the terminal headhouse is the design of the baggage system on the ground floor. This has been a key factor in the design of the floorplate for level 1 which has influenced the design of the dwell space that has been included.

Mindful that the dwell space in the design was slightly higher than the IATA LoS Optimum range, Auckland Airport consulted with airlines on opportunities to reduce the floorplate on level 1 of the terminal design in November 2022. As part of this review, options to reduce the floorplate on level 1 of the headhouse were

3.1.3.4.3 Consideration of feedback from Qantas on Domestic Processor Design

Qantas submitted:

[redacted]



[redacted]

Auckland Airport disputes these claims from Qantas. As explained below, they are untrue.

[redacted]

[redacted]

[73] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 3.2
[74] Auckland Airport, (12 August 2022), *"Qantas Group Consultation"*

[redacted]

3.1.3.4.3.1 Opportunities identified and incorporated into the design

[redacted]

3.1.3.4.3.2 Level of service of the design

[redacted]

[75]

[redacted]

3.1.3.4.3.3 Reduction in size of the check-in hall expansion

One project where Auckland Airport has materially changed the design in response to airline feedback is the check-in hall expansion required to facilitate check-in for domestic and international passengers in the same location as the existing international check-in hall.

During design development, it was emerging that a number of features of the design were adding significant cost to the project. For example, a bridge from the transport hub directly into the check-in hall was adding significant cost and complexity to the project, for a bridge that would service a small number of passengers (high value domestic business travellers parking in the transport hub). This working concept indicated a cost increase of almost $250 million against the Draft Capital Plan from July 2022. Re-visiting the design to focus on the core requirements avoided this cost increase, and delivered other benefits by reducing cost for the construction of the Domestic Jet Terminal (estimated to be around $80-120 million in reduced cost).

[75] Auckland Airport, (12 August 2022), *"Qantas Group Consultation"*

Feedback on this proposal from Air New Zealand included:

> [redacted][76]

This is an example of where Auckland Airport has reconsidered its plans in order to reduce cost while designing the Domestic Jet Terminal.

3.1.3.4.3.4 Design horizons

Qantas submitted:

> [redacted] *AIAL must use revised growth assumptions to re-assess investment requirements – having regard to slower than expected growth and demand implications of its proposed investment.*[77]

Qantas' claim that revised growth assumptions must be used to re-assess investment requirements is not valid for the following reasons:

- the 10% reduction in traffic was only in the early years, there was little change to volumes of peak demand in the year the terminal has been designed to;
- the need for runway renewals requiring the realignment of Taxiway Bravo and the impacts jet operations at the existing Domestic Terminal Building is a key driver of the timing of delivering the Domestic Jet Terminal;
- while annual passenger volumes may have reduced, impacts in the peak periods are expected to be much lower as these are the most desired times to travel – peak volumes are what drives the design parameters for the terminal infrastructure, meaning there is expected to be less impact on terminal planning requirements compared to what total annual passengers might otherwise suggest; and
- re-designing the terminal based on a new set of demand parameters would cause delays of at least two years to delivery – this would result in additional costs, further construction cost escalation, likely resulting in a more expensive project overall, during which time the forecasts would almost certainly change again. Applying Qantas' logic in practice would leave these facilities in an ongoing phase of design to the extent that it may never get built.

3.1.3.5 Airline requests for space in the new Domestic Jet Facility

Air New Zealand submitted its requirements for back of house space on 15 March 2022. This included:[78]

- [redacted] square metres of new tenancies

[76] Air New Zealand, (12 December 2022), feedback on Draft Capital Plan review
[77] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 2.1
[78] Air New Zealand, (15 March 2022), *"Project Paheko – Auckland Integrated Terminal – Tenancy Requirements Brief"*

- *Compared to 1,200 of tenancies in the existing Domestic Terminal Building*
- *This reflects an increase of 2-2.5 times the back of house space required for tenancies compared to the Domestic Terminal Building*

- The following graphic:

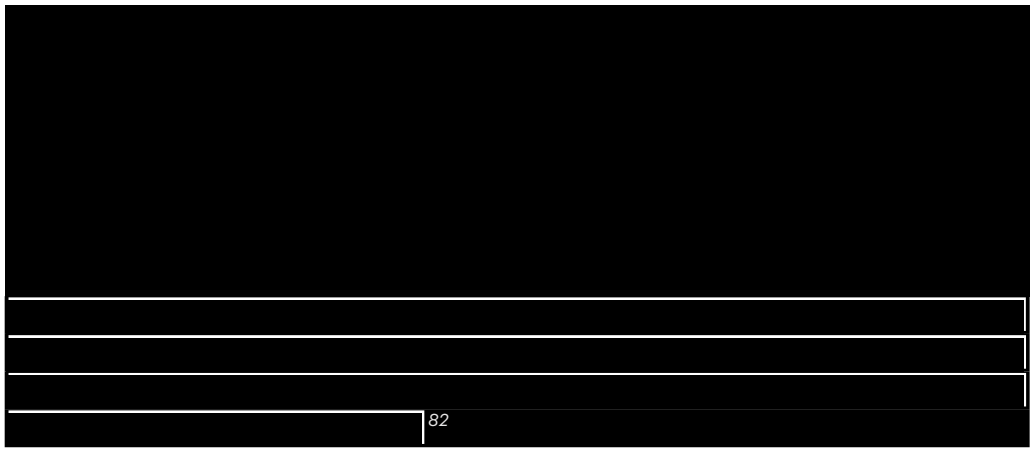
Minutes from 24 February 2023 record that Air New Zealand:

Minutes from a meeting with Air New Zealand on 26 July 2023 noted the following in relation to lockers:

[79] Air New Zealand, Auckland Airport, Beca, Mott MacDonald, (24 February 2023), "*Minutes: Air NZ Briefing Buildings & Airfield*"

As recently as 30 August 2023, Air New Zealand provided the following feedback to Auckland Airport:

Auckland Airport has also received the following feedback from Qantas with regard to the provision of space in the check-in area:



Auckland Airport considers that the feedback on space requirements from customers is a good indicator of whether the space has been designed appropriately. As outlined above, , which is inconsistent with submissions from the airlines on the Draft Report.

3.1.4 The design of the Pier of the Domestic Jet Terminal

Submissions to this review claim that the design of the pier of the Domestic Jet Terminal is too large. This section sets out why these claims are unfounded. It sets out the evidence which shows that independent experts , find that the size of the pier is reasonable. Further, feedback received from Air New Zealand during consultation demonstrates

[80] Air New Zealand, Auckland Airport, Beca, Mott MacDonald, (26 July 2023), "*Minutes: Air NZ feedback on GF and L1 tenancies*"
[81] Air New Zealand, Auckland Airport, Beca, Mott MacDonald, (31 August 2023), "*Minutes: Air NZ Tenancy Spaces – WBH, GF, L1 Tenancies*"
[82] Qantas, (11 July 2024), *"Qantas Group - WP3 Integrated Check-in Concept Design Feedback Form"*

[redacted] These proof points demonstrate that Auckland Airport has been designed to an appropriate size.

3.1.4.1 Submissions on design of Pier A1

3.1.4.2 Design of the Pier

Air New Zealand submitted:

> *The AIAL design provides for 18,000 m² of space to accommodate these functions, whereas IATA LoS more suitable for domestic customers suggests that 10,000 m² is required to accommodate these functions. Consequently, Air NZ considers the Domestic Pier is oversized by 8,000 m², or 80%, which has been predominantly provisioned as seating, circulation space and retail.*
>
> *The overall dimensions of the pier are excessive. There is opportunity to reduce both the length and width of the pier while maintaining gate and passenger capacity. For example, it is common design practice (such as Perth Airport Domestic T1, Melbourne Airport Domestic T1) to use jet-bridges at the end of a pier to access two or three aircraft stands rather than build the equivalent longer pier. It is also common practice for a domestic pier supporting Code C aircraft to be 24 metres-wide rather than the AIAL designed 33 metre width – which is more commonly experienced for larger format international piers.* [83]

IATA submitted:

> *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.* [84]

3.1.4.2.1 Consultation on the design of Pier A1

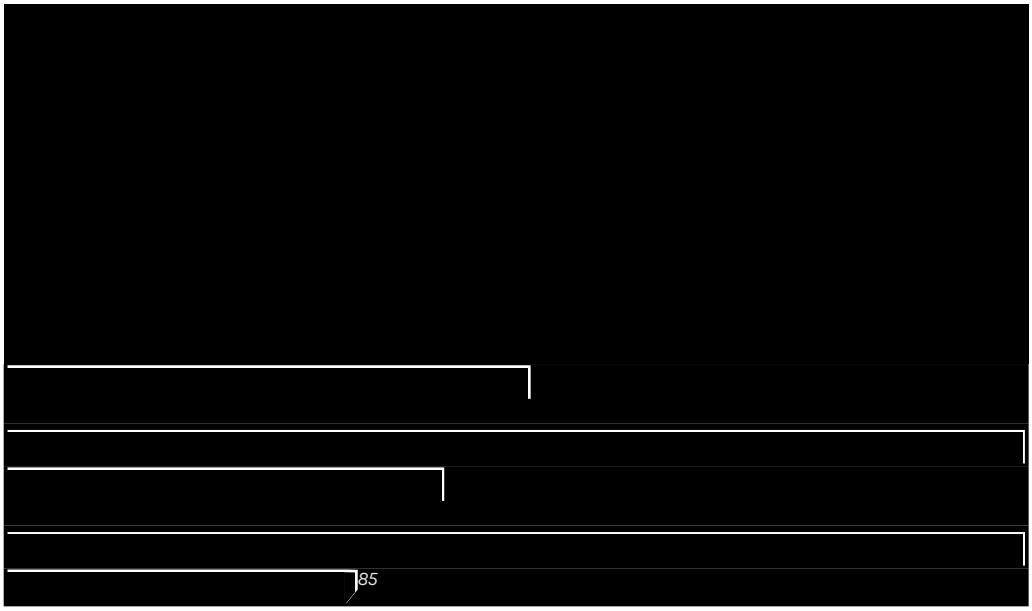
Auckland Airport has consulted in detail with airlines on the design of Pier A1. Relevant excerpts from this consultation are outlined below.

3.1.4.2.1.1 March 2018

Air New Zealand provided the following feedback on the design for the Domestic Pier A1:

[redacted]

[83] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.57.2 - 3.57.3
[84] IATA (3 September 2024), *"comments on the draft conclusions of the review of Auckland Airport's 2022-2027 price setting event"*, page 5



The above feedback provided information that has informed the design of the Pier.

In relation to the number of seats in gate lounges, Air New Zealand provided the following feedback on a call to gate configuration:

Auckland Airport notes that the Pier has been designed with a 50% provision of seats for awaiting passengers in the gate lounges. Aside from the gate lounges, additional dwell space is also provided in the Pier, integrated with a retail offering that allows passengers to wait and relax within sight of their aircraft, [redacted]

3.1.4.2.1.2 September 2018

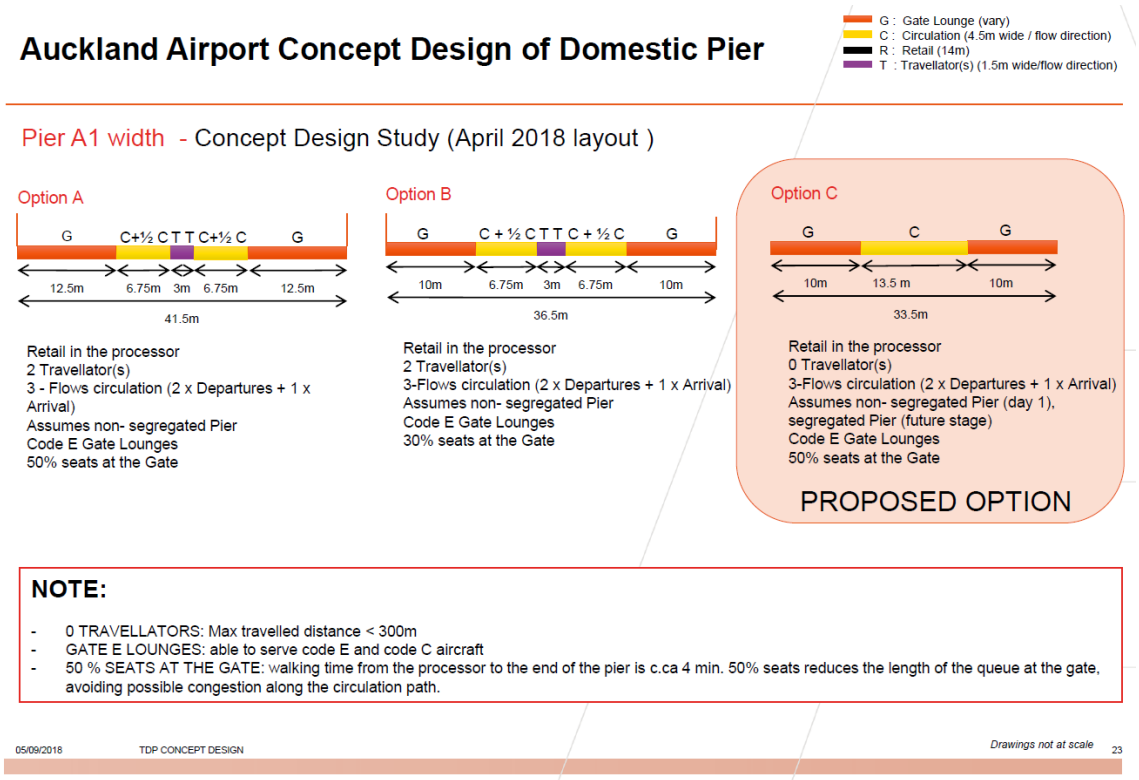
Auckland Airport provided a set of summary information to airlines on the design of Pier A1. This included further details on pier width. The earlier feasibility study had assumed a pier width of 40 metres. The development of the concept design considered three options for pier width, with a pier width reduced from the feasibility study to 33.5 metres as the recommended option.

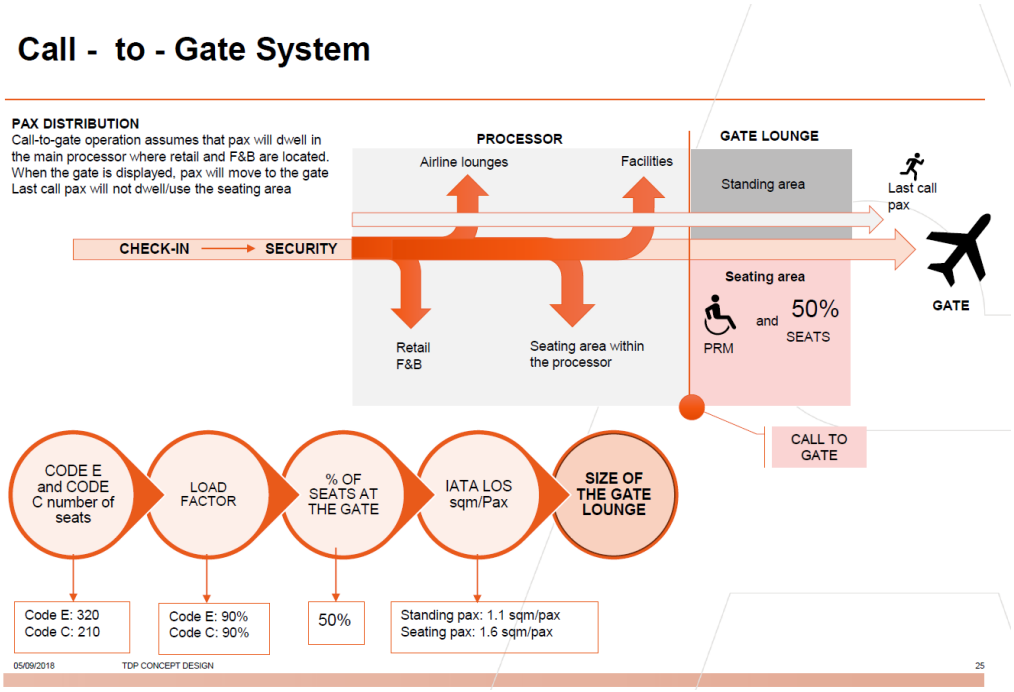
This presentation also considered the call-to-gate system that was embedded in the design, with passenger dwell in the headhouse with provision for seating for 50% of passengers in the gate

[85] Air New Zealand, (2 March 2018), *"Feedback on new domestic pier A1"*
[86] Air New Zealand, (2 March 2018), *"Feedback on new domestic pier A1"*

lounges. As outlined below, space for both standing and seated passengers was provisioned based on the IATA level of service benchmarks.

Figure 11: Information shared with airlines on Pier design

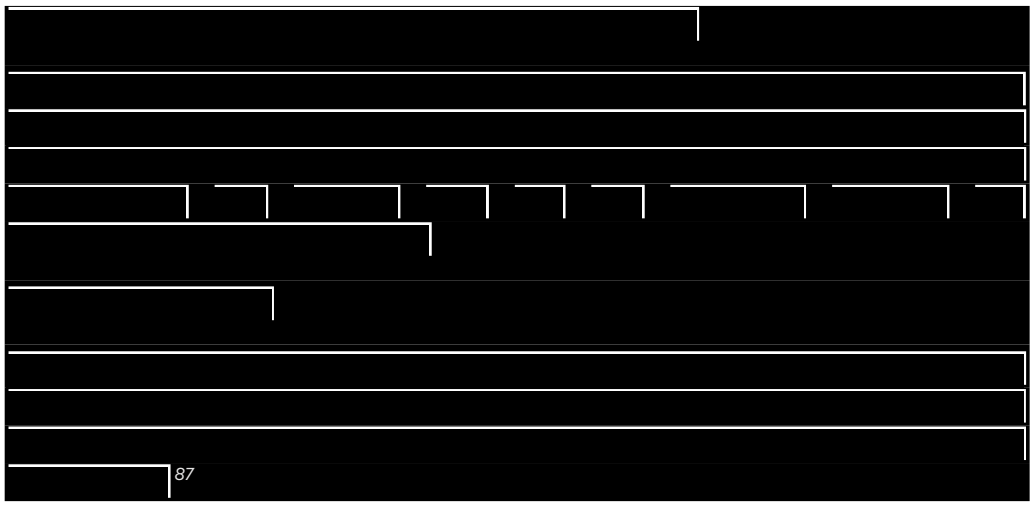




Source: Auckland Airport, Pier A1 Summary Information for Airlines, 4 September 2018

3.1.4.2.1.3 October 2018

Air New Zealand provided the following feedback on the design of the Domestic Pier following the receipt of this information:



3.1.4.2.1.4 April 2021

The Integrated East Terminal Integration pathway was presented to airlines for feedback. These materials indicated that the design of the Pier would be in accordance with the previous design presented to airlines.

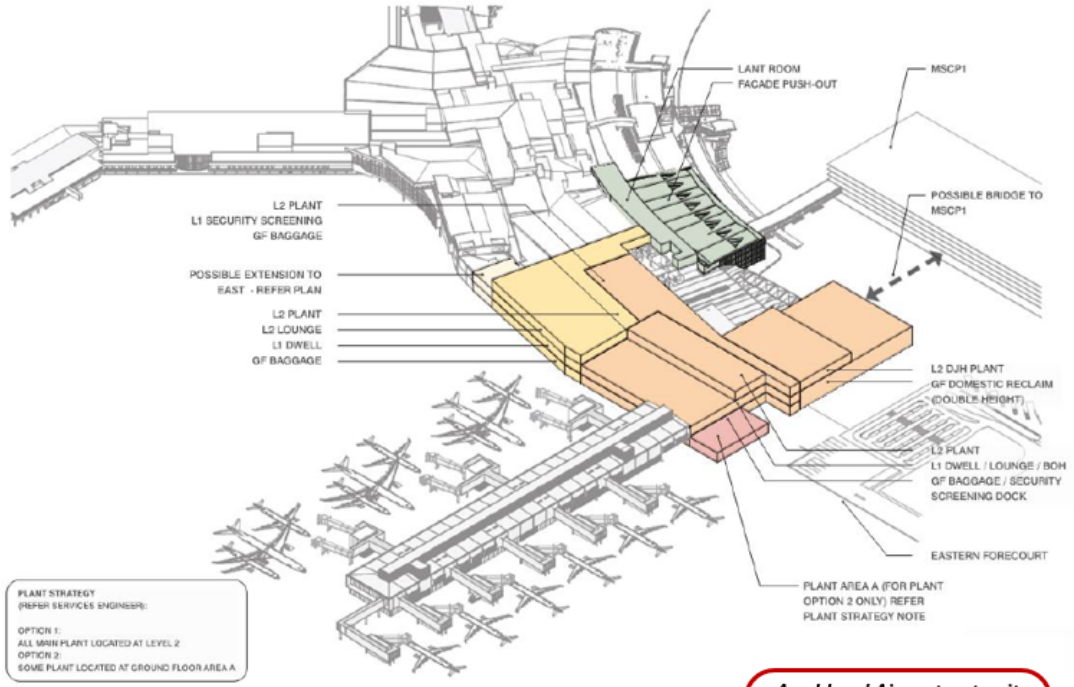
[87] Air New Zealand, (17 October 2018), *"Pier A1 – Location & apron, width proposal, gate lounges & fixed links, segregation"*

Auckland Airport

Figure 12: Select slides from MACPAC airlines only pre-read, 14 April 2021

Integrated East option builds off 2019 DJH and tests opportunities to solve previously unresolved issues

Illustrative mass diagram



New pier is in accordance with original DJH plan

Detailed description

- The construction of a new DOM processor tightly interconnected with the eastern end of the INT terminal
- Key features:
  - removal of legacy plant and baggage facilities enables tight integration with the existing terminal;
  - integrated departures journey to the point of security screening and separate arrivals pathways
  - smaller headhouse but same pier as the DJH;
  - separate airside dwell and security screening;
  - same landside solution and expanded terminal façade to facilitate landside access premium as West

Auckland Airport

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Auckland Airport notes it was made clear that Integrated East solution adopted the same Pier design as previous plans in April 2021

Auckland Airport received the following feedback from Air New Zealand:

[redacted][88]

3.1.4.2.1.5 August 2021

Both Air New Zealand and BARNZ supported the Integrated East terminal integration pathway, which retained the Pier design that had been previously shared with airlines. Auckland Airport released a public statement confirming the Terminal Integration Pathway, the statement was supported at the time by Air New Zealand and BARNZ. The statement included quotes from the Executive Director of BARNZ:

> *BARNZ Executive Director Justin Tighe-Umbers said: "Having their passengers transiting seamlessly between international and domestic flights all under the one roof will be warmly welcomed by international airlines. This will be a major leap forward for travellers and the airport alike, and it is going to be well timed with the recovery of air travel into Auckland. We're looking forward to working with Auckland Airport on making this vision a reality."*[89]

3.1.4.2.1.6 May 2023

In more recent engagement on design, Air New Zealand noted [redacted]

[redacted][90]

This feedback is inconsistent with the claims in this review that the Pier design is over-sized. [redacted] if the pier was shortened and a further two gates were boarding from the same area, as suggested in point 3.57.3 of the Air

[88] Air New Zealand, (30 April 2021), *"Re: Project Paheko Pathways: Air New Zealand response"*
[89] Auckland Airport, (9 August 2021), *"Auckland Airport resets precinct-wide infrastructure plan"*, https://corporate.aucklandairport.co.nz/news/latest-media/2021/auckland-airport-resets-precinct-wide-infrastructure-plan
[90] Air New Zealand, Auckland Airport, Beca, Mott MacDonald, (3 May 2023), *"Pier Gate Lounge Discussion with Air NZ and AIAL"*

New Zealand submission. [redacted]

3.1.4.2.2 Mott MacDonald's response to submissions on the design of Pier A1

Mott MacDonald reviewed Air New Zealand's argument regarding the design of Pier A1 and found that the airline's key concerns were not consistent with international best practices. Specifically, Mott MacDonald pointed out that: [91]

- pier width and length is in line with international benchmarks
- pier length is aligned with the apron layout, fixed link locations, plant room requirements, bus lounges and airline tenancies requirements (including Air New Zealand's) on the ground floor.
- reducing the pier's width would significantly compromise circulation space, which is essential for accommodating a double-sided concourse;
- that using a general square meters-per-passenger (sqm/pax) approach does not reflect best practices in airport design, and that items must be sized independently;
- that shortening the pier would restrict the functionality of the gates, as it would block the use of certain gates when others are in operation, thereby reducing overall efficiency; and
- the area identified by Air New Zealand at the front of each gate cannot be considered part of the gate lounge, as it must remain unblocked to allow for disembarking passengers.

Mott MacDonald also benchmarked the pier width designed against a number of other airports. This shows that of comparable airports there are some piers that are wider, others that are narrower. Mott MacDonald conclude that pier widths and internal configuration vary significantly between airports, but that common arrangements show similar configurations to Auckland Airport's. [92]

3.1.4.2.3 [redacted]review of Domestic Hub integration plans

During consultation, [redacted]

[91] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 "*
[92] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 "*, page 15

Figure 13: [redacted]

[redacted]

provides another proof point that the design being progressed is efficient and appropriate.

3.1.4.3 Gate lounge provision

Air New Zealand submitted:

> *AIAL reported[23] that the proposed Domestic Pier gate lounge provision was 1.1 m^2 per passenger, which is less than the IATA guidance[24] that states an average range between 1.2 m^2 and 1.55 m^2 per passenger.*
>
> *Air NZ engaged the services of Arup to review AIAL's space calculations against designs provided to Air NZ by AIAL. Arup's review has shown that AIAL's gate lounge provision estimate of 1.1m^2 per passenger is incorrect. Counter to IATA guidance, AIAL has not included the boarding counter and queuing space in its calculations. When these spaces are included, the actual gate lounge provision of AIAL's design is 1.8 m^2 per passenger, which is 60% higher than the IATA guidance (as provided above).*
>
> *Furthermore, Arup has pointed out that the new domestic pier includes a considerable amount of additional seating and dwelling spaces adjacent to the gates which has not been included in AIAL's gate lounge assessment but would likely be used by passengers waiting next to their gate. When these spaces are also accounted for as gate lounge space, the AIAL design increases to 2.75 m^2*

per passenger – suggesting that the amount of lounge space provision is in fact 83-129% higher than IATA guidance. [93]

Auckland Airport notes that the Arup analysis has not been included or attached to the Air New Zealand submission, but rather it has been described in the Air New Zealand submission, making it difficult to verify the analysis undertaken by Arup. Auckland Airport presents below the findings and analysis of two independent experts, Airbiz and Mott MacDonald.

3.1.4.3.1 Airbiz assessment of gate lounge LoS

Airbiz analysis of the designs for the Domestic Jet Terminal included measurement of gate lounge provision and an assessment against the IATA Optimum LoS. Airbiz, who independently reviewed the terminal designs, found the gate lounge provision of 1.1m^2 per passenger at busy hour that is disputed by Air New Zealand. The Airbiz analysis is outlined below.

Figure 14: Airbiz analysis of gate lounge provision in Domestic Jet Terminal designs

Source: Auckland New Domestic Processor, Level of Service Benchmarking, 10 June 2022

[93] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.47-3.49

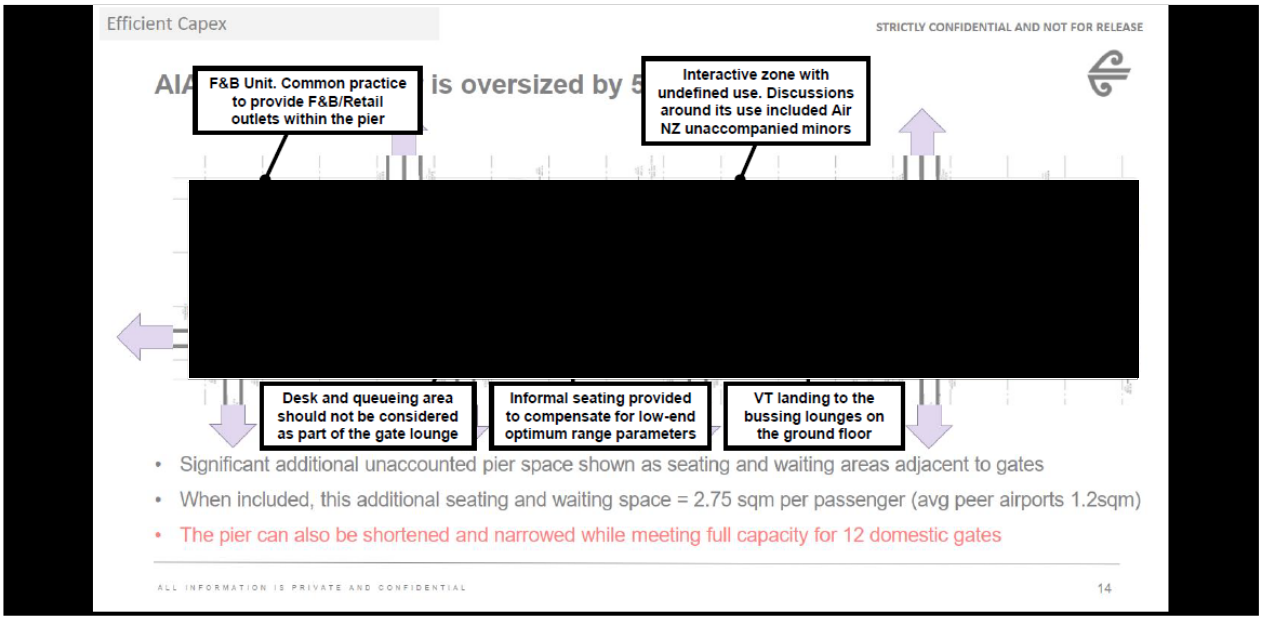
3.1.4.3.2 Mott MacDonald assessment of Air New Zealand submission on gate lounge LoS

Mott MacDonald has assessed Air New Zealand's claims on the gate lounge designs and finds the that the approach adopted by Air New Zealand is not consistent with the IATA LoS guidelines (as Air New Zealand claims):

- *Area per passenger metrics indicated by Air NZ are not in line with IATA LoS calculations.*
- *At a 50/50 split between seated and standing passengers, 1.8m^2/seat, and 1.2m^2/standing, leads to an **overall ratio of 1.5m^2/pax**. This is the ratio required to meet IATA LoS Optimum lower end.*
- *This is the minimum area per passenger to be provided at gate lounges to comply with IATA LoS Optimum range. **Peer airport's metric of 1.2m^2/pax is not aligned with this figure**.*
- *AIAL has used values below the IATA LoS Optimum range for seating areas, at 1.6m^2/seat.*
- *While **IATA** does mention that sufficient area for **queueing and boarding** must be provided, it **does not include this** process **in the LoS calculation**.*
- ***ACRP Rpt 25** mentions a **clear area of 7m from the wall** to include boarding desks and their queueing area. It also mentions **a 1.8m wide circulation** corridor from the boarding bridge to the main circulation area.*
- *Informal seating areas have been provided to compensate for low-end optimum range area/pax metrics.* [94]

[94] Mott MacDonald, (10 October 2024), *"Auckland Airport: Review of level of service, capacity and benchmarks contained in Air New Zealand PSE 4 submission dated August 2024 "*, page 16

Figure 15: Mott MacDonald comments on Air New Zealand submission



3.1.5 Provision of retail space in the Domestic Jet Terminal

Air New Zealand submitted on the amount of space provided for retail in the Domestic Jet Terminal:

> *In this design, AIAL has allocated [redacted] of airside retail and F&B (orange) across the headhouse and pier. [redacted] The DP has been designed to accommodate [redacted] more retail space than AIAL's existing international terminal, even though it will accommodate much lower passenger numbers who will have significantly lower dwell times and need for retail than international passengers. In fact, Air NZ estimates that the proposed DP has a retail space provision of [redacted] passengers per hour per sqm compared to [redacted] passengers per hour per sqm in the existing international terminal. Air NZ submits this a substantial over-provision of retail space.* [95]
>
> *One of the main beneficiaries of the over-sizing of the terminal is retail space, and dwell space (which is a key driver of the value of retail space), however AIAL plans to allocate 90% of the cost of the terminal to the aeronautical till* [96]

[redacted]

[95] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.59
[96] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.4

[redacted]

Qantas submitted:

[redacted]

3.1.5.1 *Retail space in the international terminal*

The retail space measurements provided by Air New Zealand are incomplete. In the international terminal, Air New Zealand has excluded duty free (yellow in the diagram) which represents a significant proportion of the retail offering.

Retail space (i.e. non aeronautical activities) covers the actual retail space, curtilage in front of the retail space and a proportion of the overall costs of the structure. Therefore, the actual retail space allocation in the international terminal building is [redacted] significantly higher than that claimed by Air New Zealand.

3.1.5.2 *Retail space in the Domestic Jet Terminal*

The design for the Domestic Jet Terminal allocates 4,700m^2 to retail space, this reflects 7% of the 70,000m^2 in the Domestic Jet Terminal (excluding check-in). This includes retail frontage for food and beverage and retail shops, as well as the back of house functions that are dedicated to retail facilities. Aside from departures on level one, and arrivals on the ground floor, there is limited retail in the remainder of the terminal which includes baggage and back of house facilities, airline lounges and plant areas.

This is less than [redacted]

3.1.5.2.1 Airbiz review of Domestic Jet terminal design

Whilst the IATA LoS guidelines do not contemplate the provision of retail space, when undertaking its analysis of the terminal design against the IATA LoS guidelines, Airbiz also considered whether the retail provision was in-line with standard industry practice.

In undertaking this analysis in June 2022, Airbiz found the following:

- *Proposed retail and concession space in line with industry expectations for domestic terminals.*
- *AKL proposed retail and concession space compares equally with relevant new terminal peers.* [97]

Figure 16: Airbiz analysis of retail provision in Domestic Jet Terminal designs

[97] Airbiz, (10 June 2022), "Auckland New Domestic Processor: Level of Service Benchmarking"

Figure 17: Space use on ground floor of Domestic Jet Terminal

Figure 18: Space use on first floor of Domestic Jet Terminal

Majority of the retail space is on level 1 in the departures area

Figure 19: Space use on second floor of Domestic Jet Terminal

Level 2 mostly allocated to Air New Zealand lounges (Domestic and International) and plant rooms

3.1.5.3 *Cost allocation of the Domestic Jet Terminal will be consulted on when setting charges for PSE5*

While Auckland Airport undertook an exercise to measure indicative aeronautical and non-aeronautical costs of the Domestic Jet Terminal as part of its PSE4 consultation, none of these measures were applied in practice, as the Domestic Jet Terminal will not be commissioned until PSE5.

These measures were based on an earlier version of the design. Auckland Airport will consult on the cost allocation of the Domestic Jet Terminal ahead of setting charges for PSE5.

3.1.5.4 *Cost allocation of retail space in the Domestic Jet Terminal used for PSE4 consultation*

While cost allocations for the Domestic Jet Terminal have not yet been set, an exercise was undertaken to estimate cost allocations to inform consultation for PSE4. This exercise, undertaken earlier in the pricing consultation process, was based on the designs that were available at the time.

These estimates broke down the costs of the three main elements of the project, the Headhouse, the Pier and the Airfield components, and allocated the cost of each based on the usage of space.

In the below table retail space was allocated 17% of the cost of the headhouse (where the majority of the retail is located), 0% of the airfield, and 3% of the pier, for an overall allocation of the cost of the project of 10%, or 12% of the cost of the terminal buildings (i.e. excluding airfield). This is higher than the space allocation of 7% of the terminal buildings (excluding check-in). The higher allocation to cost than space reflects the cost of shared elements of the terminal that serve both aeronautical and non-aeronautical areas – for example plant rooms. This may also be attributed to any changes that have been made to the design.

Further, 6% of the total cost of the project was estimated to be allocated to non-priced elements such as back of house spaces used by airlines and government agencies, and airline lounges. These costs would also not be recovered through aeronautical charges, but rather lease agreements for spaces used for aeronautical purposes.

Accordingly, 84% of the total cost of the project was estimated to be allocated to aeronautical prices, reflecting 75% of the cost of the terminal headhouse, 91% of the pier, and 100% of the cost of the airfield works.

Table 3: Cost allocation estimates for Domestic Jet Terminal used in PSE4 consultation

	Regulated		Non-regulated
Component	**Priced**	**Non-priced**	**Retail**
Headhouse	75%	8%	17%
Apron (Airfield)	100%	0%	0%
Pier	91%	6%	3%
Total Cost (Weighted average)	**84%**	**6%**	**10%**

These cost allocations were estimates developed in order to inform projections for charges in PSE5. These allocations are not binding but are rather indicative estimates, and will be revisited and consulted on with Substantial Customers ahead of setting charges for PSE5.

Claims by Air New Zealand that dispute retail allocations are not based on the designs that are being progressed, but rather the unjustified assertion that aeronautical costs of the Domestic Jet Terminal should be based on the hypothetical alternative design favoured by Air New Zealand, and not the terminal that is being delivered. This is nonsensical.

3.2 Cost of the Domestic Jet Terminal and the Auckland Airport capital investment plan

This section responds to airline submissions that address the cost of the capital investment plan that has been outlined by Auckland Airport, including the cost for delivering the Domestic Jet Terminal, and claims that Auckland Airport has not genuinely consulted with airlines or responded to airline feedback.

3.2.1 Consultation on the cost of the capital plan and Domestic Jet Terminal over time

Air New Zealand have submitted:

> *While the consultation paper provides detail on the history of consultation on what is now referred to as the Terminal Integration Programme (**TIP**) and how the various concepts evolved over time, there is no information provided on how the price/quality equation became so out of balance between 2021 and 2022 that Air NZ was forced to withdraw its support.* [98]

[98] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.08

Air New Zealand have submitted:

> *Once the true cost and price impact of the DP became apparent to airline customers, AIAL has shown an unwillingness to consider alternative cheaper viable options, or adapt their design to meet airline customer views, despite having had more than two years to do so and despite airlines requesting a temporary pause to work collaboratively on seeking alternative solutions.* [99]

Air New Zealand's submissions do not tell the full story. Presentation of the numbers is selective. Some include estimates of the entire capital investment programme, and others of only certain elements of the terminal integration build. It also doesn't outline how different costs have been stated – e.g. if construction cost escalation and financing costs are included. Auckland Airport therefore provides below a more detailed account of the information that was shared on capital costs with airlines during consultation.

3.2.1.1 Summary of consultation on costs

To summarise the evidence of information sharing and consultation presented throughout this section, Auckland Airport considers the following points to be the most relevant:

[99] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.37

- In August 2019 [redacted] PSE3 and PSE4 in **FY19 dollars of $4.9 billion**. Re-stated, the cost of this plan with equivalent construction and financing costs across the PSE4 / PSE5 window would be $7.4 billion – $800 million more than the PSE4 10-year regulated capex forecast. At the time an additional $4.9 billion of investment (FY19$) in PSE5 was also foreshadowed. Air New Zealand [redacted]
- in December 2019 Auckland Airport shared details of the Domestic Jet Hub proposal, the equivalent of what is today the Domestic Processor project – this included costs of $1.5 billion in real FY19 dollars, excluding financing costs. To include construction cost escalation and financing costs reflecting the phasing of the current build – this is the equivalent to a value of $2.8 billion of assets commissioned – some $600 million higher than the current Domestic Processor project of $2.2 billion – construction cost escalation alone during this period adds some $800 million to the $1.5 billion cost estimate;
- in April 2021 the Integrated East terminal integration pathway was presented as part of a $5.6 billion capital investment plan – this pathway to terminal integration was publicly supported by both Air New Zealand and BARNZ;
- in July 2022 Auckland Airport released its Draft Capital Plan which showed a 10 year capital investment plan of $6.6 billion of regulated investment in real FY22$, but also set out the cost of investment after accounting for financing costs and construction cost escalation – resulting in a forecast of priced assets commissioned of $3.1 billion for PSE4, and $4.2 billion for PSE5;
- in August 2022, while citing that it did not support the **capital plan in full** (as it notes in its submission) this response was accompanied by more specific feedback [redacted][100]
- in November 2022 Auckland Airport undertook a review of the Draft Capital Plan in response to requests from airlines, the outcomes of this review resulted in reductions to the capital plan of $706 million;
- on 12 December 2022 Air New Zealand provided its feedback to the capital plan review. It was at this time that [redacted]

  None of this feedback indicated any concern with the design itself including its size. Concerns with the [redacted] are completely unrelated to the terminal design. In fact, in its specific feedback on cost savings for the Domestic Processor design which included reductions to the floor plate, Air New Zealand [redacted]

[100] Air New Zealand (30 August 2022) *"Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022"*

[redacted]

- in February 2023, a revised capital plan was shared with airlines that included reductions of $706 million as a result of the Draft Capital Plan review. Much of these savings were offset by COVID pandemic induced high levels of construction cost escalation, which added $673 million of cost to the 10-year capital investment plan;
- in March 2023 the Auckland Airport Board re-affirmed the Terminal Integration Programme and approved the Domestic Processor move to detailed design. As part of this decision Auckland Airport reconsidered previous work conducted on potential lower cost alternative locations for a domestic terminal, and found that there is no alternative location or viable development option for a domestic terminal that would deliver meaningful savings from the cost of the Terminal Integration Programme;
- in June 2023 Auckland Airport released its pricing decision, which included a forecast for priced assets commissioned of $1.6 billion lower than the Draft Capital Plan released in July 2022 – these reductions to the plan were made in response to airline feedback.

What this demonstrates is that the significant investment that was planned at Auckland Airport had been signalled to airlines for a long time, and that [redacted] – contrary to its claims in its submissions to this review. Auckland Airport then responded to airlines' concerns with cost, reducing the cost of the plan for priced assets commissioned back to $5.7 billion across the PSE4 and PSE5 pricing periods, to a level that was well in-line with plans that had been previously outlined that had been supported by airlines.

Evidence and further detail of this engagement is set out below.

3.2.1.2 PSE3 (2017)

In PSE3 when Auckland Airport prepared its price setting disclosures, the cost estimates for the new terminal were in the early stages of development, and therefore subject to a high degree of cost uncertainty. As noted in Auckland Airport's PSE3 pricing disclosures (added emphasis):

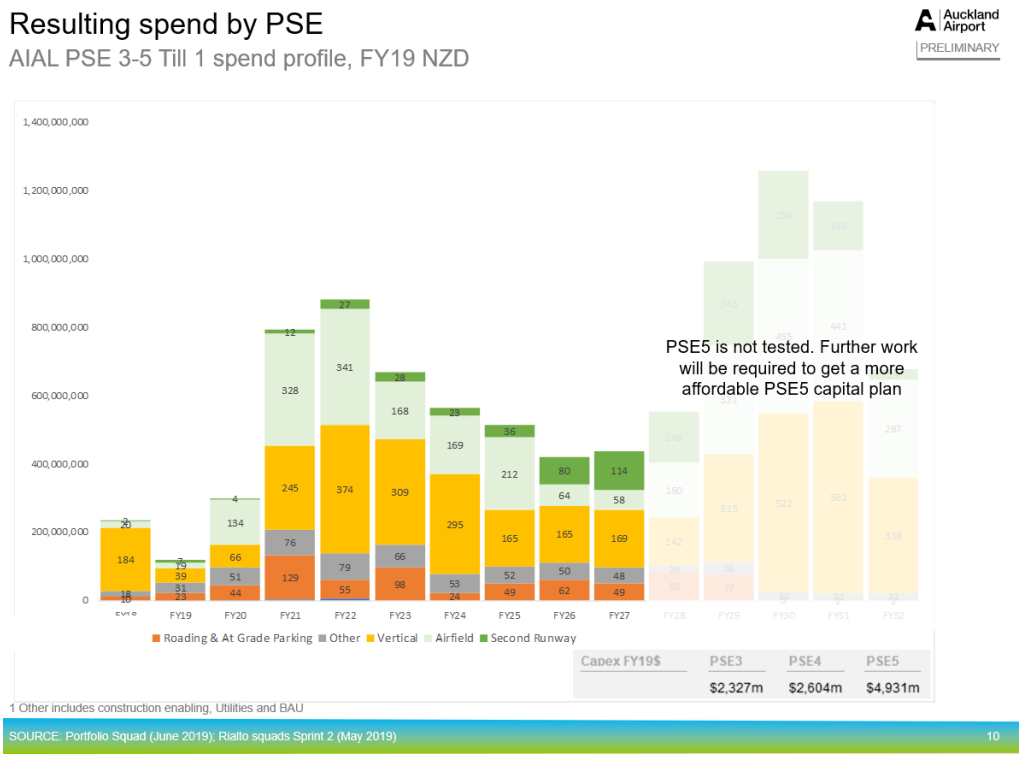
> *Cost estimates are subject to variability depending on the level of design analysis that has been undertaken. Auckland Airport is at feasibility design in the capital planning process for most projects beyond FY17/FY18 and has commenced concept design for the TDP. Projects related to the TDP consultation and their associated draft sub-projects, as well as any other projects informed by major feasibility studies, have generally been priced by external quantity surveyors (BECA, AECOM).* ***Feasibility stage project and sub-project costings are subject to a material degree of uncertainty.*** *Business as usual projects and sub-projects have generally been internally estimated. The second runway costs estimates are based on inception level design and subject to greater cost-outturn variation.*[101]

[101] Auckland Airport, (1 August 2017), "Appendix B: Forecast Aeronautical Capital Expenditure", page 4

3.2.1.3 *Project Rialto (2019)*

Auckland Airport undertook a review of its entire capital plan in 2019 under what was called Project Rialto. This work resulted in a total regulated capex spend forecast across PSE3 and PSE4 of $4.9 billion, including $2 billion on terminals and $1.9 billion on airfield. While not tested through the Rialto exercise, a further $4.9 billion was forecast to be spent in PSE5 which included the majority of investment for delivery of the second runway. These estimates were all in real terms, presented in FY19 New Zealand dollars. This is set out below in Figure 20.

Figure 20: Project Rialto, Capital Investment FY19$ by PSE



Auckland Airport sought airline feedback as part of this exercise. Air New Zealand wrote to Auckland Airport to provide feedback on Project Rialto which included:

[redacted]

As noted in its submission, Air New Zealand was supportive of the terminal development at this point in time.

As this cost estimate of the capital plan was presented in FY19 construction costs, a like-for-like comparison with the current capital plan should have it restated reflecting future construction cost escalation and financing costs.

Re-stating the Rialto capital plan across PSE3 and PSE4, based on forecast construction costs in FY28 dollars (the mid-point of the 10 year PSE4/5 capital plan), provides an equivalent cost estimate for this plan of $7.4 billion in assets commissioned.

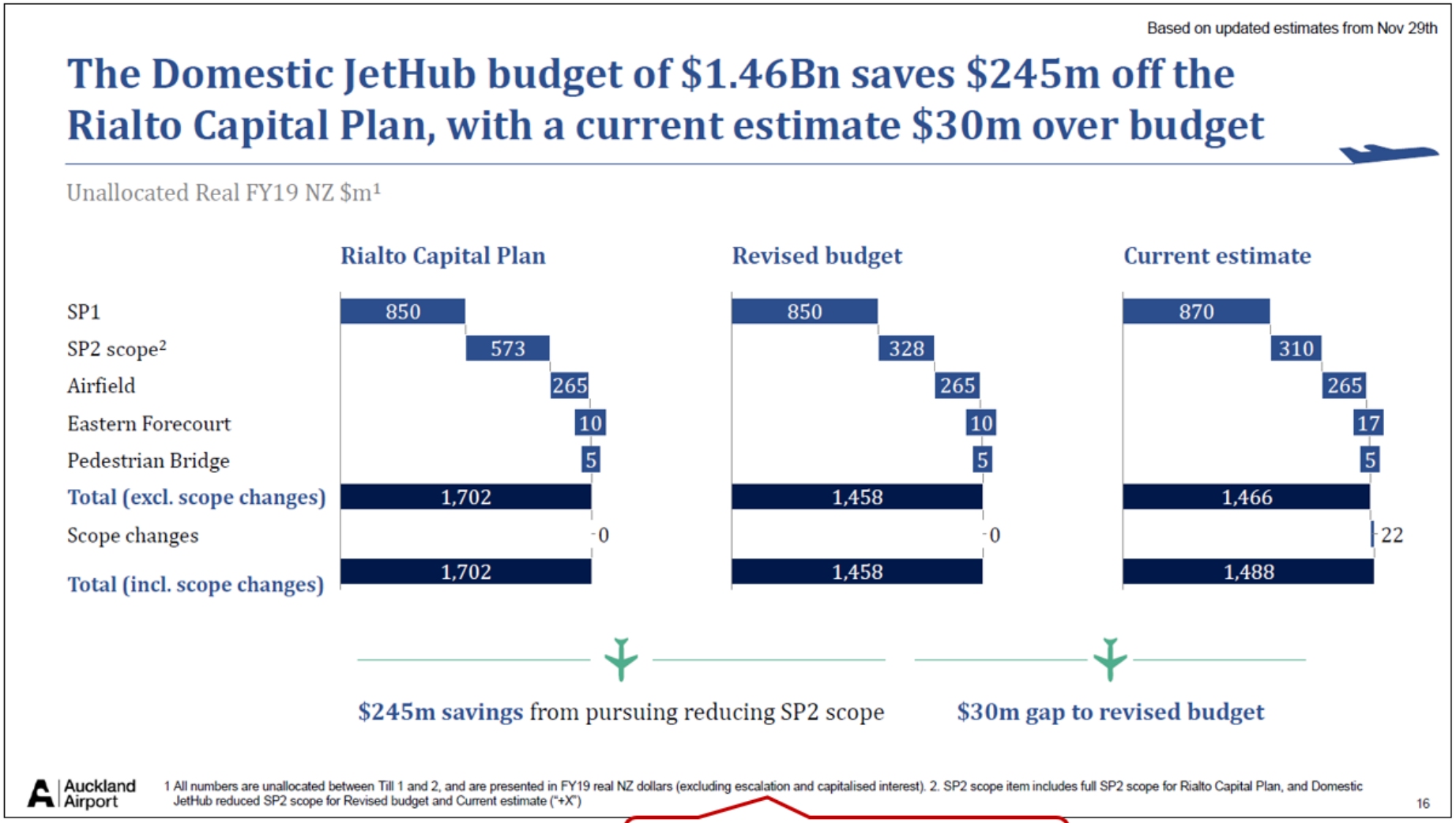
3.2.1.4 Domestic Jet Hub (2019-2020)

In December 2019 Auckland Airport presented an update to airlines, on what was then called the Domestic Jet Hub. This update included a refreshed cost estimate, which showed that the total cost of the Domestic Jet Hub – including terminal and airfield works, was $1.5 billion, in real FY19 New Zealand dollars excluding financing costs, not $1.2 billion as claimed by Air New Zealand.

[102] Air New Zealand, (20 August 2019), Project Rialto feedback

Auckland Airport

Figure 21: December 2019 MACPAC materials on Domestic Jet Hub cost



Auckland Airport noted construction escalation and financing costs were excluded from these estimates

Importantly, as recorded in the footnote, this was a real terms cost estimate that was exclusive of construction cost escalation and financing costs. This point was stressed by Auckland Airport during the presentation of these materials to the MACPAC meeting on 17 December 2019, as the minutes record:

> [redacted] *stepped through the Domestic Jet Hub presentation.*
>
> *The Domestic Jet Facility project name has been updated to the Domestic JetHub. Clarified that the numbers provided are all real numbers that don't include escalation costs.*[103]

Updating the $1.46 billion to include construction cost escalation and financing costs (in accordance with the Input Methodologies) based on the current timing of the construction of the Domestic Jet Terminal, the equivalent assets commissioned cost would be $2.8 billion[104] - well above current cost estimates for the Domestic Jet Terminal. This much higher cost estimate can be attributed to the pandemic induced construction cost escalation.

3.2.1.5 Integrated East (2021)

Following the onset of the pandemic, Auckland Airport undertook an exercise to re-examine its terminal development pathway. This culminated in a detailed presentation for airline feedback on the options that had been identified, which included substantial information on cost, including that:

- the Integrated East programme was estimated to reflect a programme of works with $5.8 billion worth of capital investment out to FY32;
- the Domestic Processor Pier and Headhouse would cost $1.2 billion (but full cost of c. $1.5 billion as per the chart with the inclusion of airfield works); and
- there was other substantial investment forecast to be undertaken over forecast capital investment period.

Indicative price paths were also provided to airlines to compare the Integrated West and Integrated East pathways. This showed that the average charges for domestic jet passengers in PSE5 would be between $25-30.

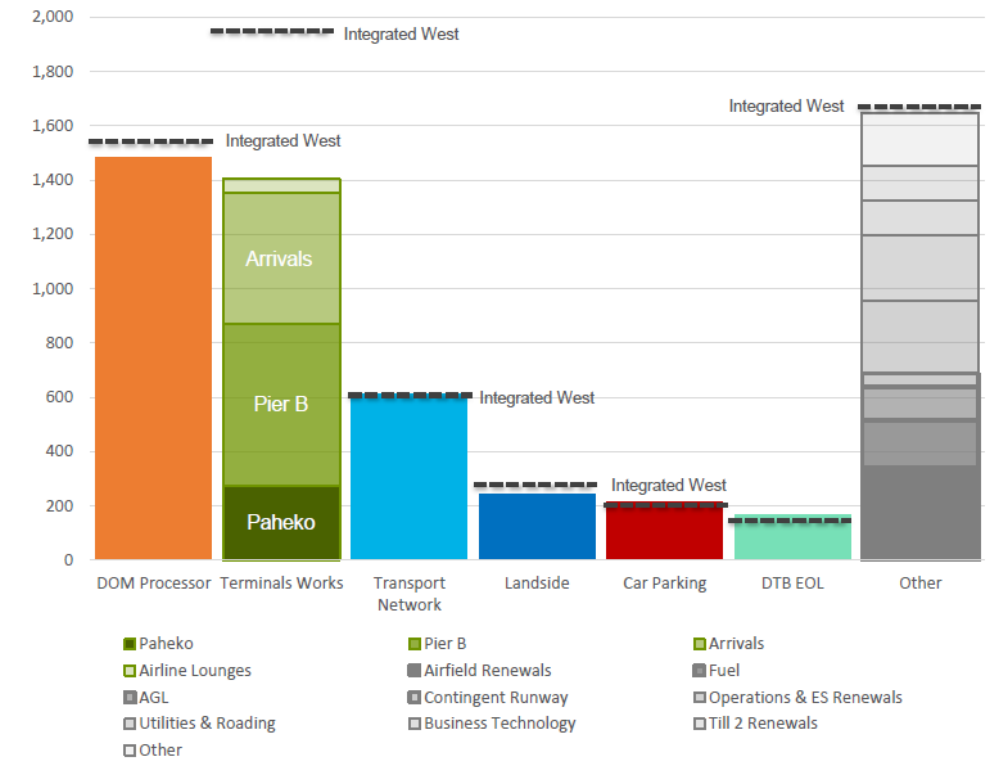
[103] MACPAC, (17 December 2019), *"Minutes"*
[104] Escalation rates are based on the Statistics NZ Producer Price Index - Heavy and civil engineering construction indices for FY19-FY22 and the Domestic Processor escalation rates used in PSE4 price setting for FY23-30. Financing costs calculated at the post-tax WACC of 8.73% in accordance with the Input Methodologies

Auckland Airport

Figure 22: Forecast cost of Integrated East solution, MACPAC airlines only pre-read, 14 April 2021

Integrated East is a substantial programme that commissions later

- The programme of works for Integrated East is estimated at c.$5.8bn, including c$5.6bn of 'no regrets' new capacity and spend associated with dealing with legacy issues
- Key components:
  - resilient bag hall $199m, commissioning in FY24;
  - full Dom Processor (Pier A1 and Headhouse) of $1,170m commissioning in FY27;
  - Pier B airfield and terminal expansion of $594m;
  - International Arrivals expansion of $484m;
  - ITB Landside capacity upgrades of $241m delivering new Terminal Entry, PUDO, Forecourt Plaza facilities;
  - Multistorey Car Park of $180m delivery aligned to commissioning of the Dom Processor; and
  - Upgrades to the transport network including Pukaki bridge and the Eastern ring road
- Integrated East terminal works programme ~$1.4bn compared to ~$2.0bn for Integrated West. Difference primarily due to significant works required for DOM jet operations to temporarily operate(~FY26-31) from Pier A

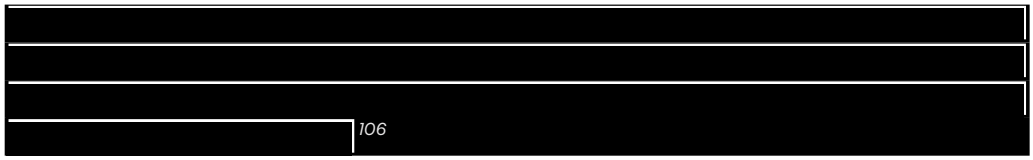


Auckland Airport

Figure 23: Indicative price paths, MACPAC airlines only pre-read, 14 April 2021

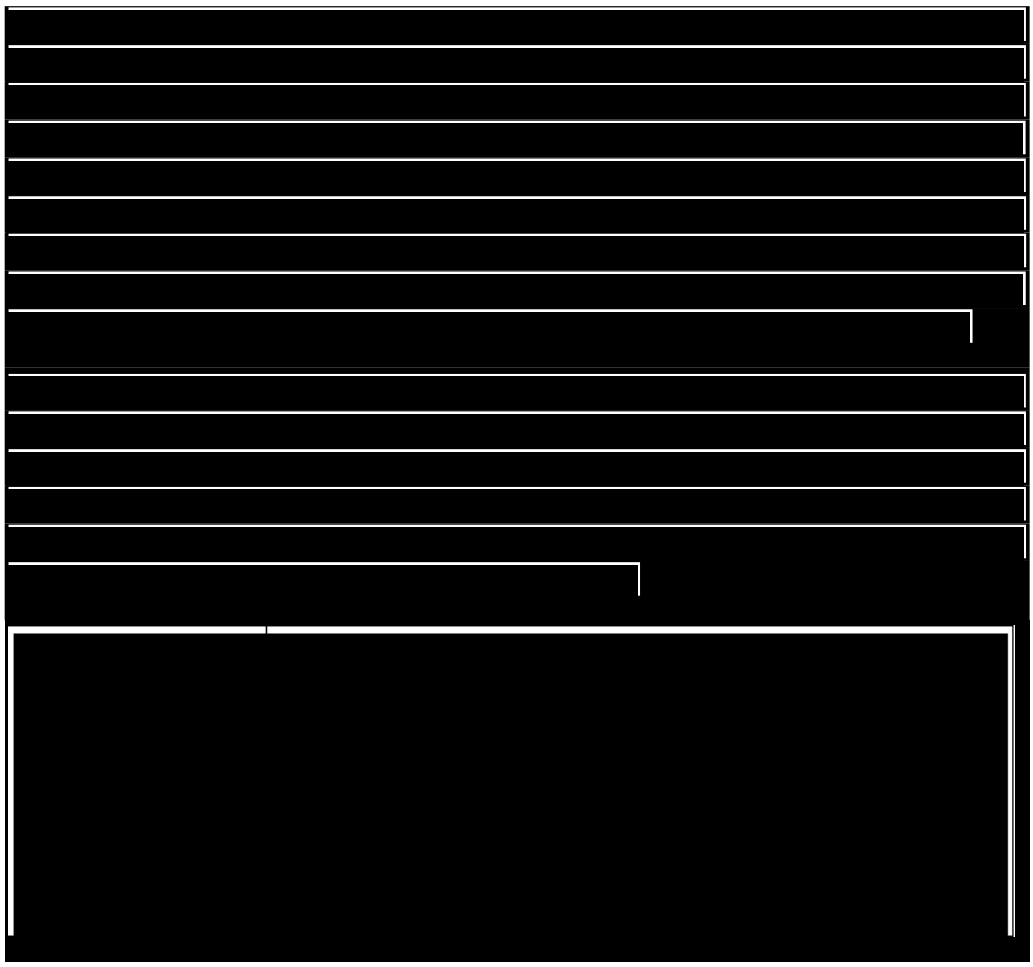
As per our previous submission to this review, these price paths were calculated based on $5.4 billion of investment being commissioned into priced aeronautical assets.[105] These price paths were calculated based on a post-tax WACC of 5% - a key assumption that was clearly articulated in the presentation materials. This assumption reflected prevailing market conditions at the time and the 2016 IMs as prescribed.

Having been provided these detailed materials, Auckland Airport received the following feedback from Air New Zealand:



[106]

Further, the following feedback was received from BARNZ: [107]



[105] Auckland Airport, (21 February 2024), "Cross-submission on responses to the Commerce Commission Process and Issues Paper for its review of Auckland Airport's 2022-2027 price setting event", page 19
[106] Air New Zealand, (30 April 2021), *"Re: Project Paheko Pathways: Air New Zealand response"*
[107] BARNZ, (6 May 2021), *"BARNZ Response to Project Paheko Development Pathway Options"*

[redacted]

Later that year in August 2021, Auckland Airport released a public statement confirming the Terminal Integration Pathway, and the statement was supported at the time by Air New Zealand and BARNZ.

3.2.1.6 Feedback on capital commitments (November 2021 – May 2022)

It was during this window that Auckland Airport sought to progress the terminal integration pathway and started to commit funds to deliver projects aligned to delivering terminal integration but were agnostic to the design of the Domestic Jet Terminal which was still in design phase. Between November 2021 and May 2022 Auckland Airport [redacted]

3.2.1.7 Draft Capital Plan (2022)

Auckland Airport released the Draft Capital Plan, the first of its consultation papers for the PSE4 pricing decision to Substantial Customers. The Draft Capital Plan included a forecast for aeronautical investment in real terms FY22 dollars of $6.6 billion across PSE4 and PSE5. After factoring in financing costs and construction cost escalation, priced assets commissioned of $3.1 billion for PSE4, and $4.2 billion for PSE5 (this was subsequently reduced to $2.6 billion and $3.1 billion through consultation). This included the cost of the Domestic Processor work programme (including financing/holding costs and construction cost escalation) of $1.9 billion for headhouse, pier and airfield works. Other capital costs that were related to terminal integration of c $800 million were also identified in the Draft Capital Plan.[108]

This forecast of priced assets commissioned was inclusive of construction cost escalation and financing costs. Indicative price paths were also shared to reflect an indicative post-tax WACC range of 7.5% to 9.0%.[109]

3.2.1.7.1 Feedback on Draft Capital Plan

On 30 August 2022, Air New Zealand provided the following feedback in response to the request for feedback on the Draft Capital Plan (as cited in Air New Zealand's submission to the Draft Report):

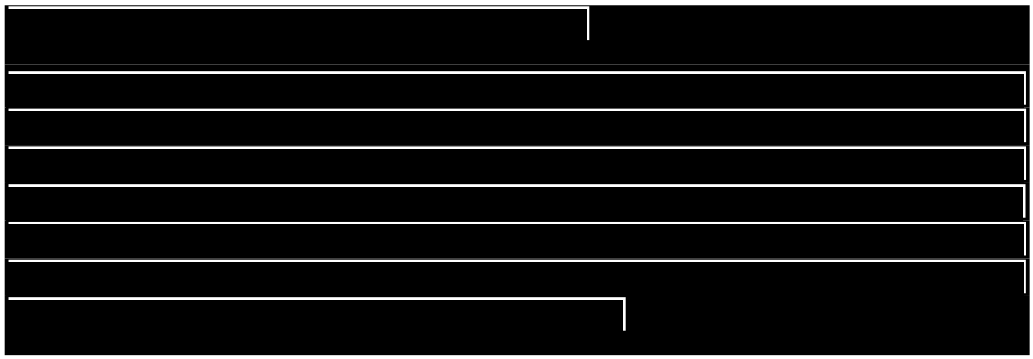
> *We continue to acknowledge that a level of investment is needed to address existing capacity constraints and challenges with legacy infrastructure. However, the scale of investment forecast over the next ten years exceeds what has been previously indicated by some magnitude. Of significant concern is that pricing forecasts have increased* [redacted] *(FY32 forecasts) from what was indicated to us in 2021. We believe this level of price increase would create a material decrease in overall passenger demand relative to what it would be with reasonable price increases. This impact on demand challenges some of the core benefits of the integrated terminal proposition and its ability to strengthen a hub*

[108] Auckland Airport, (July 2022), *"Price Setting Event 4 - Consultation Paper One: Draft Capital Plan"*
[109] WACC range was indicative pending further analysis released later in consultation

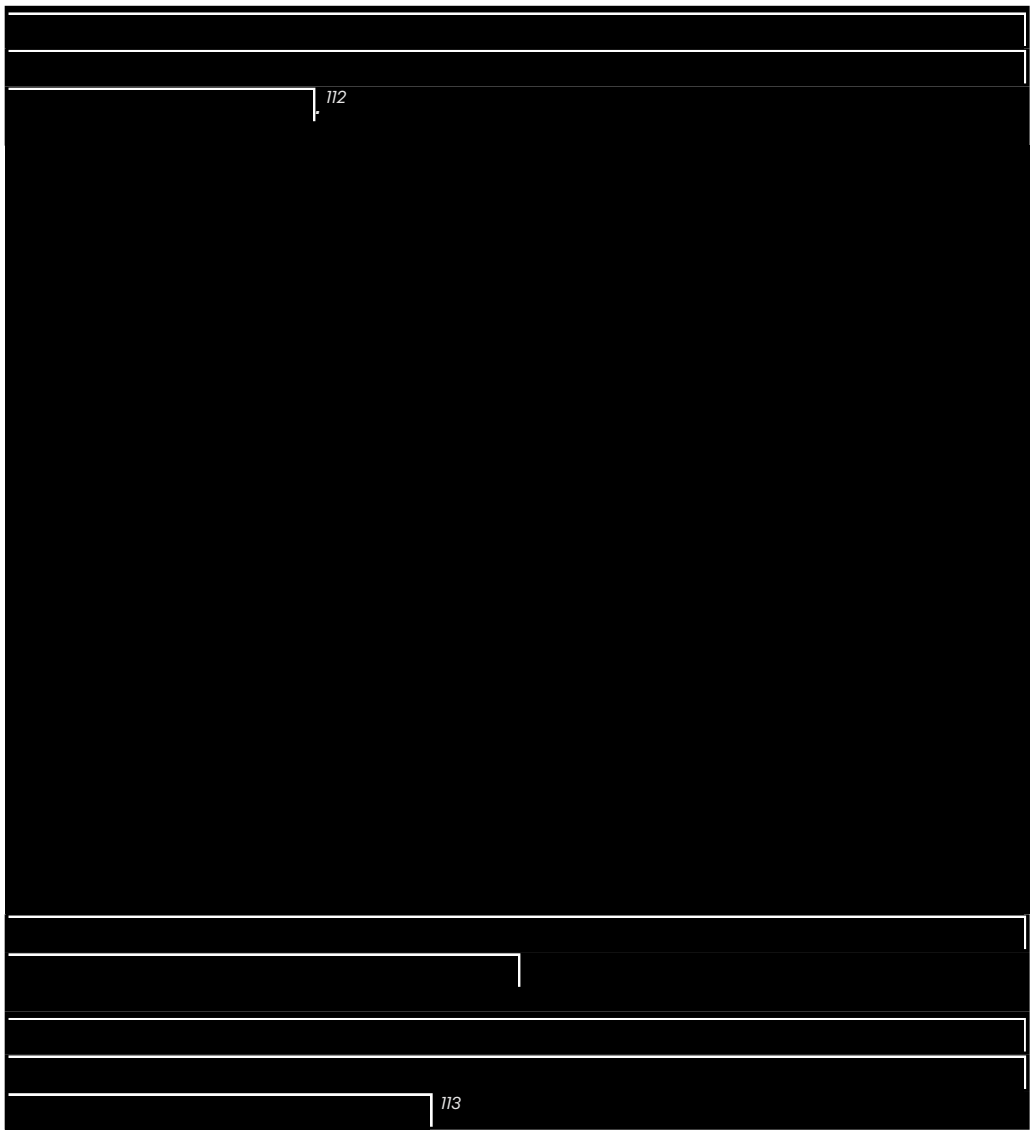
proposition and reduce traffic transiting through Australia. We anticipate that this level of price increase would also create risk for regional New Zealand, tourism spend, air freight capacity and air connectivity more generally. As such, Air New Zealand cannot support the Capital Plan as it has been shared in full. [110]

As noted by Air New Zealand, it did not support the Capital Plan as it was presented - **in full.** This feedback from Air New Zealand then considered the specifics of the Draft Capital Plan, including the capital investment commitments Auckland Airport proposed to undertake in the 2023 financial year. This included proposals for $470 million of capital commitments for enabling works projects required to deliver terminal integration, and a further $93 million to support ongoing design of the Domestic Processor. Feedback from Air New Zealand included: [111]

Project specific feedback from Air New Zealand included the following:



[110] Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*".
[111] Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*"



Having considered the feedback form all substantial customers, including Air New Zealand, Auckland Airport continued to proceed with design agnostic projects that enabled terminal integration. Auckland Airport also proceeded to address the design and cost issues raised by Air New Zealand in the later stages of consultation as described below.

3.2.1.8 Draft Capital Plan Review (November 2022)

As noted in PSE4 pricing disclosure commentary:

[112] Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*"
[113] Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*"

Following the feedback on the Draft Capital Plan, given the feedback on the scale and cost of the proposed capital plan, Auckland Airport decided that a review of the Draft Capital Plan was warranted, and so adjusted the PSE4 consultation timelines accordingly, including the postponement of capex commitment decisions related to the design of the Domestic Processor to accommodate this review including further consultation. The review considered opportunities to reduce cost, assess the certainty of the timing and scope of key projects, and consider scope optimisation and value engineering opportunities for key terminal integration projects that were still in design phase. The savings opportunities identified through the review were presented to Substantial Customers at workshops during November 2022, where the trade-offs were considered and discussed. The workshops also presented information to airlines on the measures that were incorporated in the capital plan for climate change adaption, including the provision of stormwater capacity being incorporated into projects to meet future expected climate change requirements. [114]

These workshops identified opportunities for reductions to the capital investment plan. This included not only options to find savings for the Domestic Jet Terminal project of around $150 million, but also identified opportunities to reduce the size of the check-in hall in order to reduce capital costs by around $250 million.

Air New Zealand provided the following feedback following the November workshops on 12 December 2022: [115]

[114] Auckland Airport, (17 August 2023), "*Price Setting Disclosure*", page 33
[115] Air New Zealand, (12 December 2022), Letter to Auckland Airport

[redacted]

Specifically in relation to the savings identified in the workshops, Air New Zealand provided the following feedback:

[redacted]

[116]

3.2.1.9 *Draft Pricing Proposal (February 2023)*

Auckland Airport shared its Draft Pricing Proposal with airlines, noting the following changes to the capital plan:

> *The Draft Capital Plan review savings total $706 million across PSE4 and PSE5 versus the 10-year plan that was shared with airlines in Consultation Paper One.*
>
> *However, cost revisions for key projects have offset these savings following more detailed design work that has allowed more accurate cost identification. The cost revisions total $673 million over the 10-year Revised Capital Plan period. The major driver of these cost revisions is the expected $408 million*

[116] Air New Zealand, (12 December 2022), Letter to Auckland Airport

increase in the aeronautical priced commissioning value of the Domestic Processor project. [117]

These changes were a result of the pandemic related strong levels of construction cost escalation that were out of the control of Auckland Airport – heavy and civil engineering construction cost escalation in New Zealand reached 15% in 2022 alone according to Stats NZ.

3.2.1.10 Approval of the Terminal Integration Programme (March 2023)

On 16 March 2023 the Auckland Airport Board unanimously resolved to approve both the Domestic Processor preliminary design and funding to complete the remaining design phases of the Domestic Processor. It also reaffirmed its May 2021 decision and to proceed with the Terminal Integration Programme, including the Domestic Processor – with a total estimated cost of $3.9 billion across PSE4 and PSE5, with the estimated aeronautical priced commissioned total (including holding costs) of $3.6 billion. This cost included all projects that were required in order to enable integration, some of which serve a number of different purposes – e.g. remote stands provide stand capacity required during the construction staging, but also provide long-run international and freighter capacity. This project, while not directly part of the integration works, was part of the pathway required to deliver it.

This decision followed a lengthy period of planning and consultation (as outlined in this submission). As part of this decision Auckland Airport reconsidered previous work conducted on potential lower cost alternative locations for a domestic terminal, and found that there was no alternative location or viable development option for a domestic terminal that would deliver meaningful savings from the cost of the Terminal Integration Programme. Auckland Airport approached this consultation in good faith and with an open mind. This consultation was robust and produced valuable feedback from airlines.

3.2.1.11 PSE4 pricing decision (June 2023)

In June 2023, Auckland Airport released its pricing decision with $5.6 billion of forecast priced assets commissioned across PSE4 and PSE5, including the Terminal Integration Programme. This reflected a forecast for priced assets commissioned of $1.6 billion lower than the Draft Capital Plan released in July 2022 - these reductions to the plan were made in response to airline feedback on the capital investment plans that had been shared through consultation.

3.2.2 Cost comparisons of the Domestic Jet Terminal

Airline submissions include a number of cost benchmarks that they claim are appropriate and indicate the cost of the Domestic Jet Terminal is too expensive. Submissions also raise questions over the benchmarks that have been cited by Auckland Airport and the Commission in its Draft Report.

3.2.2.1 New integrated Terminal at Perth

Qantas submitted:

[117] Auckland Airport, (8 February 2023), *"Price Setting Event 4 Consultation – Draft Pricing Proposal"*

> *By way of example, Perth Airport and the Qantas Group recently announced a $3bn spend which includes a new 3,000m runway, 11,500m of associated taxi lanes and taxiways and a new integrated terminal with over 50 aircraft parking positions (a mix of widebody and narrow body contact and remote positions). AIAL's capital plan is two to three times the overall cost of the Perth Airport development. This is as a result of the design footprint being nearly twice the size necessary, and the costs of construction being nearly twice benchmark expectations.* [118]

While there have been cost estimates in press releases ($3 billion AUD in new terminal and airfield facilities) during the EOI process for this development, when asked what the capex estimates were for this project, Perth Airport indicated that there are no definitive capex estimates based on the current project scope. [119]

The Domestic Jet Terminal development is far more progressed than the new terminal development at Perth airport, which has only commenced in recent months. Accordingly, the cost estimates of the Perth development would have a far lesser degree of certainty than the cost estimates for the Domestic Jet Terminal. It also remains unclear if the publicly released estimates of the Perth development are stated in real terms or whether these include construction cost escalation and financing costs.

3.2.2.2 Cost comparisons of Terminals

Qantas submitted the following table comparing terminal costs:

Table 1: Comparative footprints of different Airport footprints compared against capex spend

Comparable	Size (sqm)	Cost $bn	AKL Size Ratio	Unit Cost Ratio
AKL Comparable	80,000 [7]	1986		
Perth Pier (a)	40,000	544	200%	183%
Arup counterfactual (Air NZ) (b)	50,300	1400	159%	89%
Aurecon Counterfactual (c)	25,600	385	313%	165%

a) A case study using the similar Perth domestic pier for Virgin, adjusted for New Zealand and 2028 construction costs with similar numbers of gates. Both are 12 gate brownfield domestic piers joined to international terminals.[8]

b) An Arup counterfactual done by Air New Zealand that we broadly support as the absolute upper end of costs in replacement of the inefficient AIAL solution. The Qantas Group accepts the footprint, but notes that that the QS costings are above comparables.

c) Estimates from our own quantity surveyor of the Aurecon counterfactual shared with AIAL in June 2022, suggesting a footprint 68% smaller than AIAL's.

Of the examples in the table, Perth is the only 'real project'. The Arup and [redacted] counterfactuals reflect alternatives that are at a very early stage or basic designs of terminal concepts. While cost estimates can be made on these designs, subsequent design phases often identify additional costs, and the most relevant comparator is when a project is eventually delivered. Auckland Airport considers that in the context of this review, using these designs as cost comparators has limited usefulness.

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[118] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 2.3
[119] ibid, p. 3

3.2.2.2.1 Cost comparison to Perth Terminal 1

During consultation at the request of a Substantial Customer, Auckland Airport considered the cost of the Perth Terminal 1 Domestic development delivered in 2015 as a reference point for the costs of the Domestic Jet Terminal. The historical cost of $330 million AUD was then adjusted for:

- Construction cost escalation from 2015 to 2028 – a factor of 1.68;[120]
- NZD / AUD differential at the time of construction (0.90 exchange rate); and
- benchmarks indicating construction costs in Auckland are 43% higher than in Perth.[121]

Adjusting for these factors alone would indicate that a $330 million development in Perth in 2015 is equivalent to ~$900 million NZD for what is a materially smaller facility than the proposed Domestic Jet Terminal. This indicates that the $544 million comparator cited by Qantas does not provide a valid comparison on cost.

3.2.2.3 Cost per gate comparators

Qantas Group submitted a table which provided a comparison of other terminal works on a cost per gate basis:

Table 2: Gate Cost Comparison

Port	Project	Year	Gates	Total Cost (FY25)	Cost per Gate
MEL	T1 Domestic – B25 Gate lounge. (Code E)	2024	1	$30m	$30m
OOL	Southern Terminal Expansion	2023	6	$260m for whole expansion	$43m
NTL	International Terminal build	2025	2	$110m for whole terminal	$55m
PER	T1 Domestic Pier	2015	8	~$400m for whole terminal	$50m
AKL	Proposed investment	2028	12	$1.986bn	$166m

In comparing benchmark projects, the context is always important to interpret the results. Auckland Airport notes that previous comparisons of cost per gate were used as a reference point for a full terminal development. Most of the comparisons cited by Qantas are for smaller expansions or simpler, much smaller projects. Auckland Airport makes the following observations:

- MEL – Melbourne expansion appears to provide one additional gate to an existing terminal rather than a full terminal solution.

[120] Reflects increases in Heavy and Civil Construction costs according to Stats NZ, combined with Auckland Airport forecasts of future construction cost escalation

[121] Rider Levell Bucknall Auckland Ltd, (June 2022), *"Sector Insights: Cost benchmarking & air terminal costs for Auckland Airport"*

- OOL – Gold Coast terminal expansion is an extension of an existing facility and has not needed to deliver all of the system elements of a terminal. It provides six gates through four aerobridges,[122] and the $260 million AUD cost for this project was cited as completed in November 2022,[123] has not been re-stated in FY25 terms as claimed by the Qantas submission.
- NTL – this Newcastle expansion appears to be a relatively small-scale terminal development to provide capacity for a small number of international services, unlikely to have the complexity or scale of the Domestic Jet Terminal development.
- PER – as set out elsewhere in this submission, Auckland Airport demonstrates that Qantas' analysis has materially understated the cost of the Perth Terminal solution for comparison purposes.

3.2.2.4 JFK Terminal 6

Air New Zealand submitted:

> *The JFK Terminal 6 example is an entirely inappropriate comparison. The T6 project is considered to be one of the most expensive terminal construction projects in the world. The fact that AIAL are using JFK-T6 as a comparable benchmark is indicative of how expensive the AKL design is given its consideration of using this global cost outlier as a benchmark. Factors influencing the high cost of JFK T6 include:*
>
> ▪ *the multi-level construction of a major international terminal in an existing complex 55M passenger multi-terminal precinct;*
>
> ▪ *multiple new elevated roadways and transport provision;*
>
> ▪ *integration of two metro stations;*
>
> ▪ *a very high-end premium international customer target customer base; and*
>
> ▪ *the elevated construction costs associated with building in one of the most expensive cities in the world.*[124]

Auckland Airport agrees with Air New Zealand to the extent that every airport development is different, and that the context is important. The usefulness of JFK as a comparator is that it provides a useful reference point in terms of the timing of the projects, as they are both planned

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[122] Gold Coast Airport, (11 October 2021), *"Airport experience to take off for travellers restarting holiday and business plans"*, https://www.goldcoastairport.com.au/latest-news/airport-experience-to-take-off-for-travellers-restarting-holiday-and-business-plans

[123] Gold Coast Airport, (11 November 2022) *"Gold Coast Airport's $260m expansion ready to welcome world travelers"* https://www.goldcoastairport.com.au/latest-news/gold-coast-airports-260m-expansion-ready-to-welcome-world-travelers

[124] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.62.2

for delivery at around the same time. Given JFK is materially more expensive than the Domestic Jet Terminal development, we consider this provides a reference point that indicates the cost of the Domestic Jet Terminal is not unreasonable.

3.2.2.5 Manchester Terminal 2

Air New Zealand submitted:

> *Manchester Airport Terminal 2 Expansion is an international-capable processor and pier project which includes much higher spatial requirements for immigration, enhanced baggage systems, greater dwell times and increased customer needs and requirements. The pier will accommodate 13 gates for a variety of aircraft including Code F A380s as opposed to the proposed 12 Code C planes in the Auckland Domestic Pier. Given it is scoped as an international pier, the Manchester pier will also operate and be sized for bigger planes with greater numbers of passengers requiring more space. Air NZ does not support using this project example as a benchmark given its different scale and function.*[125]

Again, as noted above, every airport development project is different. The Manchester development is of a similar scale to the Domestic Jet Terminal in terms of the number of gates, has been delivered sooner and would have avoided the majority of the pandemic induced construction cost inflation, but will serve international passengers as well as domestic passengers. While the Manchester Terminal can serve Code F (A380) aircraft, the Domestic Jet Terminal can serve wide-body Code E aircraft. The real terms cost comparison of these projects indicates that the Domestic Jet Terminal is a cheaper project, which appears to be reasonable given the differences between the two projects, as pointed out by Air New Zealand in its submission.

Finally, Air New Zealand submits that these comparisons are inappropriate, yet it cites the costs of Perth Terminal 2, a low-cost-carrier / regional terminal with no aerobridges, using a construction cost from over 10 years ago in a construction market substantially cheaper than Auckland, as what it considers to be a valid comparison. These lines of argument in the Air New Zealand submission are not internally consistent, and in both examples, the context is important.

3.3 The existing Domestic Terminal Building

Submissions from Qantas claim that the existing Domestic Terminal Building can be used for a longer period of time for jet operations, even alongside contingent runway operations. Air New Zealand claim that they have long called for the use of the existing Domestic Terminal Building for longer. Auckland Airport has analysed these issues in detail, and consulted on these with airlines extensively. Relevant detail from the consultation record, and analysis undertaken on these matters is outlined in this section.

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[125] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.62.2

Qantas submitted that the existing Domestic Terminal Building can be used for an extended period of time:

> *The domestic terminal is not obsolete. It does not need to be partially or wholly decommissioned for the temporary contingent runway operation. The Qantas Group considers that decision to be discretionary and inefficient decision by AIAL. The domestic terminal can continue to operate during a transition period as the home for low-fares airlines and other point-to-point domestic markets, obviating the need to accommodate those flights in the integrated terminal.*[126]
>
> ...
>
> [redacted] *A more efficient and less capital-intensive approach could be achieved through a combination of gate relocation, walk out bays and apron bussing;*[127]
>
> *Two independent consultants have confirmed that the existing Domestic Terminal Building (DTB) can be maintained and used for domestic operations while the contingent runway is in operation - contrary to AIAL's position.*[128]

Air New Zealand submitted:

> [redacted]
>
> [redacted] *However, we believe that AIAL's stated intention to de-commission the DTB at the end of PSE4 was neither reasonable nor realistic at the time it set PSE4 prices.* [redacted][129]

[redacted]

[126] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 4.4.3
[127] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 2.2
[128] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 2.2.1
[129] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.57-2.58

[redacted]

3.3.1 Consultation feedback on the future use of the Domestic Terminal Building

During past consultation Auckland Airport has received feedback on the use of the existing Domestic Terminal Building over time. The relevant feedback which is important for context in response to airline submissions is outlined below.

3.3.1.1.1 November 2016

Air New Zealand also provided the following feedback in relation to the broader capital plan, when consulting on charges for PSE3 (Auckland Airport emphasis added):

[redacted]

130

3.3.1.1.2 January 2017

Auckland Airport shared further design information on three domestic concept layouts. Air New Zealand then provided the following feedback in January 2017:

[redacted]

131

3.3.1.1.3 March 2018

Auckland Airport sought feedback from Air New Zealand on an airport operations plan, in response Air New Zealand provided the following feedback:

[redacted]

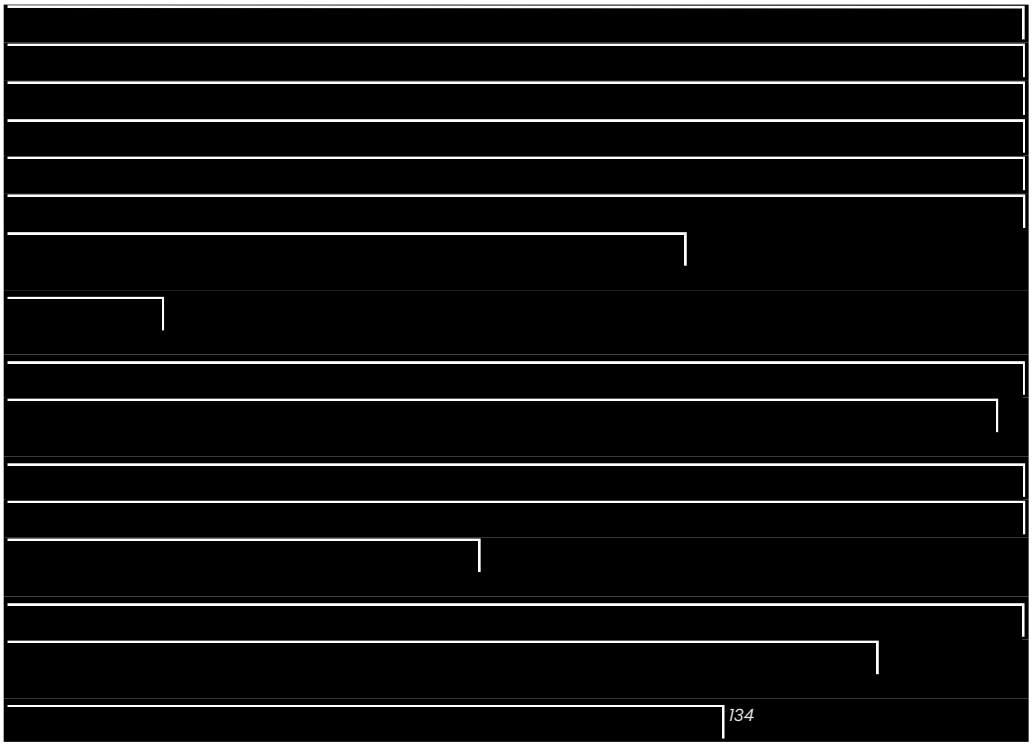
[130] Air New Zealand, (11 November 2016), *"Aeronautical Pricing Consultation – Information Pack 2 : Capital Investment Outlook"*
[131] Air New Zealand, (27 January 2017), *"Air New Zealand Feedback to Auckland Airport Limited: DP/TDP Feasibility Study, response to letter dated 20 December 2016"*

[redacted]

3.3.1.1.4 August 2019

Air New Zealand wrote to Auckland Airport to provide feedback on Project Rialto – an exercise to review the overall capital investment plan at Auckland Airport. Excerpts of this feedback included:

BARNZ also provided the following feedback on project Rialto:



3.3.1.1.5 August 2022

On 30 August 2022, Air New Zealand provided the following feedback in response to the request for feedback on the Draft Capital Plan:

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[132] Air New Zealand, (2 March 2018), "*Feedback on Airport Operations Plan (version H)*"
[133] Air New Zealand, (20 August 2019), Project Rialto feedback
[134] BARNZ, (19 August 2019), *"BARNZ Feedback on Project Rialto Refreshed Aeronautical Capital Plan"*

[redacted]

[redacted][135]

Even since 2022, when Air New Zealand [redacted]

3.3.2 Future operations of the existing Domestic Terminal Building

[redacted]

[redacted] the transition of domestic jet aircraft out of the existing Domestic Terminal Building and to the new Domestic Jet Terminal remains on track and planned for once the Domestic Jet Terminal opens, currently planned for 2029. A critical need for this change in operations - to enable efficient contingent runway operations - still holds and remains true today. Auckland Airport has made no statements that domestic operations will continue in the current Domestic Terminal Building once the Domestic Jet Terminal opens.

[redacted]

[redacted]

3.3.3 The Domestic Terminal Building and contingent runway operations

Auckland Airport has long-signalled that the realignment of Taxiway Bravo is required to enable efficient contingent runway operations, and that this is not compatible with jet operations on the southern face of the Domestic Terminal Building. Qantas submissions continue to ignore this and claim that the realignment is not required. This is incorrect.

Its submission implies that two independent consultants have confirmed that the south face of the Domestic Terminal Building can continue to operate jets and enable efficient runway operations. This is incorrect.

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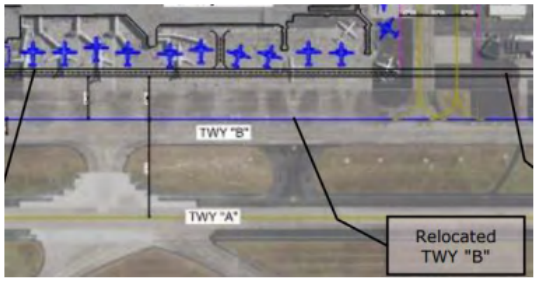
[135] Air New Zealand (30 August 2022) "*Auckland Airport PSE4 – Consultation Paper One – Draft Capital Plan – July 2022*"

Auckland Airport presumes the first consultant Qantas refers to is Arup. As Auckland Airport noted in its response to Air New Zealand on the feasibility study that was undertaken by Arup, the Arup alternative proposal acknowledged the need to realign Taxiway Bravo and relocate jet operations to enable efficient contingent runway operations, as shown below.

Figure 24: Extract of Auckland Airport response, Arup feasibility study for Air New Zealand



Re-alignment of Taxiway Bravo

- All four of the options presented by Air New Zealand acknowledge the realignment of Taxiway Bravo is required, with turboprop stands * only able to meet the clearance required
- This is consistent with the assumptions that have underpinned the Auckland Airport Capital Plan, including the Terminal Integration Programme

* Even with turboprops there remain limitations on the capacity to operate in this location pushing back onto the taxiway

If the second consultant Qantas Group refers to is [redacted], then it is wrong to suggest that [redacted] identified a feasible option to continue to operate jets on the south face of the Domestic Terminal Building.

During consultation, [redacted]

[redacted]

[redacted]

[redacted][136]

[redacted]

[redacted][137]

[redacted][138] [redacted]

[redacted]

Auckland Airport considered the options presented [redacted] and found that none of these options presented a viable alternative to the realignment of Taxiway Bravo, for many of the reasons [redacted] This feedback was presented [redacted] during a meeting on 25 of May 2023.[139]

3.3.3.1 *Provision of information during consultation*

This study undertaken by [redacted] was completed in July 2022. In September 2022 an extract from the study was provided to Auckland Airport. This extract included an image from Option 1 of the [redacted] study. When providing this information, [redacted]

[redacted]

[140]

The full report was not provided [redacted] at this time. If it were, [redacted] - would have also been supplied. This is a clear and concerning example of the apparent behaviour of some airlines, not seeking to reach constructive solutions, but rather seeking to undermine and slow progress through the consultation process by withholding relevant information, or presenting information in a biased way.

3.3.3.2 *Alternative approaches to repairs of the main runway*

During consultation, feedback has been given that Auckland Airport should consider the use of rapid set concrete for the planned slab renewals of the main runway. The rationale for this was that this would avoid the need for prolonged closure of the main runway, and that overnight repairs of runway slabs could be undertaken.

Auckland Airport has considered the use of rapid-set concrete a number of times, and was asked by [redacted] where Auckland Airport, supported by a technical engineering review from Beca, noted:

> *Rapid-set concrete was first investigated by AIAL in the late 90's and reviewed in 2013 and again in 2019, each time it was discounted as a viable option for large scale areas of slab replacement on the main runway. This led to the design and operation of the Contingent Runway in the early 2000's to reconstruct large areas of original runway pavements*

[redacted]

Experience in Australia with small scale repairs is:

- *Much more expensive than conventional concrete,*
- *Is prone to workmanship issues with surface finish, levels and early cracking requiring removal and replacement again; and*
- *The design life remains unquantified and unproven*
- *Has not been used for large scale planned pavement reconstruction (including services), with conventional concrete recommended using taxiway and apron closures, or displaced threshold and contingent runway operations*[141]

[redacted] to the example of Rarotonga Airport as an example of the use of rapid set concrete for renewals of the main runway. When Auckland Airport looked into the works undertaken at Rarotonga further, it found:

Originally due to be completed over a 7 month period between December 2020 and June 2021[1]

This was a period when borders were closed due to the pandemic, driving significantly lower traffic volumes (~1 flight per week)

Two slab replacements per week were planned, however the project fell behind, as there was not enough time to cure concrete between international flights when borders re-opened[2]

It was planned that it would take around 10 hours to repair and pour each slab[3]

It has since found that new slabs laid as part of the programme have been found to be faulty and are already cracking[4]

It was subsequently found to take around 18 hours to replace damaged slabs[5]

Air Rarotonga operates smaller aircraft (2x Saab 340B, 2x Embraer EMB, 2 Cessna) which require less runway –this would allow easier management of runway repairs[1]

Now even with borders open, there are typically a small number of flights per day

For example, 5 departures and 5 arrivals were scheduled for Thursday 25 May[2] *– 10 in total*

[141] Auckland Airport, (22 May 2023), "*Contingent Runway -* [redacted] page 4

> *Low numbers of movements, with predominantly smaller aircraft would make management of risk around overnight concrete slab renewals far simpler than at a busy airport (e.g. Auckland has upwards of 400 aircraft movements per day)*[142]

Further engagement with other airports that have used rapid set concrete in other areas of the airfield that are less critical than a runway if there is a failure (e.g. taxiways and aprons) indicates that where rapid set concrete has been used there have been quality issues that have emerged over time.

During the planning for the current concrete pavement maintenance programme, expert consultants Beca were engaged to carry out an "Airfield Pavement Type Options Study" to review a number of options for replacing the existing airfield pavement, this study considered Asphalt on granular basecourse, Asphalt on cementitious basecourse, conventional Portland cement concrete ("**PCC**") pavement, precast options and rapid-set cement concrete. The study compared initial cost, Whole of Life Cycle Costs, as well as a weighted review based on assessment criteria such as construction duration, rebuild time/cost following design life, health and safety risks, both construction and operational, service performance etc. In all three cases the recommended pavement type was conventional PCC pavement.

Therefore, when considering the runway renewals, based on the information available on the application of rapid set concrete, it was not considered a viable alternative to be applied at Auckland Airport given the risk that would come with using the technology, and the significant impacts this would have on runway operations, if failures seen elsewhere eventuated.

As a single runway airport ensuring that the main runway is resilient is paramount, particularly when compared to other airports that may have multiple runways and can maintain operations if one becomes unavailable due to pavement issues. A recent incident on the runway at Perth Airport where an aircraft tore up the runway on take-off demonstrates that runway resilience should not be taken for granted.

3.3.4 Replacement of the capacity of the existing Domestic Terminal Building

Airline submissions, including those from Air New Zealand, fail to recognise that the Domestic Jet Terminal is a replacement facility for the existing Domestic Terminal Building. This reflects a set of contradictions in airline submissions where on the one hand they claim that Auckland Airport's investment plans are too large, but on the other hand criticise these plans because not enough capacity is being delivered.

3.3.4.1 Airline views on replacing existing Domestic Terminal Building jet capacity

Air New Zealand submitted:

> *For $2.1bn, AIAL will be replacing an existing 11 Code C contact stands and four remote stands (15 in total), with 12 Code C contact stands and three remote stands (still 15 in total), i.e. there is no increase in the total number of stands –*

[142] Auckland Airport, (25 May 2023) "*Rarotonga International Airport Slab Renewals*"

> *the sole gain being one additional contact stand, at the expense of a remote stand.*[143]
>
> *The number of stands are key to meaningfully increasing airport capacity, as the availability of more stands (particularly contact stands) during peak periods is the critical throttle to capacity growth for both existing and new entrants.*[144]
>
> *Air NZ believes investment in domestic capacity is not only required, but overdue. However, Air NZ is concerned that AIAL is investing a significant amount but not actually delivering a material increase in capacity, especially if AIAL proceeds with demolishing capacity in the existing (old) domestic terminal as soon as the replacement gates are built in the new domestic terminal.*[145]

As the consultation record outlined earlier in this section evidences, replacing the existing Domestic Terminal Building is something that Air New Zealand has previously supported but it now criticises in this review. These reasons and arguments against the Domestic Jet Terminal development would hold equally to Auckland Airport's plans in 2021, yet these plans were publicly supported by Air New Zealand and BARNZ. [redacted]

Qantas Group submitted:

> *The Qantas Group considers that, contrary to the Commission's initial findings, AIAL is not delivering its objectives efficiently. For instance:*
>
> *• AIAL's project delivers minimal incremental capacity (one bay) by rebuilding all the existing domestic capacity. The project builds 12 gates at a cost of $3.2bn, to get one additional gate beyond current;*
>
> *• AIAL is proposing to wind-down the domestic terminal to solve for a short-term contingent runway challenge. A more efficient and less capital-intensive approach could be achieved through a combination of gate relocation, walk out bays and apron bussing; and*
>
> *• The Qantas Group considers that retaining the domestic terminal and building the integrated terminal incrementally would defer a further ~$600m of PSE4 investment; and potentially generate further reductions in PSE5 as the build-out of the terminal is phased.*[146]

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[143] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.67
[144] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.68
[145] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.69.
[146] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 2.2.

Addressing these points in sequential order:

- This first claim ignores that the Auckland Airport Master Plan has long-signalled the replacement of the existing Domestic Terminal Building (as its location acts as a hard constraint on long-run airport capacity), cites incorrect and inflated cost figures, and ignores shorter-term drivers of the need of the project to enable renewals of the main runway which necessitate the loss of capacity in the existing Domestic Terminal Building. It also ignores the uplift in seat capacity that is being achieved with the same number of gates enabled by facilities that can serve larger aircraft – the most efficient way for airlines to grow capacity.
- This second claim ignores that Auckland Airport has considered all alternatives presented through consultation to avoid the impacts on the existing Domestic Terminal Building of contingent runway operations, [redacted] but these alternatives were not found to be viable. At no point an alternative that included 'gate relocation, walk out bays, and apron bussing' has been presented to Auckland Airport Auckland Airport notes that a schematic of an alternative airfield configuration is included in the Qantas submission. This alternative layout has not previously been provided to Auckland Airport for consideration, but is very similar to options presented by Air New Zealand that were not considered to be viable.[147] [redacted] This proposal is very similar to one options 2-4
- This third claim makes statements around capital cost impacts, but how these have been determined or estimated has not been set out in the Qantas submission. How an integrated facility could be built incrementally remains unclear and implausible in the way Qantas describe. Without further justification of these claims, the Commission should give them no weight in this review.

3.3.4.2 Categorisation of investment plan

Air New Zealand submitted:

> *Air NZ considers that the categorisation of such a significant amount of capex as "capacity growth" is incorrect, when AIAL's own information indicates the primary driver is renewal and replacement. The integrated terminal is a clear example of this.*[148]

3.3.4.2.1 Categorisation during consultation

During consultation, Auckland Airport received a request from a Substantial Customer to categorise the projects included in the capital plan into the following categories:

- Growth/capacity increases

[147] Auckland Airport (19 December 2023), *"Analysis of Feasibility Study – AKL Domestic Terminal Options"*, p.5
[148] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 3.67

- Replacement of end-of-life assets
- Meeting current and future regulatory requirements
- Safety improvements

We then sought to meet this request, but some changes to the categories were made largely to reflect that category 3 reflects 'compliance' activities. Furthermore, the safety improvements category was not used, as safety is a non-negotiable driver which is considered when delivering every capital project across the airport.

We then categorised each of the projects in the capital plan with these categories, based on our assessment of the key drivers. Given that most projects had multiple drivers, we identified the 'primary driver' of each project, as well as 'secondary factors' that also contributed to the need for the project. These drivers not only considered the type of investment, but importantly the driver for the timing of that investment.

This analysis and categorisation was then shared with the Substantial Customer that requested the information through consultation, and these categories were then carried forward into the scope sheets used for consultation.

Through this exercise, the Domestic Processor project was categorised as a replacement project, given:

- the Domestic Terminal Building was nearing the end of its useful life and that it is not envisaged in the long-run airport master plan; and
- the need to close the main runway for pavement renewals by the end of the decade, which required the operation of a contingent runway at Auckland Airport (as contingent runway operations are not compatible with the existing Domestic Terminal Building, this meant the timing of a replacement facility was driven by the timeline of required runway renewals).

'Growth / Capacity' was recognised as a secondary factor given that it added additional domestic jet capacity over and above the existing Domestic Terminal Building, and that it was a key facility to unlock long-run capacity growth under the Auckland Airport Master Plan (which does not include the existing Domestic Terminal over the long-term).

3.3.4.2.2 Categorisation for price setting disclosure

When it came time to prepare the price setting disclosure, there were two key considerations in categorising the capital investment plan, these included:

- the definitions of asset categories as set out in the Information Disclosure Determination; and
- the categorisation of capital investment programmes included the PSE4 disclosures, relative to the categorisation of individual projects that was requested by a Substantial Customer and used in the reasons paper.

The information disclosure determination provides the following definitions when classifying capital investment:

- **Capacity growth** means capital expenditure incurred predominantly to provide for increased capacity; and

- **Asset replacement and renewal** means capital expenditure predominantly associated with the progressive physical deterioration of assets or their immediate surrounds, or capital expenditure arising as a result of the obsolescence of assets and *excludes* capacity growth capital expenditure.

These definitions provided less flexibility than the earlier assessment in that:

- all investment can only be categorised into one category; and
- the 'asset replacement and renewal' definition explicitly excludes capacity growth capital expenditure.

Accordingly, due to these definitions under the Information Disclosure Determination, a more conservative approach to AIAL's PSE4 disclosures resulted, whereby AIAL classified more investment as capacity growth, as compared to the approach that was taken through consultation.

4 Cost of capital

Auckland Airport has provided the Commission with extensive detail on how the cost of capital was set as part of the PSE4 pricing decision.

4.1 Submissions in support of Commerce Commission scenarios

Airline submissions support the Commission's assessment of the cost of capital, favouring scenario 1 as a relevant benchmark. As Auckland Airport set out in our submission to the Draft Report:

- **the first scenario is not forward looking** - in that it does not reflect pandemic risk, and continues to apply a downwards adjustment related to aeronautical risk which has now been disproven. A forward-looking estimate is a key criterion of the Commission's approach to determining the cost of capital.
- **the second scenario does not reflect the precedent set in the 2016 IM and contains coding errors** – this has resulted in the WACC of this scenario being under-stated.[149] NZ Airports and Christchurch Airport also submitted on the issues with this scenario.

In the event, after having considered this evidence, there remains a gap between the Commission's mid-point WACC and the PSE4 target return, we expect that the Commission will consider other reasons that could explain the difference, giving due regard to the evidence presented in our submissions including past precedent. We provided evidence as to why compensation for asymmetric risk, Auckland Airport's operating leverage, the heightened post-pandemic inflationary environment and the observed Auckland Airport asset beta, are all reasons why a target return above the mid-point WACC estimate should be considered to be reasonable.

4.1.1 Current environment further demonstrates the risks faced by Auckland Airport

Auckland Airport's target return also needs to account for risk that arises due to externalities outside of its control including the actions of airlines which reduce demand. Given the market concentration of airlines in New Zealand, these actions can have a disproportionate impact on Auckland Airport's returns when compared to its peers.

For example, choices by airlines on aircraft engines have recently been seen to significantly impact passenger volumes at Auckland Airport given the market concentration at Auckland. Air New Zealand's well publicised engine maintenance issues have resulted in domestic passenger recovery post COVID averaging c.90% for the last twelve months, significantly lagging that seen at Australian hub city peers of Auckland Airport.

[149] It is unclear to Auckland Airport how the Commission proposes to revisit any findings in the Final Report that are based on the 2023 IM if the 2023 IM is subsequently changed to address the errors or following the merits review. In addition to all of the reasons explained in this submission as to why the 2023 IM is substantively an inappropriate benchmark to assess Auckland Airport's PSE4 WACC, if it is relied on the Final Report, it will create regulatory uncertainty.

This disruption was not flagged by Air New Zealand as part of the airport's PSE4 consultation and is not short term in nature, with Air New Zealand indicating it is expected to continue for a number of years. [150] As a result, it represents a significant headwind to Auckland Airport achieving its PSE4 passenger forecast.

4.2 Claims of a 'WACC margin' being targeted

Auckland Airport notes that some submitters have incorrectly claimed that Auckland Airport targeted excess profits in previous price setting periods, by targeting a 'WACC margin'. Air New Zealand submitted:

> *The Commission made similar excess profits findings against AIAL in 2001, 2013 and 2017. This demonstrates a pattern of behaviour by AIAL that is not consistent with a simple calculation error or misapplication of the Input Methodologies. The Commission's assessment of excess profits in PSE4 is around three times the size of the Commission's largest previous excess profit assessment, suggesting that AIAL is becoming emboldened over time. We would expect the opposite to be true if ID was effective, given that ID is supposed to 'shine a light' on a regulated firm's conduct.* [151]

> *The Commission has determined that AIAL has targeted excess returns (above the appropriate mid-point) at each of the past three price setting events. This WACC margin is shown in the figure below.* [152]

Submissions from BARNZ make similar claims. None of the claims accurately reflect the Commission's previous findings, which Auckland Airport expects the Commission would agree with.

As the Commission has stated many times, an airport can target a return above the industry wide mid-point estimate provided the adjustment is fully justified as reflecting airport specific circumstance. In such a case, the return above the mid-point would not represent excess profits:

> *If each of the individual parameter adjustments are acceptable, and there are no other off-setting considerations, then we consider that airports have legitimate reasons to target above our mid-point WACC estimate.* [153]

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[150] Air New Zealand, (7November 2023), *"Air New Zealand schedule update – Pratt & Whitney engine impacts"*,
[151] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 5.9
[152] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 1.6
[153] Commerce Commission, (17 July 2024), *"Review of Auckland Airport's 2022-2027 Price Setting Event - Consultation Paper"*, paragraph 2.14

In both PSE2 and PSE3 the Commission considered that Auckland Airport was justified in targeting a return above the mid-point and that the Airport's behaviour was consistent with the purpose of part 4. As noted by the Commission in its review of PSE2:

> *Based on the charges that Auckland Airport set last year, our conclusion is that information disclosure regulation is limiting excessive profits. Auckland Airport targeted returns over the current five-year pricing period which, while above our assessment of a normal return, are not so high as to suggest that the airport would be expected to extract excessive profits*[154]

> *We do not agree with BARNZ's (Board of Airline Representatives NZ) argument that information disclosure can never be effective at limiting excessive profits, simply because information disclosure is not price control.*[15] *We recognise that airports can set prices as they see fit under the AAA. However, as discussed in Attachment A, Parliament intended that information disclosure would influence price setting by airports. In Auckland Airport's case, our conclusion is that information disclosure has done so, and done so effectively*[155]

The Commission observed the following in PSE3:

> *Overall, we consider there is some evidence indicating an appropriate target return for Auckland Airport may be above our mid-point WACC estimate*[156]

Auckland Airport acknowledged in PSE3 that while the Commission was comfortable with a return above the mid-point, there was some uncertainty as to the amount that was reasonable. In response, Auckland Airport reduced its prices.

NZ Airports Association also provided a good summary on this issue:

> *While the Commission has made some adverse draft findings on profitability, NZ Airports wishes to emphasise that this is not a case of an airport disregarding the regulatory settings. It is not a sign of regulatory failure. To the contrary, Auckland Airport was seeking to follow the regulatory precedent in place at the time it set prices. The Commission's views on appropriate methods have changed since Auckland Airport set prices, and those views have informed its draft findings, with the benefit of hindsight. Auckland Airport has already publicly indicated that it will respond if the Commission's final report for this review ("Final Report") maintains that Auckland Airport's prices are too high.*

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[154] Commerce Commission, (31 July 2013), *"Final report to the Minsters of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Auckland Airport"*, page 3

[155] Commerce Commission, (31 July 2013), *"Final report to the Minsters of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Auckland Airport"*, paragraph 2.11

[156] Commerce Commission, (1 November 2018), *"Review of Auckland International Airport's pricing decisions and expected performance (July 2017 – June 2022) – Final report"*, paragraph X20

> *Accordingly, our strong view is that this PSE4 review is an excellent example of the information disclosure regime working as it should for the benefit of consumers. Auckland Airport and its customers were provided with flexibility to seek appropriate solutions in challenging circumstances, and now the outcomes are being rigorously tested by the Commission with the potential for further adjustments to be made.* [157]

Air New Zealand submitted:

> *In particular, Air NZ submits that AIAL's consistent WACC margin at price setting creates a strong incentive to over-invest.* [158]

This claim is not consistent with previous claims to this review by Air New Zealand that Auckland Airport has failed to invest sufficiently in the past. This is another example of inconsistent claims made by Air New Zealand in this review.

[157] NZ Airports Association, (3 September 2024), "*Review of Auckland Airport's 2022-2027 Price Setting Event Submission on Consultation Paper",* paragraph 7.
[158] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 1.12

5 Expected profitability

Airline submissions raise a number of issues related to Auckland Airport's expected profitability. As set out in this section many of the claims made by airlines either have no valid basis or have already been considered through consultation. This demonstrates the thoroughness of the consultation that Auckland Airport has undertaken in setting charges for PSE4. In relation to the issues that Auckland Airport previously consulted on, there are examples where airlines have now changed their mind and adopted a different position in this review.

Key issues addressed in this section include:

- **Price elasticity of demand** – the BISOE study presents results that are completely dependent on disproven assumptions which exaggerate the impacts estimated in the study. These assumptions were not only disputed by expert advisors, InterVISTAS, but were also questioned by Skylark – the peer reviewer of the study that was Commissioned by BARNZ. Most importantly, real world examples of Air New Zealand's fare increases and public comments by its Chief Executive also invalidate these assumptions. Accordingly, the results of this study should be disregarded.
- **Tilted annuity depreciation** – airline submissions support the Commission's view that this non-standard approach to depreciation should be adopted – [redacted] Airline submissions also support the use of tilted annuity depreciation as a price smoothing tool. Auckland Airport sets out why the use of any tools to smooth prices and their implications must be carefully considered to ensure the impacts are understood and incentives to invest are not undermined.
- **Accelerated depreciation –** this was adopted for investment in the existing Domestic Terminal Building given it was forecast to be decommissioned by 2030. [redacted]
- **Operating expenditure forecasts** – claims from airlines that operating costs are too high or have not been appropriately allocated are disproven through the evidence presented. Air New Zealand's submissions on allocation of operational costs [redacted]
- **Wash-up mechanisms –** submissions from airlines object to mechanisms that have been carefully designed to appropriately balance risk, a balance which the Commission has recognised but airline submissions ignore. Continued objection to these mechanisms demonstrates a desire for Auckland Airport's upside risk to be limited, but its downside risk unchanged.

These issues are now addressed in detail in the sections below.

5.1 Price elasticity of demand

BARNZ has shared the BISOE elasticity study that was updated this year with Auckland Airport un-redacted on a confidential basis. Auckland Airport is committed to maintaining the confidentiality of this study and therefore significant portions of this section are redacted in the public submission.

Auckland Airport has included some further detail below in response to specific points raised by BISOE, addressing the points raised in its document *Response to airport comments, report produced for BARNZ*. This response is supported by InterVISTAS, who have reviewed and responded to the points raised in this submission. Their independent advice is attached to this submission.

Auckland Airport has also provided the InterVISTAS elasticity studies to the Commission confidentially as part of this submission.

5.1.1 Data driven approach vs literature review

Auckland Airport and InterVISTAS remain comfortable that the literature driven approach has produced a reliable estimate of elasticity.

> *BISOE states that its analysis relies on direct estimates of the price (fare) elasticities rather than use elasticities based on a literature review as was the case for the InterVISTAS analysis for Auckland Airport. BISOE argues that its approach is more accurate, in part because "air-travel markets have changed significantly over the last decade." (page 3). We view that the body of research on air fare elasticities developed over several decades is highly relevant as this establishes known elasticities values used within the industry and the market and economic factors that can affect these elasticities. Many of the studies we have cited have been used elsewhere in recent times to evaluate aviation demand responses. For example, the 2007 IATA study referenced both by ourselves and BISOE has been used by researchers examining the impact of recent EU policy. In addition, our literature review encompassed studies published as late as 2022, and therefore does reflect the current conditions in air markets including the development of low cost carriers.* [159]

A literature review also formed a key part of the study undertaken by BISOE, which was supplemented with data analysis. BISOE's literature review supported the findings of InterVISTAS and primarily quoted a 2007 IATA study which was conducted by InterVISTAS.

> *The reports by BISOE also contains a literature review in support of their analysis. However, it is not possible to evaluate the elasticities estimated and used by BISOE as the publicly available reports submitted redact any*

[159] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 1

> *information on the analysis undertaken and the estimated price elasticities. Therefore, the assertion by BISOE that its own analysis is somehow more accurate cannot be substantiated.*[160]

It is worth noting that BISOE disregarded data where the data did not return statistically significant results and/or it was not in line with its expectations formed through the literature review. [redacted]

5.1.1.1 Comparison of price elasticity estimates

[redacted]

Auckland Airport, therefore, remains comfortable that the analysis undertaken by InterVISTAS for the purpose of PSE4 was robust and provided a fair reflection of the likely elasticity impacts of forecast price increases.

5.1.2 Route level vs national level elasticities

Auckland Airport and InterVISTAS agree that the appropriate level is a function of the choices available to the consumer. In some markets, it might be appropriate to use route level elasticities when assessing the elasticity of airport price increases. However, a price increase at Auckland Airport is much more reflective of national level elasticities given that Auckland Airport is a hub for both Air New Zealand and Jetstar.

As noted by InterVISTAS:

> *The BISOE note argues for the use of route-level rather than national-level elasticities, the former implying a greater demand response to price changes than the latter. We agree with BISOE that the appropriate fare elasticity is a*

[160] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 1

[redacted]

> *function of the choice set available to the consumer and discuss this at length in our report for Auckland Airport. To give an example, a fare increase by an individual airline will likely result in a strong demand response for that airline as consumers can switch to other, cheaper airlines (assuming multiple airlines are available). However, if all airlines increase their fares (e.g., due to cost increase), the demand response is likely to be less strong as consumers cannot switch airlines to avoid the fare increase (there will still be a demand response as consumers can switch modes, not travel or seek other alternatives). Similarly, if a fare increase applies to all routes from an airport, as would be the case for Auckland Airport, the demand response will be proportionately less than if the fare increase is applied to just one route (passengers cannot substitute routes from that airport to avoid the fare increase).* [163]

InterVISTAS looked at the market data, which does verify that Auckland Airport makes up a large share of the New Zealand aviation market, with 64% of domestic capacity flying through Auckland Airport, which includes 80% of domestic jet capacity – which further supports the adoption of national level elasticities.

> *Our selection of elasticities is based on the realistic choice set available to passengers travelling through Auckland Airport. The airport serves the largest population centre in New Zealand as well as the country's business and financial centre. The airport is also a hub for Air New Zealand and Jetstar. It is the best located and most well served airport for domestic and international passengers wanting to travel to/from the city of Auckland. In 2023, 64% of domestic capacity started or end at Auckland Airport (80% of jet services and 44% of regional turboprop services).* [164]

5.1.2.1 Substitution of travel modes

BISOE state the following on substitution:

> *InterVISTAS states that modal substitutions could realistically only account for a small portion of domestic passenger movement and the available options would be limited – with the additional travel costs and limited options for substitutions deterring passengers from switching. However, we believe this understates the significance of personal vehicles as a competing mode of transport. While we have been unable to locate data specifically for New Zealand, the US Bureau of Transportation Statistics does report on the modal mix for different travel distances.*$_6$ [165]

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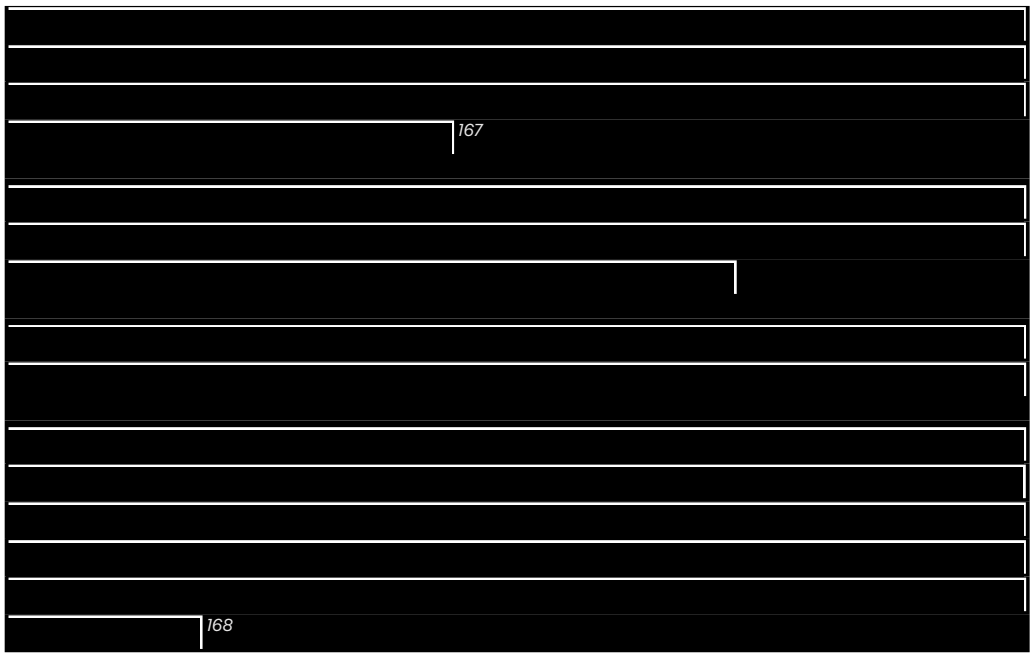
[163] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 1
[164] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 1
[165] BIS Oxford Economics, (3 September 2024), *"Response to airport comments – report produced for BARNZ"*, page 5

Auckland Airport does not consider that the data from the United States has any valid use in the New Zealand context given the different nature of the highway system in New Zealand compared to the United States. Auckland Airport agrees with InterVISTAS' assessment of this comparison:

> *BISOE argues that the potential for mode shift is substantial by showing U.S. travel data (a detail omitted in the chart header). This data is irrelevant to their argument being made for two reasons. Firstly, the U.S. has a very different population distribution and geography to New Zealand. It is possible for a large proportion of Americans to travel long distances on high-speed highways with few physical barriers. Driving from Auckland to Wellington takes 7-8 hours (without stops) compared with a 70 minute flight time; driving to anywhere on the South Island would also require a ferry crossing. Secondly, the fact that some or even a majority of travellers choose to travel by car infers little about the price sensitivity of those choosing to travel by air. The reasons for mode choice go beyond price – convenience, trip purpose, travel group size and needs, etc.* [166]

What Auckland Airport does consider relevant is the following passages from the BISOE report:



Why the above passages have been redacted by BARNZ remains unclear to Auckland Airport. They do not contain any airline or BISOE confidential information.

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[166] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 2
[167] Oxford Economics Australia, (21 May 2024), *"Flight price elasticity study: Domestic Markets – report produced for Board of Airline Representatives New Zealand"*, [redacted]
[168] Oxford Economics Australia, (21 May 2024), *"Flight price elasticity study: Domestic Markets – report produced for Board of Airline Representatives New Zealand"*, [redacted]

Skylark commented on this issue, as part of its peer review of the study, which was not redacted in the public submission:

> *OE comments that substitution effects in the New Zealand and Auckland context are limited given geographical factors. This generally accounts for the relatively low elasticities that OE presents. Skylark agrees with this assessment*[169]

[redacted]

The limitation of mode substitution effects in New Zealand is supported by the Skylark peer review and InterVISTAS, which notes:

> *The nearest alternative airport to Auckland with any overlapping service is Hamilton Airport, 135 kms away, but it offers a more limited range of domestic routes at lower frequencies (largely Wellington, Christchurch and Palmerston North).*[170] *For example, it offers 3-4 times daily service to Christchurch, compared with over 20 times per day at Auckland. Other alternative airports, such as Rotorua and Tauranga are even more distant (approximately 235 kms and 205 kms respectively) and have a smaller range of services. Using these alternative airports can also impose additional costs due to passengers having to travel further to reach the airport.*
>
> *In 2023, Auckland Airport accounted for 77% of seat capacity to international destinations and 95% of seat capacity to non-Australian destinations.*[171] *As a result, there are limited options for international passengers to travel to an alternative airport in New Zealand (largely Christchurch or Wellington), assuming that switching destinations is a possibility.*[172]

The findings regarding mode substitution by InterVISTAS and Skylark both provide further support for the approach to adopt national-level elasticities that was adopted by InterVISTAS in its study. [redacted]

5.1.3 Airline revenue management and allocation of price increases

The assumptions taken by BISOE of how any increases in the price of aeronautical charges would flow through into airfares is the key area where Auckland Airport disagrees with the approach taken by BISOE, which BISOE also acknowledges:

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[169] Oxford Economics Australia, (21 May 2024), *"Flight price elasticity study: Domestic Markets – report produced for Board of Airline Representatives New Zealand"*, Chapter 6, page 40.
[170] Seasonal service to Sydney and the Gold Coast in Australia is planned for 2025.
[171] Source: Cirium Diio Mi schedule data.
[172] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 2

> *The method of allocating price increases to passengers is another key point of contention, with Auckland Airport/InterVISTAS suggesting that price increases would be allocated to less price sensitive passengers with more expensive undiscounted tickets rather than sale (discounted) fares.*[173]

BISOE explains further that it considers that there are two opposing factors that would determine how airlines pass through changes in airport charges through to airfares, the relative elasticity of different fare classes, and the profitability associated with different fare classes. BISOE (Auckland Airport emphasis):

> *While the elasticity factor (1) is highlighted in Auckland Airport's "Reasons Report", the profitability factor (2) is not. Given the conflicting nature of these two factors, it may not be immediately obvious what the net impact of airline revenue management is likely to be. The net result is determined by the size of the relative differential of elasticities between high and low fare customers, and the size of the differential between the total profit associated with those customer types. We expect the latter factor will be more prominent,* ***driving airlines to allocate a large portion of costs to low fare passengers****, resulting in a larger decline in passenger volumes than suggested by Auckland Airport and InterVISTAS.*[174]

The key point Auckland Airport disagrees with is that BISOE assumes that airlines will allocate a large portion of costs to low-fare passengers, and importantly airfares. This is a fundamental assumption adopted in the BISOE study, that drives the key findings of the study which quantify impacts on passenger volumes.

As we set out below, this assumption is not reasonable or reflective of real-world practice. Auckland Airport considers that this renders the demand impact results of the BISOE study meaningless.

5.1.3.1 Skylark peer review disagrees with BISOE assumptions

In undertaking its independent peer review, Skylark found that it has reservations with the methodology adopted by BISOE. Specifically, it was concerned that allocating cost increases only to the lowest fare tickets is inconsistent with actual airline behaviour. As noted by Skylark:

> *typical airline pricing behaviour means increasing airport charges may not directly result in the expected loss of traffic. This is because airlines are aware that higher fare classes are relatively inelastic, and so they have a tendency to pass cost increases on to those classes in a disproportionate manner. Taken to the extreme – as a thought experiment – cost increases passed solely to the highest fare class are likely to result in higher cross-fare substitution and a lower*

[173] BIS Oxford Economics, (3 September 2024), *"Response to airport comments – report produced for BARNZ"*, page 7
[174] BIS Oxford Economics, (3 September 2024), *"Response to airport comments – report produced for BARNZ"*, page 7

> *level of aggregate traffic loss than if fares are increased uniformly across all fare classes. This will, of course, result in a reduction in average fare prices and lower airline margins.*
>
> *Airline response strategies may also include the early closure of lower fare classes in an attempt to maintain overall yields (i.e. there are fewer tickets at lower price points). Finally, airlines may also choose to absorb some or all additional costs and accept the loss of margin as the cost of retaining traffic.* [175]

This peer review was not commissioned by Auckland Airport, it was independently commissioned by BARNZ and BISOE as part of commissioning this study. Auckland Airport agrees with the assessment of Skylark.

5.1.3.2 InterVISTAS disagrees with BISOE assumptions

InterVISTAS contemplated this point in response to questions raised by airlines during the PSE4 pricing consultation.

Advice from InterVISTAS in May 2023 noted:

> *Comments received noted that the increase in airport charges would disproportionately impact sale (discounted) fares. However, the revenue management pricing used by airlines will likely result in the cost impacts being allocated based on willingness to pay rather than uniformly across all passengers. As with any other cost increase (such as fuel), it is unlikely that airlines would impose the increase uniformly for every passenger. So, rather than all passengers experiencing the same dollar increase in fares, more expensive undiscounted tickets (typically bought by high willingness-to-pay passengers) will incur a greater dollar increase while more price sensitive passengers on discount (or sale) tickets will incur a smaller dollar price increase. This is in line with well-established revenue management practices which seeks to minimise the demand and revenue impact of cost increases.* [176]

We asked InterVISTAS to respond to the BISOE submission *Response to Airport Comments, report produced for BARNZ*. InterVISTAS have elaborated on its earlier advice responding to the BISOE submission to this review:

> *Our key point was that airlines engage in sophisticated revenue management in order to maximise profits, and this will determine how and to what extent the cost increase is passed onto passengers. Revenue management means that pricing is not primarily cost-based and is instead driven largely by competitive factors and willingness to pay by behavioral passenger groups. Therefore, the allocation of any cost increase, if it is passed through to the passenger (pass-*

[175] Oxford Economics Australia, (21 May 2024), *"Flight price elasticity study: Domestic Markets – report produced for Board of Airline Representatives New Zealand"*, Skylark Review section 6.3.1
[176] InterVISTAS, (16 May 2023), *"Response to Feedback re Draft Pricing Proposal – Elasticity Report"*, page 4

through is discussed further in the next section), is a function of market dynamics and passenger willingness to pay. [177]

5.1.3.3 Air New Zealand's real-world behaviour is not consistent with BISOE assumptions

Airfares have increased significantly following the pandemic, with significant airfare increases on pre-pandemic levels. More recently, Air New Zealand has increased its domestic airfares a number of times this year.

In February 2024, Air New Zealand was quite public that its costs had increased, and that it would be increasing airfares. In media interviews concerning the increases, Air New Zealand Chief Executive Greg Foran stated that price increases are carefully calibrated:

> *It depends really on how the capacity plays out, because what you don't want to do here is just apply a blanket approach. You know, if there's more demand in a particular area you can often get a little bit more pricing out. If there's less demand, the last thing you want to be doing is flying empty planes.* [178]

The above statement is explicit that Air New Zealand does not apply the same dollar cost increase to all airfares if it were to impact on demand. This is inconsistent with the assumptions adopted by BISOE.

In April 2024, Air New Zealand advised travel agents that domestic airfares sold through travel agents would be increased further.[179] These increases to domestic airfares are outlined in the figure below.

Figure 25: Average Domestic Fare on Air New Zealand by Fare Basis Code – Direct Services

Fare Category:	P	K	X	G	S	L	T	W	V	Q	H	M	B	Y
Direct Fare - 5 March 2024	$67	$77	$91	$106	$124	$144	$165	$188	$213	$239	$266	$294	$326	$364
Direct Fare - 23 April 2024	$79	$89	$105	$123	$144	$166	$191	$217	$245	$275	$306	$339	$376	$420
Difference	$11	$11	$14	$17	$20	$22	$25	$29	$32	$36	$40	$45	$50	$56
% Increase	17%	14%	15%	16%	16%	16%	15%	15%	15%	15%	15%	15%	15%	15%

Source: www.airnzagent.co.nz, includes rounding, note airfare data is no longer published by Air New Zealand on this website

Auckland Airport notes that:

- airfare increases across fare categories were generally proportional to the base airfare, with a range of 15-17% increases applied across all fare categories;

[177] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 3
[178] Radio New Zealand, (22 February 2024), *"Air NZ half year profit down 39%: Price hikes to be expected"*, https://www.rnz.co.nz/national/programmes/checkpoint/audio/2018927192/air-nz-half-year-profit-down-39-price-hikes-to-be-expected
[179] New Zealand Herald, (19 April 2024), *"Air New Zealand warns travel agents of increase in domestic fares"* https://www.nzherald.co.nz/business/air-new-zealand-warns-travel-agents-of-increase-in-domestic-fares/SIYOMDU2GNFGTGXPAPXNS542VE/

- the dollar value increases varied by fare category – cheaper airfares were increased by a lower dollar value – e.g. $11 for P – and more expensive airfares by a greater dollar value – e.g. $56 for Y;
- this approach to increasing airfares is contradictory to the assumptions adopted by BISOE in its elasticity study – if these assumptions held true then at the very least each airfare category would have increased by the same dollar amount; and
- even in the lowest fare category (P) these airfare increases in domestic airfares were greater than the entire value of the Auckland Airport domestic jet airport charges per passenger for that financial year ($10.25), airfare increases in the highest category were five-times this amount.

Auckland Airport considers this is further real-world evidence that invalidates the key assumptions adopted by BISOE. InterVISTAS agrees:

> *In fact, different behaviour can be observed by examining fares offered by Air New Zealand for domestic flights in March and April of 2024, shown in the table below (provided by Auckland Airport). This data was published by Air New Zealand online and collected by Auckland Airport over time. Average fares are shown for each fare basis code (P through Y). This code helps identify the rules applicable to the fare. For example, cheaper fares in code P are generally made available first for more price sensitive passengers willing to book well in advance of the flight. In contrast, the Y fare code has a much higher fare that is charged to high willingness-to-pay passengers who may be booking closer to the time of the flight. As can be seen, the range of fare levels is wide, based in part on passenger willingness to pay: the Y fare is over five times the P fare. Between March 5, 2024 and April 23, 2024, domestic air fares increased 15% overall. What is interesting to note is that all fare categories increased largely proportionally – between 14-17%. So, while the Y fare increased by $56, the P fare increased by only $11.*
>
> *This contradicts BISOE's argument that fare increases will be applied uniformly. In fact, this analysis shows that, in practice, the opposite can and does occur.* [180]

5.1.3.3.1 Application of BISOE elasticities to Air New Zealand agent fare data

To demonstrate why the application of BISOE elasticities to minimum sale fares can exaggerate demand impacts, the below table sets out the impact of applying the BISOE estimated elasticities to the minimum fare category P published by Air New Zealand, which increased by $11 or 16%. The table below sets out the demand impacts on overall passenger volumes, using the BISOE methodology. As the BISOE elasticities are confidential, the results of this analysis have been redacted from the public submission.

[180] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note", pages 3-4*

Table 4: Application of BISOE elasticities to 2024 Air New Zealand fare increases on category P

If the BISOE study is accurate in the way that it is applied, then the $11 airfare increase levied by Air New Zealand earlier this year on category P fares would have reduced overall demand on the four trunk routes from Auckland by between [redacted] Auckland Airport does not consider that this is a likely or plausible outcome due to these changes in airfares introduced by Air New Zealand, and demonstrates the flawed approach of the BISOE study.

5.1.4 Supply response and pass-through to airfares

BISOE also points to supply responses from airlines as a result of higher costs. InterVISTAS responded to BISOE's comments on the supply response to an increase in costs. Its objections to this were also shared by Skylark.

> *This section of the BISOE note is largely making the same argument as the previous section, that cost increases will be passed on to all passengers and fare categories by the same $ amount. As we have observed in the last section, airline behaviour counter to this has been observed.*
>
> *What BISOE seems to fail to consider is whether in fact airlines will pass on the entire cost increase to passengers. As we document in our report, there is empirical evidence that airlines do not always pass on the full cost increase. Due to market conditions, cost pass-through can be as low as 43%. This is consistent with economic theory around markets with imperfect competition. This was also raised in the Skylark Consulting review of BISOE's work:*
>
> *"airlines may also choose to absorb some or all additional costs and accept the loss of margin as the cost of retaining traffic."*
>
> *As we note in our report for Auckland Airport, there are various and often opposing factors that might affect the level of pass-through. Based on the literature on this topic and the competition and congestion conditions at Auckland Airport, it was determined that a pass-through of 60% was the minimum that might be expected. In our analysis, we modelled a scenario with a 60% pass-through, which as might be expected, results in a smaller demand response than full pass-through. However, we recognised that there could also be a supply-side response to higher airport costs, e.g., airlines might choose to reduce capacity on less viable routes rather than lift air fares to pass on the*

> *increased airport charges. While not directly modelling the supply response, we also provided results at 100% pass-through, which may be more reflective of the impact of a possible long term supply side response. That said, it is not clear that airlines would pass through 100% of the increase in airport charges through to every ticket, and thus the 100% pass-through would be the most aggressive estimate of the overall impact from increased charges.* [181]

Auckland Airport agrees with InterVISTAS assessment, that any supply response, in a model that only measures the impacts on demand, is captured by the extent of pass-through that is assumed. That is airlines may absorb costs to fill seats if the market is not willing to pay the airfares to cover those increased costs – i.e. not full pass-through into airfares is likely. There are also constraints as to what extent supply can be withdrawn due to the number of seats on an aircraft, and fleet configuration.

In a media interview earlier this year, Air New Zealand Chief Executive Greg Foran described this dynamic:

> *At the same time, we're dealing with some pretty significant inflation.*
>
> *So, what we'll be doing is just sensibly going through and instead of absorbing as much of the inflation as we have, we'll need to pass some of that on.*
>
> *The issue is we've been incurring cost in this business, haven't passed it all on, now we need to pass some of it on, that's just the reality.* [182]

This demonstrates that in the case of Air New Zealand, not all costs to the airline are directly passed through to airfares, and that there can be delays to how these costs result in increased airfares, which will be determined based on available supply and demand.

Airlines can and do adjust their capacity on a regular basis. Just this month Air New Zealand has announced changes to capacity in the domestic market, with reductions to capacity on three domestic routes due to engine issues and a softening of demand, while it has offset this with increased capacity between Auckland and Queenstown by two jet services per week. [183]

5.1.5 Broader economic impacts

Qantas submitted:

> *The project as currently defined will have a very significant impact on the aviation sector, consumers and the New Zealand economy.*

[181] InterVISTAS, (24 September 2024), *"Response to BIS Oxford Economics Note"*, page 4
[182] Radio New Zealand, (22 February 2024), *"Air NZ half year profit down 39%: Price hikes to be expected"*, https://www.rnz.co.nz/national/programmes/checkpoint/audio/2018927192/air-nz-half-year-profit-down-39-price-hikes-to-be-expected
[183] Stuff (2 October 2024), *"Air New Zealand slashes capacity on three domestic routes"* https://www.stuff.co.nz/travel/350437348/air-new-zealand-slashes-capacity-3-domestic-routes

> *The impact of PSE4 and PSES on demand is expected to be 6% [40] and GDP by 1% [41], before cyclical and flow-on effects are considered such as [redacted] the compounding effect of price rises on demand and subsequent price-setting events at airports connected to Auckland.* [184]

Qantas Group's claims relating to the economic impacts do not appear to have a valid basis. Not only are they based on the BISOE study which as outlined above is not reliable, but the basis for calculating the economic impacts also remains unclear and appears to give no consideration to the benefit provided by the investment. These claims should be given no weight.

5.1.5.1 EY study on the economic contribution of Auckland Airport

Auckland Airport is crucial for the functioning of the aviation sector in New Zealand and the prosperity and wellbeing of the broader New Zealand economy. Continued investment advances these outcomes. To better understand the economic contribution Auckland Airport makes, to the New Zealand economy, Auckland Airport has commissioned EY to undertake a study of its economic contribution.

EY found that Auckland Airport supports 25,000 jobs, $35.1 billion in economic output per annum and is New Zealand's 3rd largest goods port by value. [185]

Comments, above, by Qantas that GDP will decrease with Auckland Airport's planned investment are inflammatory. Qantas is assuming that the cost of the new infrastructure is passed on to the existing passenger base, without the benefits of the investment i.e. no corresponding increase in capacity, competition or passenger numbers.

EY found that without investment growth at the airport, particularly in the domestic terminal, would be constrained.

> *The current domestic terminal puts a cap on the amount of domestic jet passenger movements that can be made in a year of around 8 million. Investment could overcome that cap, with forecasts suggesting that an additional 2.3 million domestic jet passenger movements would be realised in 2032, allowing more regions to be connected with jet services.* [186]

> *Investment is expected to result in 2.3 million more domestic jet passenger movements in 2032, and $1.9 billion in economic output through these movements* [187]

During the investment period, over 10,000 jobs will be supported, with 2,500 workers onsite at the peak of construction. This will generate $20b in economic output over the 10-year construction period. [188]

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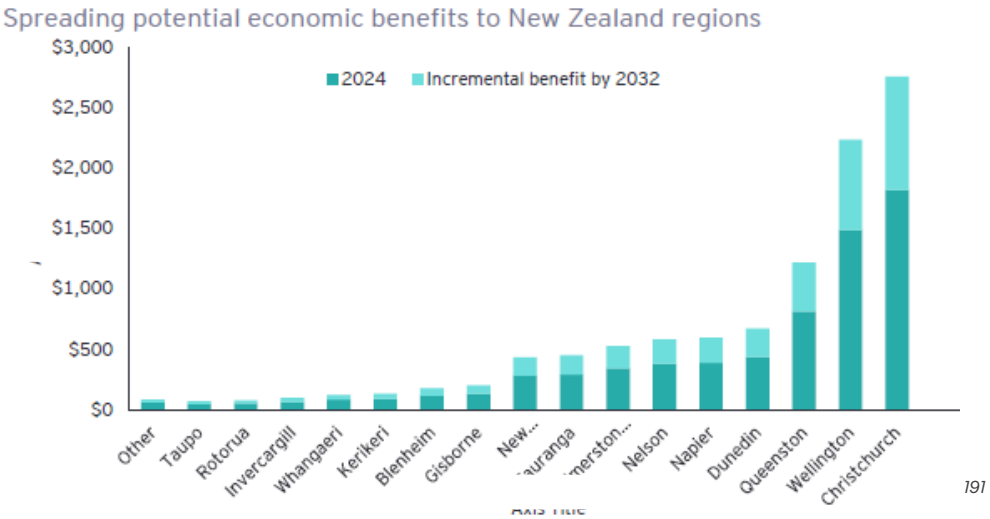
[184] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 5
[185] EY, (October 2024), *"Auckland Airport Economic Impact Analysis"*, page 4
[186] EY, (October 2024), *"Auckland Airport Economic Impact Analysis"*, page 18
[187] EY, (October 2024), *"Auckland Airport Economic Impact Analysis"*, page 18
[188] EY, (October 2024), *"Auckland Airport Economic Impact Analysis"*, page 30

By completing the much-needed investment, Auckland Airport will unlock over $20 billion in economic output over the investment period[189], bringing the airports annual contribution to $54.9 billion per year in 2032[190]. This benefit is significantly larger than the $1.5 billion cost estimated by Qantas.

Investment at Auckland Airport supports growth and development in the regions.

> *Auckland Airport is a conduit to economic activity in regions outside of Auckland in terms of business, tourism and trade, with direct connections to 23 New Zealand cities and towns, and over 400 aircraft movements everyday.*
>
> *The Auckland-Wellington-Christchurch trunk route is a key route of New Zealand business and enterprise.*
>
> *Economic output from international travel directed to the regions of New Zealand is estimated to grow from $3.5 billion to $5.7 billion per annum by 2032, while domestic tourism output supported is expected to grow from $6.8 billion to $9.5 billion over the same period.*



[191]

5.2 Depreciation

5.2.1 Tilted annuity depreciation

Auckland Airport responds below on submissions related to tilted annuity depreciation.

5.2.1.1 Consultation on alternative depreciation approaches during PSE4 consultation

As noted in its submission on the draft report, and was confirmed in Air NZ's submission, Auckland Airport did consider an alternative depreciation approach to spread the cost of assets over their

[189] EY, (October 2024), *"Auckland Airport Economic Impact Analysis"*, page 11 and 21
[190] EY, (October 2024), *"Auckland Airport Economic Impact Analysis"*, 21
[191] EY, (October 2024), *"Auckland Airport Economic Impact Analysis"*, 21

useful life, on a usage basis. This type of mechanism contemplated by Auckland Airport would meet the Commission's stated goal as set out in the draft report:

> *defer the depreciation of significant investment further out to match the passenger growth and utilisation*[192]

As part of this consultation, Qantas provided the following feedback:


[redacted][193]

Auckland Airport agreed with the feedback from Qantas and this informed our approach for the PSE4 pricing decision. We also indicated we would consider again when consulting on PSE5 charges,[redacted]

5.2.1.2 Tilted annuity depreciation and price smoothing between pricing periods

Auckland Airport notes that airlines support consideration of tilted annuity depreciation. Airlines also appear to consider that tilted annuity depreciation is not simply a change in depreciation approach, but rather a price smoothing tool. As per Air New Zealand's submission (Auckland Airport emphasis):

> *Air NZ supported the adoption of tilted annuity depreciation by CIAL in RY2018 on the basis that the **capital charge** would increase over time at approximately the same rate as demand so that prices would be approximately constant in nominal terms over time.*[194]

That the capital charge increases over time (rather than decreases) would require the smoothing of required revenue between pricing periods – i.e. price smoothing. Air New Zealand acknowledged that we also consulted on this during PSE4 consultation:

> *Over the course of the consultation process, AIAL did seek the views of airlines regarding the potential for a longer-run price path which could share costs over*

[192] Commerce Commission, (17 July 2024), *"Review of Auckland Airport's 2022-2027 Price Setting Event - Consultation Paper"*, paragraph 3.53
[193] Qantas, (23 May 2023), *"Responses to 3 May document"*
[194] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.49

> *a longer term. Air NZ indicated it would be interested in exploring potential options for price-smoothing over a longer period.*[195]

Qantas also submitted on this issue, outlining approaches that would increase the book value of assets after they were commissioned under a tilted annuity depreciation approach,[196] which also implies it is proposing this as a price smoothing mechanism.

5.2.1.3 Careful consideration should be given to application of non-standard approaches

NZ Airports submitted that further guidance on the use of non-standard depreciation should be given to airports:

> *The IMs and Information Disclosure Determination provide a choice on what depreciation method to use - standard depreciation or non-standard depreciation.[1] It appears that the Commission is seeking to establish a position that non-standard depreciation is the preferred approach in some cases. NZ Airports requests clear guidance in this respect, which should be consulted on and then made available in advance of future pricing decisions.*[197]

Auckland Airport agrees with NZ Airports, and we expressed these sentiments in our previous submission. At the time Auckland Airport set prices, there was no guidance from the Commission to indicate that it should be considering a non-standard form of depreciation for terminal assets, let alone that tilted depreciation was the best choice.

5.2.1.3.1 Any expectations that alternative depreciation should be adopted must be carefully considered

If the Commission is contending that Auckland Airport should be price smoothing, in-line with the submissions from airlines, then it is even more important that any guidance from the Commission is provided well in advance, and carefully considers the impacts and implications of adopting alternative approaches.

Further to the submission from NZ Airports, Auckland Airport would encourage the Commission to carefully consider any positions it adopts, or guidance it provides in relation to alternative methods of depreciation (or price smoothing mechanisms). The risk of unforeseen impacts should not be underestimated.

The potential impacts and unintended consequences from adopting tilted annuity depreciation approach that involves price smoothing include:

- **pricing impacts** – adopting a tilted annuity approach to the capital charge would result in materially increased amounts of nominal revenue over the life of the asset. Lower prices earlier would result in higher prices later – in the case of the Domestic Jet Terminal, this could result

[195] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.51
[196] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, page 18
[197] NZ Airports, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event – Submission on consultation paper"*, paragraph 8

in billions of additional required revenue, over its life in nominal terms, that would be charged to airlines;

- **repairs and maintenance** – as assets age operational costs to repair and maintain the assets increase with time, the tilted annuity depreciation approach does not take this into consideration, resulting in future users paying more than current users for use of the same asset;
- **funding implications** – lower cash-flows earlier in the life of an asset may impact on the ability of airports to fund that investment;
- **increased risk** - delays in cash-flows could stifle investment without adequate compensation – i.e. a higher allowable return would be required to compensate investors for increased risk;
- **impacts of using a combination of approaches** - where new investment is depreciated using tilted annuity (and generates below-WACC returns for a period of time), and historic assets have been depreciated using standard straight-line depreciation (and therefore generate little revenue), this would create a revenue crater that could impact on the ability of an airport to fund investment; and
- **price for service** – ultimately consumers pay a price for airport services and the purpose of Part 4 is to ensure that airports do not extract excess profits in delivering that service, an outcome which standard depreciation delivers.

These are just some of the potential implications if alternative depreciation and price smoothing mechanisms are applied without careful consideration. Accordingly, any proposal that such alternative approaches should be applied must be robustly analysed and scrutinised under a formal consultation process before the Commission decides whether any changes to the IMs are warranted.

Auckland Airport notes that there are different methods to smooth prices under the IMs. For example, a simpler approach would be to use a carry-forward adjustment targeting a specific amount of deferred revenue, to be carried forward into the subsequent pricing period. This approach would be a more flexible way to smooth prices.

These mechanisms can smooth prices both ways. In response to airline concerns, Auckland Airport considered that the most effective way to reduce prices in PSE5 (the pricing period airlines were most concerned about) was to bring-forward revenue into PSE4. Airlines did not support this proposal, and it was not adopted as part of the PSE4 pricing decision.

As mentioned in our submission on the draft report, Auckland Airport will consult with airlines on issues such as tilted depreciation and price smoothing as part of PSE5 consultation. However, given the level of prices remain affordable in PSE4, and in-line with comparable airports, a change to introduce price smoothing mechanisms or alternative depreciation methods was not appropriate for PSE4.

5.2.2 Accelerated depreciation

[redacted]

[redacted]

[redacted][198]

5.2.2.1 *De-commissioning the existing DTB was reflected in the capital plan when PSE4 prices were set*

The application of accelerated depreciation to DTB assets commissioning in PSE4 was reasonable as this aligned with the PSE4 capital plan, including development of a new Regional Terminal solution. [redacted]

Further background and context, including airline views expressed through consultation on the future use of the DTB is outlined in the Investment section of this submission.

5.2.2.2 *Domestic jets will operate from the Domestic Jet Terminal to enable contingent runway operations*

When the Domestic Jet Terminal opens, domestic jet operations will be relocated from the southern face of the existing Domestic Terminal Building to allow for critical runway renewal works to be undertaken. The reasoning as outlined in Auckland Airport's price setting disclosures continues to hold:

> *Auckland Airport is a single runway operation. A critical resilience requirement is a contingent runway that can be stood up within an operationally effective timeframe. The new Domestic Processor location will enable development of the contingent runway, whereas continuing to have jets operating at the existing DTB would seriously constrain its operation, resulting in substantial aircraft landing and take-off delays and congestion. The planned pavement renewal projects on the main runway are essential for resilience and safety reasons. Furthermore, an operating contingent runway would be essential*

[198] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.57-2.58

following any significant aircraft incident that closes the main runway for a significant period of time. The only other alternative, early delivery of a second runway, would come at a far greater cost. [199]

Further detail is outlined in the Investment section of this submission.

5.2.2.3 Parts of the existing Domestic Terminal will be decommissioned once jet operations cease

[redacted]

5.3 Operating expenditure forecasts

5.3.1 Comparison to other airports

5.3.1.1 Jacobs Airport Performance Report rankings

Auckland Airport acknowledges the comments from Qantas and IATA that its ranking in the Jacobs [200] Performance Indicator Assessment for operational risk [201] has changed from 43rd out of 50 2022 to 26th in 2023.

Both of these assessments have been undertaken during a highly volatile time for the aviation industry and this does run the risk of volatility being introduced into the data. Historically, in 2016 [202] and 2019 [203] Auckland Airport ranked 40th and 36th respectively in this same survey.

As indicated in our disclosure documentation, the operational cost forecast per passenger set for PSE4 was forecast to return to pre-pandemic levels in real terms by the end of PSE4. That is, operating costs set to return to the same cost per passenger when Auckland Airport was ranked 36th out of the 50 airports in the survey. This provides another reference point that indicates the operating cost forecast is reasonable.

5.3.1.2 Qantas claims of operational cost comparisons to Australian ports

Qantas submits:

[199] Auckland Airport, (17 August 2023), "*Price Setting Disclosure*"
[200] Previously Leigh Fisher
[201] Note that a lower ranking (i.e. closer to 50) represents lower comparable operating costs
[202] Leigh Fisher (August 2016), *"Airport performance indicators 2016"*, page 116
[203] Leigh Fisher (August 2019), *"Airport performance indicators 2019"*, page 122

> *The average aeronautical operating cost on-charged to airlines in comparable Australian ports in FY24[39] was ~NZD$4.30 per passenger vs. NZD$7.80 proposed by AIAL.* [204]

Qantas does not cite the which airports this data relates to, or what specific services are provided. Accordingly, it has limited usefulness, as the comparability of the airports or the services provided cannot be verified.

Auckland Airport notes that Qantas will often have separate agreements for domestic and international services at Australian airports, it is quite possible that these charges reflect a domestic only service (for which Qantas will have bilateral agreements), whereas the operating costs per passenger at Auckland Airport reflect the operation of a domestic and international airport service.

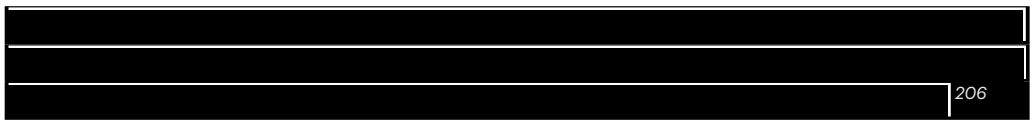
Accordingly, we don't consider this data point to be reliable.

5.3.2 Operating cost allocation

Air New Zealand submits that AIAL appears to be allocating an unreasonable proportion of its corporate overheads to its regulated business. [205] This claim is made on the basis that the value of non-aeronautical businesses should be used to allocate shared corporate costs. Qantas also submit that some operating costs should be excluded as aeronautical costs.

5.3.2.1 Feedback from Air New Zealand on allocation of operational costs

Auckland Airport consulted with airlines on the approach to allocate operational costs for PSE4. Air New Zealand provided the following feedback on allocation of operational costs:



This is a very different position to the one that it now submits in this review.

For the avoidance of doubt, direct non-aeronautical costs are not charged to airlines through airport charges. These costs are funded by Auckland Airport shareholders.

Indirect costs are allocated based on the allocation rules that Auckland Airport has developed to use for information disclosure reporting. The application of these rules is independently audited on an annual basis. The approach that has been adopted was carried forward from PSE3. Further review of these allocation rules is not necessary.

5.3.2.1.1 Revenue or enterprise value are not good indicators of operational cost

Auckland Airport does not consider revenue, nor enterprise value to be good indicators of operational cost. The regulated aeronautical business activities are by necessity, very different

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[204] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, page 22
[205] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.2.1
[206] Air New Zealand, (4 November 2022), "*PSE4 Consultation Paper Two*"

and more complex, compared to the non-regulated business activities undertaken by Auckland Airport. This results in higher operational costs in these businesses.

The majority of non-regulated business activities involve Auckland Airport being a landlord to other businesses, whether that be commercial property activities (e.g. Auckland Airport business park), or provision of airport retail tenancies to retailers. These business activities have very low operating costs relative to airport operations. Therefore, using revenue or a measure of enterprise value of these activities, as suggested by Air New Zealand, would be expected to over-allocate costs to non-regulated activities.

5.3.2.1.2 Consideration of cost allocation of corporate overheads during consultation

Air New Zealand did not raise the issue of allocation of corporate costs during consultation, rather [redacted]

However, this was raised by another Substantial Customer, suggesting that revenue be used as the driver to split operational costs that could not be directly allocated. This is similar to Air New Zealand's claims now, that the total enterprise value of Auckland Airport should be used to allocate indirect operational costs.

Auckland Airport did not consider that this was a valid approach at the time, and continues to hold this view. Nonetheless, during consultation, in response to feedback received, Auckland Airport considered an alternative measure to allocate indirect corporate costs between aeronautical and non-aeronautical activities.

This alternative considered using direct costs as the proxy to allocate indirect costs such as corporate overheads. This analysis indicated that using direct costs as a proxy of indirect costs achieved very similar allocations as the existing allocation approach using proxy allocators based on terminal space. Differences to other airports can likely be explained by different economies of scale for respective elements of aeronautical and non-aeronautical businesses, including extensive international operations at Auckland Airport and the size of non-aeronautical business activities. relative to other New Zealand airports.

This analysis gave Auckland Airport further confidence that the existing approach was reasonable to allocate costs, and it was therefore maintained in the pricing decision.

5.3.2.2 *Allocation of marketing costs*

Qantas has submitted that costs such as Marketing, Consultancy and Shareholder Expenses should not be recovered as aeronautical costs.[207]

Auckland Airport allocates these costs to aeronautical activities, in-line with the Input Methodologies that apply in New Zealand. Corporate costs such as these are important for running an airport and would be required even if the airport did not undertake any non-aeronautical activities. We would also note that previously, we received the following in correspondence from Jetstar:

[redacted][208]

5.3.3 Increases in operating costs from FY23

Qantas Group's submission questioned the reasonableness of the year on year increases to Auckland Airport's operating costs, suggesting that they were unreasonable as they were greater than inflation.[209]

Auckland Airport notes that the baseline for many of the comparisons made by Qantas Group was FY23. This was the year where New Zealand borders re-opened, and aviation demand was still in recovery-mode. It is unreasonable not to expect operational expenses to have increased materially off this base year as the New Zealand aviation system recovered back toward pre-pandemic levels, amid a high inflation environment.

On this basis, FY23 being the baseline should be disregarded by the Commission in this review.

The Commission was right to take comfort in Auckland Airport's operational cost per passenger returning to pre-pandemic levels by the end of the PSE4 pricing period.

5.4 Wash-up mechanisms

5.4.1 Revenue wash-up

IATA raised a question in their submission about how the risk captured by the revenue wash-up compares to the risk captured in the WACC.

> *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).*[210]

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[207] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, page.21
[208] Jetstar, (10 February 2017), *"Auckland International Airport Limited – Capital Consultation: TDP Feasibility Study Input"*
[209] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, page 20
[210] IATA (3 September 2024), *"comments on the draft conclusions of the review of Auckland Airport's 2022-2027 price setting event"*, page 2

As noted in Auckland Airport's submission to the Commission's draft report, CEG has identified asymmetric risk which is not captured in the asset beta:

> *AIAL's proposed wash-up mechanism limits, but far from eliminates, AIAL's exposure to extreme negative shocks to revenues (such as from future pandemics). AIAL has not proposed such direct compensation for asymmetric risk exposure and this is the basis for my conclusion that AIAL is under-compensated for risk* [211]

Auckland Airport is seeking to manage asymmetric risks which are not captured through the measurement of the asset beta. This therefore does not impact the effectiveness of the asset beta as a sector wide measure, nor does it preclude other airports from taking the same approach.

5.4.2 Revenue wash-up impact on airlines

Air NZ commented in their submission that they do not understand how the revenue wash-up mechanism takes into account that airline revenue might also be lower in an event where airport revenue was more than 15% below forecast.

> *Air NZ considers that the symmetrical nature of the wash-up (+/- 15% of revenue and +/-0.75% IRR threshold) does not acknowledge the fact that if AIAL is falling short of its targets by that much, then its airline customers would also be facing significant financial losses (as was evident during the COVID-19 pandemic). For airline customers to then have to face increased revenue requirements in future to offset airport losses is not consistent with a competitive market or in the interests of consumers.* [212]

Such a statement considers that airports should carry asymmetric risk without appropriate compensation, with limited risk to airlines. An alternative to applying this wash-up approach would be to charge a risk premium for the asymmetric risk of pandemic type events. If such an approach was taken, then airlines would be facing higher charges up until, and during the pandemic-type event, when revenues are impacted. In the case of the wash-up approach, revenue recovery is delayed until airline recovery occurs.

Further, there are plausible events which would decrease airport revenue but increase airline revenue. For example, if an airline were to leave the market, in the short term this would result in excess demand. The capacity would be removed reducing airport revenue earned through landing and passenger charges, but the remaining airlines would be able to demand a higher price for the same product, therefore increasing their profitability.

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[211] Competition Economists Group, (May 2023), "*Review of feedback on AIAL WACC estimates for PSE4*", paragraph 68.
[212] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.78

5.4.3 Wash-up triggers and thresholds

Air NZ is also concerned about the trigger threshold being too high, and therefore allowing the airport to earn additional revenue.

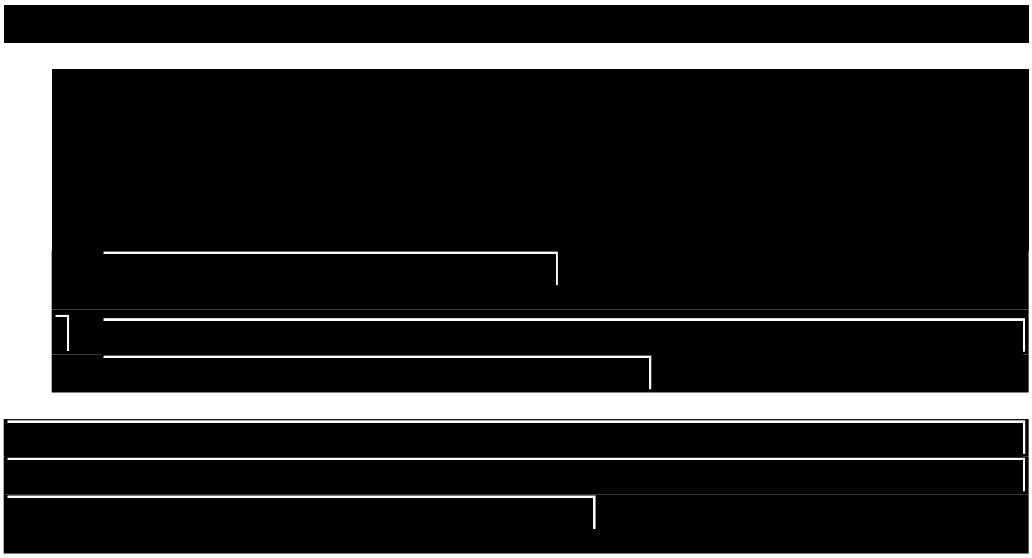
> *In respect of AIAL outperforming its targets, Air NZ considers the +15% threshold before there is any return of revenue is significantly too high in the context of AIAL. With forecast priced revenue of $2.5 billion over PSE4, AIAL could generate additional revenues of ~$380 million over the period which would not be taken into account in any carry-forward adjustment.* [213]

The revenue wash-up mechanism does not fully capture the asymmetric risk, mentioned above, in order to ensure the airport is incentivised to best manage its profitability in the event of a market shock. As Air NZ estimates, the trigger allows for ~$380m of revenue differential. As it is two-way, this means that AIAL would face ~$380m of lost revenue over the period before the wash-up mechanism was triggered. Auckland Airport considered that a market shock large enough to trigger the wash-up mechanism resulting in the airport under-earning is much more likely than one resulting in the airport over-earning.

This claim is yet another example of airlines ignoring facts that do not suit them in this review, but also wanting all the upside without the downside. In this case Air New Zealand ignores the fundamental principles of this mechanism in that it is a two-way mechanism, and that the risk is balanced both upwards and downwards for valid reasons.

5.4.4 Capex delivery wash-up

Qantas submitted:



[213] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.79

These claims by Qantas are based on the following pre-requisites which do not hold:

- that Auckland Airport's investment plans are inefficient – as the Commission found in its Draft Report, and as evidenced in this submission, this is not the case; and
- that future price increases will have material impacts on passenger demand – as outlined above, the BISOE study is based on highly questionable assumptions which have overstated the impacts invalidate its findings. Even if they were valid, the findings of this study go nowhere near triggering a demand impact to the extent that it would reach the 15% threshold.

Accordingly, the Commission should disregard the Qantas claims outlined above.

5.5 Other maters raised in submissions

5.5.1 Timing of any adjustments to charges following Commission's review

Auckland Airport has indicated that if the Commission's final report finds that the target return remains too high, then Auckland Airport will reduce its charges. BARNZ submits that any reduction in pricing in PSE4 would come too late:

> *While the Commission appears to draw comfort from the fact that AIAL may re-set prices to return some of the excess profits targeted on 1 July 2025, BARNZ member airlines are not similarly comforted. BARNZ member airlines have been paying these prices since they were set more than a year ago in July 2023. Any price reduction will not occur until excessive prices have been paid by airlines until July 2025: some two years into the regime. In that time, one BARNZ member airline has become insolvent, and several have reduced their presence in the market – so will not pay landing fees in the measure they may have been paid in the over-recovery period.* [215]

[214] Qantas, (3 September 2024), *"Review of Auckland Airport's 2022-2027 price setting event"*, section 4.3.1

[215] BARNZ (2 September 2024), *"Review of Auckland Airport's 2022-2027 Price Setting Event – Consultation Paper"*, page 3

This submission appears to ignore the impacts of Auckland Airport's approach to setting charges for PSE4, including the price freeze that was introduced in the first year of PSE4 to support airlines through the recovery phase from the pandemic, as well as the price path profile that was set for PSE4.

As indicated in schedule 18 of Auckland Airport's pricing disclosure, regulated returns are expected to start low and increase over the pricing period due to the price freeze in the first year. If Auckland Airport does move to make an adjustment to PSE4 charges following the release of the final report, any adjustment would likely apply for FY26 and FY27.

As set out in our disclosures, by the end of FY25 Auckland Airport will have targeted an overall regulated return of 6.54% for the period to date, 125 basis points below the 7.79% of total regulated returns targeted across the five-year period. This is broadly in line with the gap between the target return set for PSE4 and the Commission's second scenario for the cost of capital included in the Draft Report.

Therefore, in the event where Auckland Airport moves to reduce its charges in the final two-years of PSE4, BARNZ's claim that airlines who operated from Auckland Airport in the first earlier years of PSE4 were over charged is incorrect.

Figure 26: Schedule 18 (ii), PSE4 price setting disclosures, Auckland Airport

18(ii): Forecast Internal Rate of Return - Annual and Period to Date

($000) Year ended	Pricing Period Starting Year 30 Jun 23	Pricing Period Starting Year + 1 30 Jun 24	Pricing Period Starting Year + 2 30 Jun 25	Pricing Period Starting Year + 3 30 Jun 26	Pricing Period Starting Year + 4 30 Jun 27
Forecast closing asset base	1,858,645	2,214,920	3,173,816	3,450,152	4,151,598
Forecast closing carry forward adjustment	86,084	86,084	86,084	86,084	43,744
Forecast closing investment value	1,772,561	2,128,836	3,087,732	3,364,069	4,107,855
Forecast post-tax IRR - annual	2.80%	8.35%	7.96%	7.73%	10.57%
Forecast post-tax IRR - period to date	2.80%	5.66%	6.54%	6.90%	7.79%

5.5.2 Treatment of tax losses

Air New Zealand has submitted that any tax losses Auckland Airport is using to off-set its tax expenses in PSE4 should have been accounted for in PSE4 and that doing so would have resulted in the benefit being passed through to consumers. Auckland Airport does not agree that its approach has resulted in excess profits.

As Auckland Airport sets out in its cross-submission on the process and issues paper of this review:[216]

- the treatment of tax losses was an issue raised by Auckland Airport in the 2023 IM review, and clarification on this issue (to use carry-forward adjustments) was not provided by the Commission until after the PSE4 pricing decision had been made;
- if carry-forward adjustments were used to address the carry-forward of the value of the tax losses (as suggested by the Commission) then this would have marginally increased allowable

[216] Auckland Airport Cross-Submission on responses to the Commerce Commission Process and Issues Paper for its review of Auckland Airport's 2022 – 2027 price setting event, 21 February 2024, p.34-35

revenue and Auckland Airport's prices for PSE4 due to the application of holding costs to this value;

- doing what Air New Zealand suggests and including tax losses in the PSE4 price path, effectively results in Auckland Airport 'paying twice' for COVID-19 losses, and conveniently ignores the over $500 million in revenue losses that **were not carried forward** from PSE3;
- at no point during the PSE4 pricing consultation was this issue raised by Air New Zealand, or any other Substantial Customer.

The above demonstrates that the approach taken when setting PSE4 charges did not result in excess profits and therefore was consistent with the purpose of PSE4. We support the Commission's approach in the Draft Report to not focus on the technicalities of this issue, which would not have any material impact on its overall assessments as part of this review.

5.5.3 Closing carry-forward adjustment

Air New Zealand submitted that the Commission should not factor in the additional carry-forward adjustment of $42.3 million at the end of PSE4. [217]

Auckland Airport notes the following:

- This carry-forward did not result in any change to prices for PSE4, in fact PSE4 prices are lower for PSE4 than they otherwise would have been if these costs and asset impacts were captured in the pricing decision.
- The purpose of the carry-forward is to ensure that these issues can be consulted on with Substantial Customers before a decision is made as to whether they are recovered through aeronautical charges in PSE5 or not.
- If the carry-forward adjustment is not factored into its profitability analysis, if it had been, then prices would need to be higher to achieve a target return of 8.73%.

Put another way, if Auckland Airport decides after consulting with Substantial Customers, not to recover the value of the carry-forward adjustment through aeronautical prices, then the return targeted for PSE4 would be substantially lower than 8.73% that has been targeted.

5.5.4 Incentives of demand forecasts

As the Commission correctly identified in the draft report, airports have incentives to underestimate demand in order to earn a higher return in the current pricing period. This was clearly not done by Auckland Airport given airlines' claims that forecasts are too high.

> *Auckland Airport has forecast higher passenger demand than what the airlines consider is reasonable. This is the opposite to the general demand forecast incentive of airports and airlines. For PSE4, higher passenger demand forecast*

[217] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.4.1

> *means the price per passenger is lower than otherwise, which benefits consumers.* [218]

Air NZ is now claiming that the opposite incentive is true when a step-change in investment is required.

> *Air NZ considers that the impact on demand over PSE4 and PSE5 of AIAL's capital plan is of significant concern. Air NZ submits that AIAL is incentivised to over-state demand across PSE4 and PSE5 ahead of the commencement of construction on the DP, knowing that it has the option to re-assess for PSE5 once construction is well underway and the project is irrevocable. Readjusting to a lower demand profile at PSE5 price setting will result in further price rises based on a capital plan which has not adequately accounted for the demand impact of the price rises required to fund it.* [219]
>
> *Air NZ therefore believes AIAL has a strong incentive to overstate demand projections in PSE4 (i.e. to understate the dampening effect on long-term demand caused by the significantly increased prices required to fund its capex programme), to ensure the capex programme is committed.* [220]

This line of argument relies on the following claims that, as addressed elsewhere in this submission, do not hold, that is:

- the WACC is too high, when it is not;
- the capital plan inefficient, when it is not; and
- demand elasticity impacts have been under-stated, when they have not.

Further, the airport is incentivised to increase demand, not reduce it. Auckland Airport only receives return on investment as the airport facilities are used, therefore over investing to the extent that demand is materially reduced is likely to reduce the airport's revenue.

Auckland Airport generates commercial revenue from non-regulated activities that are linked to passenger volumes. A reduction in passenger numbers would reduce the value of these businesses, and clearly would not be in Auckland Airport's best interests.

5.5.5 Price level comparison

Auckland Airport agrees with Christchurch Airport's submission that price comparisons provide important context when evaluating prices. This comparison is not, as IATA suggests, the foundation for assessing the reasonableness of pricing. That is done through the detailed analysis conducted by the Commission. The comparison simply forms a useful reference point for

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[218] Commerce Commission, (17 July 2024), *"Review of Auckland Airport's 2022-2027 Price Setting Event - Consultation Paper"*, paragraph 3.78.3
[219] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.63
[220] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 2.68-2.69

considering if an airport is out of line with its peers. An airport charging significantly higher prices than its peers could be an indication to the Commission that more detail consideration is required, while an airport charging significantly less is likely to be a useful indication that the risk of the airport targeting excess profits is lower.

A4ANZ submitted:

> *We are concerned by the Commission's decision to compare the pricing of Auckland Airport with other monopoly airports under very light-handed regulatory regimes, as if they in any way reflect "reasonable" pricing and profitability, for a robust point of comparison.*
>
> *The Commission need only look at the repeated calls for reform expressed by its equivalent organisation in Australia, the Australian Competition and Consumer Commission (ACCC), which has found that the current light-handed regime is not working well enough to prevent the airports exercising their market power, and that this is to the detriment of both airlines and consumers.vi In other words, the exact opposite of what is set out in the objectives of Part 4 of the Commerce Act is observed in Australia. Accordingly, Australia's airports are hardly a suitable model for the Commission to use as a benchmark for New Zealand.* [221]

Auckland Airport considers that being under a similar light touch regime is helpful for allowing a more like-for-like comparison. Auckland Airport does not agree that the Australian regulators have found at the regime is not working. The most recent review by the Productivity Commission found that:

> *The four airports monitored by the Australian Competition and Consumer Commission (ACCC) — Sydney, Melbourne, Brisbane and Perth — have not systematically exercised their market power in commercial negotiations, aeronautical services or car parking.*
>
> *On balance, most indicators of operational efficiency (including costs and service quality), aeronautical revenue and charges, and profitability are within reasonable bounds. Each airport has generated returns sufficient to enable investment while not earning excessive profits, and passengers consider airports to have good service quality.*
>
> *The current approach to airport regulation benefits passengers and the community and remains fit for purpose at this time.* [222]

[221] Airlines for Australia and New Zealand (A4ANZ), (3 September 2024), *"RE: Review of Auckland Airport's 2022-2027 Price Setting Event"*, page 2

[222] Australian Government Productivity Commission, (21 June 2019), *"Economic Regulation of Airports"*, page 2, https://www.pc.gov.au/inquiries/completed/airports-2019/report/airports-2019.pdf

5.5.6 PSE5 price forecast

Auckland Airport notes that Qantas has proposed a number of suggestions which lead to a suggested price path for PSE5. This is clearly beyond the scope of this review, which is only on PSE4 prices. Auckland Airport encourages Qantas to submit any relevant feedback in the coming years when it undertakes the pricing consultation for PSE5.

6 Innovation

Auckland Airport considers that its submission to the draft report covers the material points in response to innovation. The comments below relate to specific points raised by Air New Zealand in its submission.

6.1 Baggage system

Air NZ has suggested that Auckland Airport is not being innovative as there will be a period where two different baggage systems are in operation.

> *AIAL adopting a new baggage system in the Eastern Baggage Hall but maintaining the existing baggage system for other areas at the airport, meaning AIAL is operating two different systems across the airport, and the benefit of the new system not being fully realised across the airport; 223*

Auckland Airport must undertake reasonable decision-making processes when implementing new systems. When considering all design options, including innovative solutions, Auckland Airport has regard to a considered range of criteria including cost, functionality, practicality and resilience. All of this is consulted on with our Substantial Customers. For example, it would not be practical for Auckland Airport to immediately switch from one baggage system to the next in a live operating environment. There is a reasonable transition period where the two systems are in operation before full switch-over to the new system can occur. Through time a full transition will be made.

Further, some of the systems Air NZ has suggested throughout the consultation process, such as robotics in the baggage system, are untested, prohibitively expensive and do not meet the criteria for new assets at the airport. Criticism of Auckland Airport's willingness to accept these options is also in direct contrast with comments elsewhere in the submission that the new baggage system is too complex.

6.2 Collaborative Operating Group

The Collaborative Operating Group ("**COG"**) is an important forum for airline and inter-agency cooperation in order to improve processes, understand risk and mitigations and increase the quality of service provided at Auckland Airport.

The efficient operation of the airport requires a system-wide view to ensure all stakeholders are working efficiently together to deliver a quality service. Issues such as on-time-performance of airlines can be a key determinant of service quality, as delayed flights can have impacts on other parts of the system (e.g. staffing schedules for border agencies). Other key issues the COG works through includes challenges around resourcing, including for airport ground handlers, and

[223] Air New Zealand, (3 September 2024), "*Review of Auckland Airport's 2022-2027 Price Setting Event (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 4.8.

monitoring of baggage delivery times. All of these issues require a collaborative approach and this is facilitated through the COG.

The COG processes served Auckland Airport and airlines well during the challenges that have been presented during the pandemic. This continues to be an important forum to raise awareness around matters impacting the airport system such as queue times, updates on agency policies, data exchange, iterative planning and irregular operations.

Performance and operational flows are discussed within the forum to understand how the system is delivering efficiency balanced against customer satisfaction and legislative requirements (compliance).

The performance of the system across the various processing pathways represents the true health of the COG programme. COG targets are set collaboratively with each partner, with a goal to enhance the end-to-end experience.

Auckland Airport disagrees with claims from Air NZ that discussions at the group do not result in action.

> *However, despite AIAL's claims around its Collaborative Operating Group, this rarely results in action by AIAL on suggested airport improvements or a willingness to consider innovative solutions to problems.* [224]

As an example, arrival processing challenges were discussed at the COG forum in December 2023 with a focused effort to improve customer processing times in partnership with the Airport community. A team was formed including several COG members to implement various arrival processing levers, resulting in a 43% improvement at the median, compared to the previous year. The airport continues to engage with border agencies to improve processes and support initiatives such as the implementation of new scanning technology at Aviation Security, expansion of eGate eligibility at New Zealand Customs as well as promoting the increased use of the electronic New Zealand Travellers Declaration.

Further technology improvements were identified and implemented by way of improved signage, providing customer visibility of expected processing times across the airport journey.

In recent months, we have worked together to refresh several existing operating procedures to provide clarity to many newcomers to the airport precinct and revised our approach to on-time performance, based on COG feedback. The new OTP forum starting in October, will work collaboratively with airlines and aircraft operators to identify opportunities where the system can better support OTP for the flight of concern.

COG members also support and discuss significant go-lives and implementations which impact the Airport system such as roading transport changes, infrastructure driven changes to operations and support the introduction of new technologies by partners and agencies.

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[224] Air New Zealand, (3 September 2024), *"Review of Auckland Airport's 2022 – 2027 Price Setting Event 4 (PSE4) – Consultation paper: Air New Zealand (Air NZ) feedback"*, paragraph 4.4

This month we have started trialling a dashboard developed by Auckland Airport to provide insights to ground handlers, such as Air NZ, to track speed of baggage delivery.

We have actively sought feedback from the COG forum to continuously improve the format and purpose of these meetings. The outcome of this feedback will inform changes to the program in future.

7 Submissions on the information disclosure regime

Many submitters have commented on the effectiveness of the information disclosure regime for airports. In the Draft Report the Commission invited submitters to inform the Commission of any additional information that could improve the information disclosure regime.

However, many submissions from airlines go well beyond suggesting improvements to the information disclosure regime and are calling for changes to the economic regulation that applies to Auckland Airport. These submissions are consistent with what is a longstanding, **clear agenda of airlines to instigate regulatory change.**

The evidence before this review, as outlined in detail in this submission, demonstrates a **consistent pattern of unfounded and inaccurate claims by airlines** with regard to Auckland Airport's pricing and investment plans. The contradictory messaging, changing of positions over time, and selective presentation of information, demonstrates the type of behaviour airlines can exhibit when they are seeking to obtain a commercial outcome. There is no cost to the airlines for this type of behaviour - with an evident strategy of making whatever claims that suit their objectives and see if they pay off.

This **behaviour validates the importance of maintaining the current regulatory settings** of legally enforceable consultation obligations combined with an information disclosure regime for airports. The Commission's PSE reviews are a key feature of the regime. Airports are best placed to make the important decisions to develop the airport in the public and the national interest, with incentives that are aligned to the interests of the consumer, knowing that their decisions and reasoning will be carefully scrutinised by the Commission.

Airlines' **calls for regulatory change seek to increase airline influence over airport investment for their own commercial benefit.** If such change was not in their own commercial interests, then it is not clear why they would expend such significant time, energy and resource to effect such change, including a concerted attempt to encourage the Commerce Commission to draw unfavourable conclusions as part of this review.

Airlines are of course entitled to provide their views to the Commission and should do so – but we firmly believe the approach adopted in this review goes beyond what a targeted and efficient review should entail and has required Auckland Airport to commit undue amounts of resource to ensure the Commission has the full picture before it. It has made the Commission's task much more difficult and extensive than it should be. However, we have confidence that the Commission will carefully review all the information to produce a fair and balanced summary and analysis.

The models of regulatory change called for by airlines would place a greater reliance on decisions being made by an arbitrator, or the regulator. Airlines can be expected to demonstrate the same type of behaviour Auckland Airport has encountered in the latter stages of consultation and in this review. **This behaviour would come with much greater risk of the wrong outcomes for NZ Inc. at a much greater cost.** The very reason that airports are subject to consultation obligations and information disclosure regulation is that it was recognised that airlines would continue to have

strong incentives to seek their own short-term commercial objectives at the expense of the long-term benefit of consumers.

These are all important reasons why Auckland Airport is supportive of the information disclosure regime, believes it is effective, and considers that it should be maintained in the public interest. **We support the continued evolution of the information disclosure regime**, and encourage the Commission to consider any improvements it considers would enhance the effectiveness of the regime. However, the fundamental changes called for by airlines are not warranted, and would not be in the public's best interest.

Airline submissions have been quite specific as to the regulatory change they would like to see implemented. Auckland Airport does not seek to provide detailed responses to submissions on these matters, as these sit outside the scope of this review. **Auckland Airport supports improvements to and the evolution of the existing information disclosure regime**. Any changes to the requirements of the information disclosure regime should be carefully considered, and be subject to consultation before being implemented, so the impacts of the changes are considered and understood before being introduced.

7.1 Record of airline behaviour

Airlines have long wanted more power and control when it comes to airport investment spending. While this is particularly heightened for this review, such tensions are always most evident around the five yearly pricing cycle.

7.1.1 Examples of past behaviour

In 2006, Air New Zealand strongly opposed investment that enabled Auckland Airport to service A380 aircraft because it would bring greater competition and they did not have A380 aircraft in their fleet plans. History shows this investment was in the best interests of New Zealand and its economy. [225]

Other examples are well summarised in correspondence from the Auckland Airport's previous Chief Executive to Air New Zealand in 2019:

> *Whilst it is not often acknowledged, Air New Zealand has had history of* [redacted] *Air New Zealand has typically supported the investment plans at Auckland because we have adapted them to incorporate feedback from you, our largest customer. For example, Air New Zealand* [redacted] *Later in consultation with Air New Zealand and other airlines we went ahead with the Pier B expansion to cater for higher than expected passenger growth. In 2013/14 Air New Zealand sought to* [redacted]

[225] Auckland Airport, (2 February 2009), *"Emirates' A380 first scheduled flight arrives in Auckland"*, News | Auckland Airport

> [redacted] *At the time of that decision Air New Zealand directors commented that they 'never thought we would change our plan.' We listened and are presently dealing with the additional complexity that decision has brought to the plan2.* [226]

In this letter it sets out a similar theme that we see today, of criticising the airport for historic under-investment, but for also investing too much:

> *The aeronautical capital plan we are embarking upon is very complex and we acknowledge our role in the current challenges. However it is disingenuous for Air New Zealand's Government Relations and Communications team to take every opportunity to blame Auckland Airport for the infrastructure deficit it perceives when in other cycles it has blamed us for gold plating and demanded* [redacted] *Air New Zealand has been a constant partner in the current infrastructure context we now face.* [227]

In fact, it again highlighted examples of contradictory messages with regard to capital investment:

> *In light of the good working arrangements in Project Rialto we were disappointed with head office conduct post Project Rialto regarding Whenuapai and A4ANZ materials being shopped in Wellington by Air New Zealand the week after* [redacted] *We presume that this behaviour is linked* [redacted] *We would welcome greater discussion on this concern and would prefer to engage directly on these issues rather than have these issues publicly debated prior to a substantive discussion between our organisations. At the very least we need to be able trust that confidential information is not taken out of context, shared widely or shared beyond Air New Zealand. This is particularly important where projects, estimates and timelines are in draft form and subject to further testing by the development teams.* [228]

This correspondence provides an interesting insight and context to the behaviour of airlines while seeking to push for regulatory change. Contradictory messaging and strong opposition to aspects of airport investment that do not suit their business interests (whether it is too little or too much) seem to be consistent themes.

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[226] Auckland Airport, (25 September 2019), Project Rialto response to Air New Zealand
[227] Auckland Airport, (25 September 2019), Project Rialto response to Air New Zealand
[228] Auckland Airport, (25 September 2019), Project Rialto response to Air New Zealand

7.1.2 Summary of behaviour in this review

Throughout their submissions to the Commission, and in the media, airlines have continuously made claims which are not supported by fact or evidence. Below are some examples of these claims, that have been evidenced throughout this submission.

Table 5: Summary of unfounded or inaccurate claims

Claims from airlines	Why this is unfounded or inaccurate
Auckland Airport has historically under-invested in aeronautical infrastructure.	The Commerce Commission has looked at this a number of times and concluded that Auckland Airport has invested appropriately. The only period the Commission has not finished reviewing is the most recent one – where investment was halted with broad airline support during the middle of the COVID-19 pandemic.
They are frustrated by the delivery of capex to date.	They strongly oppose the capital investment plan going forward. The Commission indicated in the draft report that Auckland Airport was behind on investment in PSE3 due to "extensive consultation with substantial customers".
Auckland Airport has ignored airline views on the capital investment plan.	Auckland Airport has consulted on 21 terminal designs over the last 10 years. Many changes to the plan, programme and terminal design have been made in response to airline feedback. The Terminal Integration Programme reflects the terminal integration pathway supported by Air New Zealand and BARNZ in 2021.
The terminal designs are too large and should be smaller.	There has been previous airline support for terminal designs of similar size and scope. The terminal has been designed with reference to IATA's level of service design benchmarks. Airlines have requested more space throughout consultation, [redacted] See section three for further detail.
A viable alternative terminal design has simply been ignored.	Auckland Airport has considered, in detail, the theoretical alternatives presented, assessed them accordingly, and not considered them to be viable alternatives that meet all requirements. Air NZ's proposal was only given to Auckland Airport well after decisions had been made, following the completion of over a decade of consultation. The proposal detail was also not provided in full. The proposal is a 'back-flip' from Air New Zealand after it continuously discarding the similar designs which were not integrated in favour of a more integrated solution, e.g. the Arup design is similar to the domestic jet facility design, which Air NZ rejected in favour of more integration in 2021.
Viable alternative designs are $1 billion cheaper.	Auckland Airport analysed the proposal and found the cost gap was closer to $100 million, with the potential that Arup's design could even be more expensive when other unquantified costs are included. Air New Zealand's terminal proposal would be inferior to the Terminal Integration Programme and result in a poorer passenger experience.
Auckland Airport has waited to invest, only when returns are at the 'top of the cycle'.	The investment programme has been contemplated for a number of years, as evidenced by Auckland Airport's external communications. Auckland could not have predicted a global pandemic, nor its impact on WACC when developing the capital plan.

Claims from airlines	Why this is unfounded or inaccurate
Auckland Airport's prices are not consistent with outcomes in competitive markets.	Auckland Airport's domestic prices have been very low for an extended period of time – on average less than half of Wellington and Christchurch since 2011 – these increases are off a low base. As recognised by the Commission in its draft report, price increases in this pricing period only bring Auckland Airport in line with other comparable airports. These unsustainably low prices have significantly reduced the costs of operation for Air New Zealand at Auckland Airport by over $470 million since 2011.
Retail space included in the terminal design is being funded by airlines.	Costs for non-regulated activities, including a proportion of the shared spaces, are not recovered through aeronautical charges, rather paid for by the lessees.
The cost of Auckland Airport's capital plan must be drastically reduced.	Both Air New Zealand and BARNZ supported a capital investment plan for priced assets that was only 5% lower in overall cost in 2021. Auckland Airport's investment plans are in-line with and exceeded by investments at other overseas airports that are also investing significantly in new facilities
Auckland Airport should have adopted a risk free-rate of 2.67% when setting the cost of capital.	This approach was not raised by airlines during consultation. The approach to use 3.6% was not opposed during consultation by that same airline.
Cost of capital input parameters should be strictly applied from the 2016 IM.	The risk of airport investment has changed materially due to the pandemic, and that a pre-COVID measure of airport risk is no longer relevant.

Many of the messages being played out by the airlines are either in direct conflict with other comments they are making now, or comments they have made in the past.

Table 6: Summary of contradictory or conflicting claims

Claims from airlines	Conflicting claim
Auckland Airport has historically under-invested in aeronautical infrastructure, choosing instead to sweat the assets	Auckland Airport should use the DTB for longer. [redacted]
Capex delivery is too slow	Delivery of the integrated terminal should be paused
The terminal designs are too large and should be smaller	The terminal does not allow enough space for airlines offices, the baggage hall should be bigger to allow for more innovative technology and [redacted]
Auckland Airport is concentrating too much on the commercial side of the business	The aeronautical capital plan is too large

Claims from airlines	Conflicting claim
During consultation: it is essential that the terminal is integrated. We support the commencement of the enabling and integration works.	Now: costs could be saved by providing an adjacent terminal

7.2 Evolution of the information disclosure regime

Auckland Airport considers that the information disclosure regulations are an important feature of ensuring the smooth functioning of aeronautical markets in New Zealand. Auckland Airport encourages developments in the information disclosure regime which allow for continuous improvements in the regime.

The Commission undertakes robust analysis when considering whether any changes to the information disclosure regime are warranted. This careful consideration is important in order to balance the costs and benefits of providing different levels of information. Providing additional information comes at a cost to airports and ultimately airlines, through aeronautical pricing. Therefore, the information needs to be useful and understandable to market participants who wish to better understand airport activities

Should the Commission consider changes to the information disclosure regime warrant consideration, Auckland Airport will support this approach and engage with the Commission on any processes it may set up to contemplate such changes.

7.2.1 Requirement for non-disclosure agreements for consultation

Airlines have raised concerns about the use of non-disclosure agreements ("**NDA**") that apply to consultation with airlines:

> *BARNZ has been notified in recent days that the NDA as applies to PSE4 consultation will be temporarily waived, following a request made by the Commerce Commission to AIAL. BARNZ welcomes this development. BARNZ had already requested the NDA between it and AIAL be removed in future periods or be varied to allow information to be shared with government agencies. This request has not been granted by AIAL.* [229]

Auckland Airport considers that the NDAs do not inhibit the operation of the information disclosure regime. The NDAs have been in place for a number of pricing consultation rounds, and have never been a concern of Substantial Customers in the past – and the regime has worked effectively. They are necessary in order for Auckland Airport to comply with its NZX listing obligations. The NDAs allow for Substantial Customers to provide confidential information to the Commission in confidence, so long as notice provisions are followed.

However, the Commission requested that Auckland Airport consider waiving the NDAs, as airlines had indicated to the Commission that the NDA's presented a barrier to sharing information with the Commission to undertake its review. While the Auckland Airport did not agree that the NDAs

[229] BARNZ (2 September 2024), *"Review of Auckland Airport's 2022-2027 Price Setting Event – Consultation Paper"*, page 2

did present a barrier to sharing information with the Commission, a waiver from some of the terms of the NDA was offered to Substantial Customers. In response to the waiver:

- one Substantial Customer accepted the waiver;
- one Substantial Customer accepted the waiver, but required Auckland Airport to sign a separate confidentiality agreement to receive confidential information as part of this review process; and
- one Substantial Customer did not accept the waiver and proceeded to provide confidential information to the Commission using the notice procedures as set out in the NDA.

This demonstrates that the claims the NDAs presented a barrier for Substantial Customers to share information with the Commission were unfounded. Rather, Auckland Airport considers these are another issue that airlines have raised in attempts to seek to undermine Auckland Airport's position, in the broader push for regulatory change.

Despite this, Auckland Airport remains opening to refreshing the existing NDAs with Substantial Customers to ensure they are fit for purpose going forward.