

10 June 2022

Jo Perry
Acting Head of Performance and Understanding
c/o infrastructure.regulation@comcom.govt.nz

Dear Jo

Wellington Airport Price Setting Event Review

NZ Airports wishes to make some brief comments on the Commerce Commission's consultation paper for Review of Wellington Airport's 2019-2024 Price Setting Event.

Process and scope

We appreciate the Commission's proposal for a more abbreviated review than in the past, reflecting that stakeholders' ability to engage with a protracted or complex consultation is limited by the difficult operating environment caused by the Covid-19 pandemic.

In our view, the Commission should remain alive to opportunities to streamline its future airport review processes, regardless of the pandemic impact. That is because the information disclosure regime has been established for over a decade and airports' understanding of performance expectations under the Part 4 purpose statement are now very mature. As areas of contention and dispute have materially reduced in light of the input methodologies and other guidance provided by the Commission, conducting broad and deep reviews are less likely to provide benefit to interested parties, and there should be more opportunities to conduct targeted reviews on matters of key interest (or concern) for each price setting event.

That said, there is a balance to be struck. NZ Airports has consistently expressed its view that the Part 4 purpose statement requires consideration of various aspects of performance, and that reviews should not be reduced solely to an assessment of how airport target returns compare to the Commission's benchmark WACC.

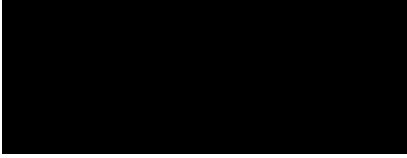
Commission's Initial Views

We do not wish to address the Commission's detailed reasoning and initial views (and anticipate that Wellington Airport will do so where appropriate). We support the Commission's overall conclusion that Wellington Airport's price setting decisions were reasonable (eg consistent with the Part 4 purpose statement). We particularly support the following aspects of the Commission's approach, and encourage it to carry them forward to future reviews of all airports:

- A careful assessment of the reasons and evidence provided by Wellington Airport for its decision-making;
- An acceptance that airport-specific factors can justify variations from the Commission's mid-point WACC estimate (which is a starting point for assessment);
- An acknowledgement that Wellington Airport's WACC is unobservable, and that when determining a WACC for pricing it should not be expected to meet the Commission's estimation of a reasonable return exactly;
- An acknowledgement that the Commission's cost of equity may be a conservative estimate. Airports will continue to constructively engage with the Commission on the type of evidence it requires to justify uplifts to asset beta (including during the IM Review); and

- An expression of comfort with the risk allocation mechanisms agreed by Wellington Airport and its customers, consistent with the Commission's established principles on how risk should be allocated. This is particularly important as airports and airlines seek to manage pandemic risk and uncertainty.

Yours sincerely



Kevin Ward
Chief Executive