



**WELLINGTON INTERNATIONAL AIRPORT LIMITED**

**SUBMISSION TO THE COMMERCE COMMISSION**

**ON THE S56G REVIEW OF**

**AUCKLAND INTERNATIONAL AIRPORT LIMITED**

**19 October 2012**

## Table of Contents

EXECUTIVE SUMMARY.....	2
INTRODUCTION AND BACKGROUND .....	5
KEY ISSUES .....	6
Process for Review	6
Commercial Behaviours by Airports	6
Commission Should Focus on Outcomes	7
Airport Performance Should be Considered Over Time	8
QUESTIONS RELATING TO AIAL .....	11
Context of WIAL's Responses to Questions	11

## Executive Summary

1. This is Wellington International Airport Limited's ("**WIAL**") submission on the Commerce Commission's ("**Commission**") Commerce Act ("**Act**") Section 56G Review ("**Review**") of Auckland International Airport Limited ("**AIAL**"). This submission is in response to the Commission's process and issues paper issued on 7 September 2012 ("**Issues Paper**").
2. WIAL has previously provided comment on the key issues arising from the Section 56G review of WIAL ("**WIAL Review**"). As the draft report for WIAL is not available for evaluation prior to completion of this submission WIAL remains uncertain as to how the Commission proposes to address certain issues for WIAL. As a consequence, where WIAL considers that these issues are similarly important for the review of AIAL the key points have been briefly summarised in this submission.
3. WIAL has also provided responses, where possible, to the questions posed by the Commission in its Issues Paper. WIAL notes that it was not a party to AIAL's consultation and has not undertaken a detailed review of AIAL's information disclosures and consequently cannot provide comment on all questions raised by the Commission.
4. WIAL understands that the Commission is seeking to form a view on whether the Information Disclosure Regime ("**ID Regime**") is achieving its legislative purpose, and part of this assessment is to establish the impact of the ID Regime on AIAL's behaviours, including its most recent consultation to establish prices for the pricing period 2013-2017.
5. As noted above, WIAL has previously submitted on key issues during the WIAL Review. We have not repeated these issues in this paper, although where considered relevant to the AIAL Review several of the key issues are summarised below:

### ***Influence of the ID Regime on Airport Behaviour***

6. WIAL submitted through the WIAL Review that it had fully considered the new ID Regime and implemented a number of changes in certain areas. Nonetheless there are also areas where WIAL considers that its behaviours were already meeting the Part 4 objectives.
7. Similarly for AIAL, WIAL notes that the Commission should not presume that any change in behaviour is necessarily required and should recognise that existing or established behaviour's may already be achieving the Part 4 objectives.

### ***Adoption of Input Methodologies ("IM's") and Evaluation of Performance***

8. WIAL provided extensive comment in its consultation documentation on the consideration it gave to the IM's and how these were applied in pricing and where departures from the IM's were considered appropriate.
9. The published Price Setting Disclosures for AIAL, WIAL and Christchurch International Airport Limited ("**CIAL**") report certain areas of commonality, including process and building block methodology. However, not unexpectedly, each airport has also adopted different approaches to certain components, whether it be the moratorium of asset revaluations for AIAL or certain risk sharing, growth incentive and commercial concessions for WIAL.
10. WIAL reiterates that it considers that the Commission's primary role within the ID Regime is to evaluate the outcomes from the airports' pricing consultation within the ID, and IM, Regime.

### ***Recognition of Commercial Behaviours***

11. WIAL has previously demonstrated a range of commercial initiatives that were developed during pricing consultation and also submitted that it had previously implemented commercial agreements with airlines, which have been achieved within the Airport Authorities Act 1966 (“**AAA**”) consultation regime. WIAL notes that the Commission should recognise the past and existing commercial behaviour of the airports and ensure that it does not form conclusions on the effectiveness of the ID Regime that could seek changes to airport behaviour that would inhibit the development of such commercial agreements in the future.

### ***Assessment of Performance Over Time***

12. WIAL’s published annual information disclosures to date report returns of 6.16% and 6.91% which are below both WIAL’s weighted average cost of capital (“**WACC**”) and the Commission’s WACC IM. Whilst this is only a ‘snapshot’ over two annual information disclosures the Commission should recognise the potential for low and high returns in individual years in any conclusions that it may reach in respect of its reviews of the airports.
13. As has been submitted previously, WIAL wishes to continue to work collaboratively with the Commission, and other stakeholders, to enhance the effectiveness of the ID Regime in New Zealand. In WIAL’s view this will be achieved by:
  - The publication of further information disclosures that will enable interested persons to evaluate the performance of the New Zealand airports over time as contemplated by the Act.
  - The Commission undertaking reviews of the airport information disclosures and providing its views on how effectively the airports are achieving the Part 4 purpose statement and areas where the Commission may have concerns about airport behaviour.
  - Airports having an opportunity to respond to any concerns or comments made by the Commission including consideration of whether the purpose of Part 4 is being met and in particular as to whether charges are appropriate (which appears to be the only real point of disagreement with the airlines).

### ***Comparability of Charges***

14. Air New Zealand Limited (“**Air NZ**”) suggests in its conference cross submission that New Zealand airports have a lighter regulatory regime than those in Australia because of the price setting powers provided by the AAA. WIAL considers that the evidence in fact shows the contrary position to be true.
15. As part of the WIAL Review the NZ Airports Association (“**NZ Airports**”) commissioned Airbiz Limited (“**Airbiz**”) to review benchmarking data provided to the Commission by the Board of Airline Representatives of New Zealand Inc. (“**BARNZ**”) and to consider further price comparisons to Australian airports. The Airbiz report demonstrated that New Zealand airport charges are at the lower end of international airports with domestic market charges being well below those in Australia. WIAL also highlights the significant Government taxes which are charged at Australian airports and which further amplify the comparatively low charges at New Zealand airports.
16. WIAL reiterates that this must be a key consideration for the Commission in considering whether the Part 4 objectives are being met and in particular whether consumers in New

Zealand are benefiting from the AAA regulatory regime. The benchmarking data shows that the AAA regime provides a discipline to the price setting process that has produced low airport prices when compared to other jurisdictions that do not have a statutory consultation requirement.

17. WIAL considers that the combination of consultation and commercial agreements under the AAA regime and public transparency of airport outcomes under the ID Regime provides airports with a robust framework to provide the most efficient long term outcomes for consumers and enables the risks associated with heavy handed regulation to be avoided.

## **Introduction and Background**

18. This is WIAL's submission in response to the Commission's paper "Airport Services – s56G Reports, Process Update and opportunity to submit on the review of Auckland International Airport" issued on 7 September 2012.
19. WIAL has provided comment on the Commission's questions relating to AIAL where it considers this appropriate. However, WIAL notes that it does not have comprehensive knowledge of AIAL's business activities, management processes and consultation and therefore cannot comment on specific pricing judgments made by AIAL.
20. WIAL is an important stakeholder in the ID Regime and considers that information disclosure is the appropriate form of regulation, albeit that it has a different view in respect of certain input methodologies applied under the ID Regime. These reservations, with respect to land valuation and cost of capital, have been expressed in WIAL's submissions made during the Commission's section 56G review of WIAL and are currently subject to a merits appeal which was heard in the High Court in October 2012.
21. WIAL also refers to the submission made by NZ Airports on the Issues Paper on 7 October 2012. WIAL contributed to the development of that submission and supports the comments made. WIAL has not sought to repeat the NZ Airports comments in this submission.

### ***WIAL Contact Details***

22. WIAL will be pleased to provide any further information required in support of this submission. Our contact person is:

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## **Key Issues**

23. WIAL submitted extensively during the WIAL Review on a number of areas and does not seek to repeat these issues in this submission. Instead in this section of the submission WIAL comments on several key issues where WIAL remains unclear on the Commission's findings from the WIAL Review.
24. WIAL considers that these issues are fundamental to the assessment of the ID Regime and therefore require consideration during the review of AIAL.

## ***Process for Review***

25. WIAL provided the Commission with considerable comment on issues identified during the WIAL Review. These were most recently summarised in WIAL's conference cross submission following the WIAL conference and included:

- Influence of the ID Regime on airport behaviour – how the Commission will give consideration to the appropriateness of established behaviours, and any changes since introduction of the ID Regime, in concluding on the effectiveness of the regime.
- Adoption of IM's and evaluation of airport performance – WIAL is unclear how the Commission will distinguish the AAA price setting outcomes with the ID Regime utilising the IM's. WIAL has submitted that the Commission should be primarily concerned with outcomes from the price setting determination and should not seek to change inputs to the determination as pricing decisions reflect a package of pricing inputs, commercial decisions and other factors.

WIAL provided extensive comment in its consultation documentation on the consideration it gave to the IM's and how these were applied in pricing and where departures from the IM's were considered appropriate.

- Recognition of commercial behaviours – WIAL remains unclear as to how the Commission will recognise the commercial approaches taken by airports in meeting their AAA consultation obligations. Further comment is provided below.
- Assessment of performance over time – WIAL's published information disclosures demonstrate that the returns that it is achieving from its pricing revenues produce regulated returns that are both below WIAL's WACC and the Commission's WACC IM. WIAL has had no feedback on how these results are being interpreted by the Commission and how they will influence any assessment of airport performance. Further comment is provided below.
- Comparability of charges – WIAL is unclear as to what regard the Commission may give to benchmarking data which demonstrates that New Zealand airport charges are at the lower end of a range of international airports with domestic market charges being well below those in Australia. Further comment is provided below.

## ***Commercial Behaviours by Airports***

26. Throughout its submissions during the WIAL Review, WIAL submitted that the Commission should ensure that the ID Regime does not disincentivise commercial behaviour that has previously been exhibited by the airports. This behaviour includes the development of:
  - Commercial agreements with airlines;

- Incentive arrangements; and
  - Wash up or risk sharing arrangements.
27. In particular WIAL demonstrated that its incentive arrangement for the new pricing period 2013-2017 would reward airlines providing new capacity at WIAL during the period. As a consequence of the scheme the average charges for all airlines will be lower and should growth be achieved in line with the scheme this discount will increase further still. WIAL has actually taken on increased risk from this scheme since if the forecast passenger growth is not achieved then revenue will be lower.
28. It is evident from AIAL's Price Setting Disclosure for the period 2013-2017 ("**Price Setting Disclosure**") that AIAL has adopted a commercial approach during its price setting process. Significant examples identified by WIAL from AIAL's Price Setting Disclosure include:
- Retention of the moratorium on asset revaluations;
  - Deferral of pricing in respect of the capital expenditure required for the new domestic terminal; and
  - Forecasting a return on capital for the period that is below the cost of capital recommended by AIAL's professional adviser.
29. WIAL is not aware of what other commercial arrangements AIAL has in place with airlines but notes that AIAL discloses the existence of incentives in its 2011 annual information disclosure.
30. The Commission should ensure that it does not inhibit or disincentivise the continuation of the commercial approaches by the airports. This will be a risk if comparison of pricing inputs to the IM's, and reliance on calculation of target revenues from this approach in its analysis, is overemphasised. The Commission should ensure that it considers the commercial, financial, quality and pricing outcomes from AIAL's consultation as a total package.

### ***Commission Should Focus on Outcomes***

31. The WIAL conference devoted considerable time to discussion of areas where a difference of opinion remained between WIAL and the airlines. WIAL remains concerned that this indicates that the Commission are devoting considerable attention to points of disagreement only and the revenue and pricing calculations with detailed inputs to those calculations.
32. Such an approach risks presuming that there may be only one right answer for each input which would substantially oversimplify the reality of the pricing process.
33. The determination of required revenue and pricing is a complex process requiring considerable judgement to be applied over a range of inputs for a forecast five year period. Subjectivity and uncertainty cannot be eliminated from this process and it follows that there must be a range of approaches and assumptions that can be taken by the airports.
34. The published Price Setting Disclosures for AIAL, WIAL and CIAL report certain commonality of process and building block methodology. However, each airport has adopted different approaches to certain components, whether it be moratorium of asset revaluations for AIAL or certain risk sharing, growth incentive and commercial concessions for WIAL.

35. In addition, each airport has evidenced consideration of the IMs in its price setting and identified where it has departed from these.
36. Importantly substitution of one input cannot be presumed to result in a change in the pricing outcomes as changing an input will almost certainly have led to different judgments in respect of other inputs or in commercial approaches.
37. WIAL continues to submit that it is not necessary or relevant for the Commission to take this approach and that assessment of the airport outcomes within the information disclosure, including IM's, regime is the appropriate means for the Commission to consider whether airports are achieving the Part 4 objectives.

### ***Airport Performance Should be Considered Over Time***

38. The importance for assessment and evaluation over time is clearly anticipated by Section 53B of the Act which refers to the assessment of change in performance over time.
39. WIAL submitted on two key areas during the WIAL Review and these are commented on below to indicate again how these issues should be addressed in the AIAL review.

### ***Historical Returns***

40. WIAL demonstrated<sup>1</sup> that its returns using the Commission's IMs were considerably below the return that could have been expected from application of the Commission's WACC IM.
41. Furthermore WIAL also commented on the expected returns for the 7 year period following the commencement of the new ID Regime:<sup>2</sup>

*In addition, WIAL has calculated its returns since the commencement of the ID Regime until the end of the current pricing period i.e. financial years 2011 to 2017. The return over this 7 year period (comprising 2 years of actual returns and 5 years of forecast returns) is 6.88% based on an MVEU asset base and 8.21% based on an MVAU asset base.*

42. Any assessment of AIAL's performance should similarly be considered on a longer term basis to preserve the incentive to invest in long term assets and ensure that the opportunity to recover the appropriate cost of capital is preserved over the life of assets.
43. WIAL also notes that during the WIAL Review the views of the participating parties were sought on application of the Commission's WACC IM and in particular the point in the WACC range that the Commission should utilise in its analysis. The airlines submitted that the 50<sup>th</sup> percentile was appropriate while the airports considered that the 75<sup>th</sup> percentile should be used as a minimum. WIAL notes with interest the comment on page 36 in the AIAL Disclosure for the second Price Setting Disclosure that "*BARNZ considered Auckland Airport should apply the 75th percentile of the Commission's WACC determination.*" Clearly this is inconsistent with the views expressed by airlines in the WIAL Review and we consider firstly, reinforces the subjectivity that exists in determining WACC, and secondly, demonstrates that application of the 75<sup>th</sup> percentile is the appropriate option.

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<sup>1</sup> WIAL Cross Submission on Section 56G Airports Conference August 2012 paragraph 65

<sup>2</sup> Ibid paragraph 67

### *Treatment of Wash Ups and Other Variations from Forecast*

44. In the BARNZ cross submission following the WIAL conference BARNZ commented that it would be appropriate for the outcomes achieved by the airports to be considered within pricing periods<sup>3</sup>. BARNZ made this comment in response to a question from the Commission concerning the treatment of wash ups.
45. WIAL disagrees with this comment which if applied would fail to recognise the long term nature of airport investment cycles where periods of under and over recovery may be expected during the life cycle of large assets.
46. In respect of the particular arrangements implemented by WIAL retrospectively applying wash ups is simply illogical. WIAL raises the following considerations:
- Capital expenditure wash ups relate to the historic period however in WIAL's case this was limited to a specific project and did not include items where WIAL incurred greater than forecast expenditure. WIAL highlighted in its Initial Pricing Proposal that actual expenditure for the period 2007-2011 was \$135.4 million versus a forecast of \$137.8 million. The actual expenditure is very close to forecast being only \$2.4 million (1.7%) lower than forecast<sup>4</sup>. In addition, the pricing impact of the wash up occurs in the following pricing period where WIAL's revenue expectation has been reduced.
  - In respect of unexpected asset revaluations changes to asset values which impact the pricing calculation do not occur until the next pricing period and consequently it is illogical that a retrospective adjust should be applied.
- Furthermore revaluations impact airlines and consumers through revenues received from aeronautical charges. Within the ID, and IM Regime, these revenues are assessed against the IM regulated asset base and the return on this asset base can then be assessed. The treatment of revaluations be they expected, unexpected or from the use of wash ups, in pricing calculations therefore becomes academic as the ID Regime revenue assessment evaluates the outcome that impacts consumers (i.e. if revenue expectations were increased substantially following a large revaluation increase in the pricing asset base the higher revenue would be assessed against the IM regulated asset base in information disclosures and higher, and perhaps excess, profits would be evident).
47. The BARNZ comments in its conference cross submission that the wash ups should be applied to retrospective periods if a commitment was made to the wash ups. They infer that this is the correct approach because it compensates for over recovery in the previous pricing period. In other words:
- BARNZ suggests that the returns for the previous period should be reduced below those actually received and reflected in prices.
  - The returns for the next period should be increased above those that will actually be earned from the target revenues.
48. As commented above WIAL considers that this is illogical. There is a considerable range of variations from forecast beyond those produced by the areas where revaluations apply,

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<sup>3</sup> BARNZ Post Conference Section 56G Submission page 7

<sup>4</sup> WIAL Initial Pricing Proposal page 55

including passenger and traffic volumes, operating costs, taxation and depreciation. BARNZ makes no reference to these to suggest retrospective adjustments should apply for other variations. This selective approach is obviously not appropriate.

### **Comparability of Charges**

49. Air NZ suggests in its conference cross submission that NZ airports have an advantage over those in Australia because of the price setting power provided by the AAA<sup>5</sup>. WIAL considers that the evidence in fact shows the contrary position to be true.
50. WIAL refers to the review of airport charges undertaken by Airbiz and submitted by NZ Airports during the WIAL Review. The Airbiz report provides information on the cost to the ultimate users, i.e. passengers, for airport services in New Zealand and very clearly demonstrates that NZ airport charges are not high in comparison to other jurisdictions.
51. Most notably NZ airport charges are on the whole well below those in Australia which has an information disclosure regime, but does not have similar consultation requirements, and disciplines, required by the AAA. WIAL also highlights the significant Government taxes charged at Australian airports which further amplifies the comparably low charges at New Zealand airports.
52. In their report Airbiz in fact conclude that:
  - *“The overall conclusion of the Productivity Commission was that charges at Australian airports along with those at AKL, WGL and CHC airports are in the mid to lower range of charges applied at a large sample of major airports.*
  - *Airbiz’s comparison of New Zealand airport domestic charges demonstrates that average domestic New Zealand airport charges are between half and a quarter of average Australian domestic charges.<sup>6</sup>”*
53. Given that the NZ airport charges are below those in Australia, and at the low end in comparison to other jurisdictions, the evidence shows that the opposite of the Air NZ claim is true and that the AAA consultation requirements have imposed a pricing discipline on New Zealand airports that produces lower prices than other jurisdictions.
54. WIAL suggests to the Commission that this key point should not be overlooked in considering achievement of the Part 4 objectives. The factual basis of the price comparisons is evident and therefore transcends a variety of submissions made throughout the WIAL Review that were not supported on fact.

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<sup>5</sup> Air NZ – Post-Conference Cross-Submission to the Commerce Commission on WIAL s 56G review – 17 August 2012 paragraph 114

<sup>6</sup> Airbiz Peer Review BARNZ Analysis of New Zealand Airport Charges 17 August 2012 - page 1

## Questions Relating to AIAL

### *Context of WIAL's Responses to Questions*

55. WIAL has provided responses where it considers that it can make reasonable commentary on AIAL's consultation, and the outcomes from this, by reference to AIAL's published information disclosures. WIAL does not have a comprehensive knowledge of AIAL's business activities and was not a party to the AIAL consultation and consequently is unable to comment on a number of the detailed questions posed by the Commission.
56. WIAL appreciates that the Commission is seeking responses to these questions to enable it to form a view on the effectiveness of the ID Regime however WIAL wishes to note that assessment by other interested persons would be undertaken with reference to the AIAL information disclosures and the Commission's section 53B summary and analysis reports. That is, the Act does not contemplate nor require that other interested persons will have access to the level of information necessary to respond to some of the questions below.

Commission Questions	WIAL Comment
1. We seek your responses to the following overarching questions for all aspects of performance.	
1.1. Has information disclosure had any impact on AIAL's performance and in understanding AIAL performance relative to the first price setting event (PSE), and why?	<p>WIAL cannot comment on whether ID has impacted AIAL's performance relative to the first Price Setting Disclosure because it cannot distinguish outcomes that arose from AIAL meeting its consultation obligations and those that may have resulted due to the ID Regime.</p> <p>Importantly WIAL notes that it should not be presumed that any change in behaviours is required as behaviours and outcomes achieved prior to introduction of the ID Regime may have been achieving the Part 4 purpose statement. The ID Regime provides the opportunity for this to be reported and evaluated.</p> <p>WIAL notes however that the disclosures made are comprehensive and clearly improve the ability of interested persons to understand AIAL's performance. They provide a strong foundation to enable analysis of actual performance as annual disclosures are made.</p>
1.2. Has information disclosure had any impact on the effectiveness and scope of consultation as part of AIAL's second PSE relative to the first PSE, and why?	<p>WIAL was not party to the AIAL consultation and is unable to comment whether ID had an impact on the consultation.</p> <p>It is however evident that the Price Setting Disclosure demonstrates that AIAL undertook a comprehensive consultation process which included</p>

Commission Questions	WIAL Comment
	<p>the establishment of clear foundations for building blocks, using professional advisors such as Tourism Futures International to inform forecasts and that AIAL made changes to its consultation proposals following receipt of airline comments.</p>
<p>1.3. What aspects of performance and conduct should we focus our efforts on for this review for AIAL?</p>	<p>The Commission is required to address AIAL's achievements for each of the objectives in the Part 4 Purpose Statement:</p> <ul style="list-style-type: none"> <li>• For non-financial measures the Commission should consider AIAL's commitment to service quality and innovation, as demonstrated in its disclosures, and assess trends over time.</li> <li>• For financial measures the Commission should consider AIAL's actual performance and forecast outcomes within the ID Regime over a period of time.</li> </ul> <p>The Commission should consider AIAL's commercial behaviour during consultation and consider the package of process, reasoning and commercial concessions or incentives provided by AIAL in addition to the building block inputs as together these produce the forecast revenue requirement and pricing outcomes.</p>
<p>2. We are also seeking your responses to more specific questions provided below. Submissions are not limited to the issues raised in these questions, and we ask that you highlight any additional issues in your response, and explain why they are important.</p>	
<p>3. Is AIAL earning an appropriate economic return over time?</p>	
<p>3.1. What is an appropriate level of target return for AIAL, and why is the level appropriate?</p> <p>3.2. What is an appropriate level to reflect normal performance, and why?</p> <p>3.3. What is an appropriate level to reflect superior performance, and why?</p>	<p>WIAL cannot comment on a specific return for AIAL however WIAL notes that AIAL sought professional advice on establishing its WACC. WIAL agrees with the AIAL approach that WACC is subjective and therefore adopting a WACC range is an appropriate means to recognise this subjectivity.</p> <p>WIAL also notes that the actual target return forecast by AIAL over the pricing period is below the WACC range recommended by AIAL's</p>

Commission Questions	WIAL Comment
	<p>adviser. It is the forecast (and ultimately actual) return that should be evaluated by the Commission within the ID Regime.</p> <p>WIAL provided considerable comment on the target return that should be considered in any assessment undertaken by the Commission; Refer to:</p> <ul style="list-style-type: none"> <li>• WIAL Substantive Section 56G Submission – 6 July 2012 – paragraphs 94-109</li> <li>• WIAL Cross Submission on Section 56G Airports Conference August 2012- paragraphs 144-147</li> </ul> <p>WIAL also notes the comment on page 36 of AIAL’s disclosure for the second Price Setting Disclosure that “<i>BARNZ considered Auckland Airport should apply the 75th percentile of the Commission’s WACC determination</i>” which appears to support use of the 75<sup>th</sup> percentile.</p> <p>WIAL also reiterates that it is important that any assessment of returns reflects the circumstances prevailing at the time of price setting. Specifically in recent years the risk free rate has fallen to historic lows and it is therefore important that any assessment of returns recognises this current anomalous situation.</p>
<p>3.4. Have there been any wash-ups, discounts or other discretionary adjustments to the forecast revenue requirements. If so, how should these be dealt with for assessing profitability?</p>	<p>It is not evident from AIAL’s Price Setting Disclosure that AIAL applied any wash up arrangements in the second Price Setting Disclosure. However AIAL has applied a discretionary adjustment to forecast target revenue that produces a forecast return which is below its WACC.</p> <p>WIAL also notes that AIAL have taken an approach to asset valuation which incorporates a moratorium on updated asset valuations being used for pricing. Clearly this approach differs from the revaluation approach required to be applied in annual information disclosures.</p> <p>WIAL repeats its submissions that pricing is determined from a collection of building block inputs and commercial judgments and the Commission should consider the outcomes from this process and not seek to substitute its own inputs into the pricing calculations. AIAL may</p>

Commission Questions	WIAL Comment
	not have made the same discretionary adjustment to revenue if more specific adjustments had been made by AIAL.
3.5. How reasonable is AIAL's revenue forecast for the second PSE compared to the first PSE forecasts, and why?	WIAL has not undertaken a detailed analysis of AIAL's financial outcomes and is therefore unable to comment.
3.6. To what extent did actual results for the first PSE differ from forecasts, and why?	WIAL unable to comment.
3.7. To what extent is the difference between forecast revenue and actual revenue disclosed under ID for 2011 and 2012 different due to changes in demand and what is the dollar value difference in each year due to the changes in demand?	WIAL unable to comment.
3.8. How do the asset values used for the second PSE pricing purposes reconcile to the asset values disclosed under ID?	WIAL unable to comment.
3.9. What differences (including dollar value effects) are there between cost allocation methodologies and cost categories used for ID disclosure and the second PSE price-setting?	WIAL unable to comment.
3.10. How reasonable are AIAL's asset valuations, and why?	<p>WIAL notes that AIAL has rolled forward its 2006 valuation for the second Price Setting Disclosure continuing a revaluation moratorium it initiated in the previous pricing period. WIAL also notes AIAL's comment that its 2006 land valuation was prepared on an MVEU basis but AIAL applied a concession to this and adopted MVAU for pricing.</p> <p>WIAL recognises that this is a commercial approach taken by AIAL although in WIAL's view the valuation utilised for pricing is therefore not reflective of competitive market outcomes. It is however not appropriate for WIAL to comment on AIAL's rationale for the commercial position it has taken.</p>
3.11. What is the appropriate treatment for pricing purposes of assets held for future use?	WIAL agrees with the AIAL comments in the disclosure for the second Price Setting Disclosure (refer pages 8-9). Exclusion of major future use assets from the pricing asset base is a disincentive to airports to efficiently acquire land required for long term expansion and will lead to

Commission Questions	WIAL Comment
	price shocks when the assets are finally included in the pricing asset base, assuming the current regulatory provisions remain. That is, the airports have considerable risk that pricing at the time the assets are included in the pricing asset base may not be permitted to compensate airports for the holding period. Furthermore the IM increases the countervailing power of airlines and creates greater risks for airports to price signal ahead of step changes in capacity.
4. Is AIAL operating and investing in their assets efficiently?	
4.1. Where and when do any capacity constraints occur at AIAL, and is additional investment necessary to address these constraints?	WIAL unable to comment.
4.2. What factors outside AIAL's control have contributed to the capex and opex forecast for the second PSE and to changes in expenditure since the first PSE?	WIAL is not aware of the circumstances specific to AIAL but notes that the reported issues that affected WIAL must also have affected AIAL, including an unforecast increase in cost of regulation.
4.3. How reasonable are AIAL's opex and capex forecasts for the second PSE, and how do these compare to forecast and actual expenditure from the first PSE?	<p>WIAL does not have a detailed knowledge of AIAL's cost base and is therefore unable to comment specifically. However WIAL notes that in the second Price Setting Disclosure AIAL has:</p> <ul style="list-style-type: none"> <li>• Provided a detailed explanation of forecast cost increases; and</li> <li>• Is forecasting a decrease in real costs per passenger.</li> </ul> <p>WIAL considers that this demonstrates that AIAL while providing for necessary cost increases is also seeking to achieve cost efficiencies.</p>
4.4. To what extent does the demand forecast presented by AIAL as part of the second PSE accurately reflect expectations of future demand, and why?	WIAL unable to comment.
4.5. How reasonable is AIAL's demand forecast for the second PSE compared to the forecast from the first PSE?	WIAL unable to comment.
4.6. What role did information disclosure regulation play in negotiations concerning AIAL's expenditure forecasts?	WIAL unable to comment.

Commission Questions	WIAL Comment
<p>4.7. What impact has information disclosure regulation had on the efficiency of AIAL's investment and operational expenditure?</p>	<p>Airport investment is characterised by long lead times following extensive consultation and discussion with stakeholders. Operating costs are largely determined by the operating and regulatory requirements for management of aeronautical facilities.</p> <p>WIAL considers that it is too early in the ID Regime to be seeking to identify changes in costs that result from information disclosure regulation. AIAL has demonstrated that its operational cost base is low from benchmarking of international airports and consequently it may not be reasonable to expect reductions or further efficiencies in operational expenditure due to information disclosure regulation. However, the ID Regime will enable increased transparency and tracking of expenditure over time and between airports.</p> <p>Furthermore the deferral of a decision in respect of the future domestic terminal requirements demonstrates the commercial approach AIAL is taking in the context of the AAA regime however WIAL is not aware of whether this decision was influenced by information disclosure.</p>
<p>5. Is AIAL innovating where appropriate?</p>	
<p>5.1. How does the level of innovation at AIAL compare to innovation at other airports both domestic and international?</p>	<p>WIAL is unable to comment specifically on AIAL and other airports but notes the comments made by BARNZ on page 20 of its Response to WIAL Section 56G Issues Paper that details a number of innovations undertaken by AIAL.</p>
<p>5.2. What research and development (R&amp;D) or innovation activities have been undertaken or are forecast to be undertaken by AIAL and what was the outcome these activities (if they have been undertaken), or the expected outcome?</p>	<p>WIAL unable to comment.</p>
<p>5.3. How receptive is AIAL to innovation activity led by airlines?</p>	<p>WIAL unable to comment.</p>
<p>5.4. How does the level of R&amp;D and innovation activities compare now to activities prior to the introduction of information</p>	<p>WIAL unable to comment.</p>

Commission Questions	WIAL Comment
disclosure regulation?	
5.5. What innovation has occurred in other airports in New Zealand or overseas in recent years?	<p>WIAL commented on this matter in its Substantive Section 56G Submission – 6 July 2012, as summarised below:</p> <p><i>“200. WIAL and New Zealand is a leader in this industry and an early adopter with technology such as its common user terminal, swing gates, kiosks, international SmartGates and baggage tags.</i></p> <p><i>201. WIAL continually monitors industry developments in New Zealand and overseas. Many of these use new technologies for communication and signage, as well as facility management. WIAL is selective about when to adopt new technology innovations given the costs involved and pace of change. Also, WIAL’s compact and simple layout obviates the need for complex systems required in larger multi-terminal airports. “</i></p>
6. Is AIAL providing services at a quality that reflects consumer demands?	WIAL notes that AIAL undertakes passenger satisfaction surveys and has implemented ongoing consideration of service quality processes with stakeholders in a similar manner this is undertaken by WIAL.
6.1. What changes in quality have occurred since ID regulation was introduced?	WIAL unable to comment.
6.2. What, if any, aspects of quality do you think should or could be improved (or potentially lowered) at AIAL?	<p>WIAL unable to comment specifically but notes that AIAL is seeking quality improvements from a number of the capital expenditure projects that are detailed in the second Price Setting Disclosure.</p> <p>WIAL also notes the disclosure of ASQ surveys in AIAL’s annual disclosures which were similarly adopted by WIAL and CIAL. This will enable the identification of areas of high or low performance.</p>
6.3. What consultation was undertaken on aspects of service quality during AIAL’s second PSE? How does this differ from consultation on quality at the first PSE?	WIAL unable to comment.
6.4. What role did information disclosure play in negotiations concerning service quality during AIAL’s second PSE?	WIAL unable to comment.

Commission Questions	WIAL Comment
<p>6.5. Do the current ID requirements capture the right measures of quality?</p>	<p>WIAL commented on page 25 of its Cross Submission on Section 56G Airports Conference August 2012 that:</p> <p><i>“131. WIAL is not aware of any quality measures that could be included in the current disclosure requirements.</i></p> <p><i>132. We also highlight that the participants in the Conference did not identify any areas of concern in respect of quality.</i></p> <p><i>133. WIAL has commented in its submissions that further time should be given to enable the ID Regime to become fully established before changes are considered.</i></p> <p><i>134. WIAL therefore submits that changes to the current service quality reporting requirements are not required at this time.”</i></p>
<p>7. Is AIAL sharing the benefits of efficiency gains with consumers, including through lower prices? Do the prices set by AIAL promote efficiency?</p>	
<p>7.1. How do the prices set by AIAL reflect previous efficiency gains? How did the prices set by AIAL for the first PSE reflect previous efficiency gains?</p>	<p>WIAL cannot comment specifically however it notes that the second Price Setting Disclosure provides considerable comment on AIAL’s pricing approach and the rationale for this.</p>
<p>7.2. To what extent do changes in the pricing structure at AIAL at the second PSE better reflect efficient pricing principles (for example, are prices subsidy-free, do they have regard to service capacity, do they take account of consumers’ price sensitivity ) relative to the first PSE?</p>	
<p>7.3. To what extent have airlines and other consumers of AIAL’s services been able to make price-quality trade-offs that best meet their needs for the second PSE? How does this compare with the first PSE?</p>	
<p>7.4. To what extent do AIAL’s prices promote certainty and stability? How does this compare relative to the first PSE?</p>	<p>WIAL notes the AIAL comments regarding the treatment of future use assets in the disclosure for the second Price Setting Disclosure (refer</p>

Commission Questions	WIAL Comment
	pages 8-9). Exclusion of major future use assets from the pricing asset base is a disincentive to airports to efficiently acquire land required for long term expansion and will lead to price shocks when the assets are finally included in the pricing asset base, assuming the current regulatory provisions remain. That is, the airports have considerable risk that pricing at the time the assets are included in the pricing asset base may not be permitted to compensate airports for the holding period.
7.5. How do airlines and other consumers of AIAL's services expect their demand to change in response to the prices set by AIAL in the second PSE?	WIAL unable to comment.
7.6. What impact has information disclosure had on the pricing methodology set by AIAL for the second PSE?	WIAL unable to comment.
8. Comparator airports	
8.1. What airports provide a useful benchmark for assessing the performance of AIAL, and why?	<p>WIAL commented in Substantive Section 56G Submission – 6 July 2012 that:</p> <p><i>“251. Benchmarking can be a useful means of obtaining indicators of market positioning or to identify performance outliers. However, benchmarking should not be used to form detailed conclusions on specific airports and should be used in conjunction with other measures of assessing performance.</i></p> <p><i>252. The APC included a discussion on benchmarking in its recent report on Australian airports. Some key points the APC made with regard to benchmarking were:</i></p> <ul style="list-style-type: none"> <li><i>• “Benchmarking identifies airports’ relative performance. Benchmarking indicators can inform airport management about relative performance against similar overseas and Australian airports.</i></li> <li><i>• Benchmarking can also be used by regulators to foster ‘yardstick competition’ — although such efforts, for airports, have not been</i></li> </ul>

Commission Questions	WIAL Comment
	<p>successful.</p> <ul style="list-style-type: none"> <li>• To be useful, airports should be benchmarked against a sample of Australian and overseas airports that share similar characteristics.</li> <li>• There are numerous impediments to effective benchmarking. These include differences across airports, data limitations and competing methodologies.</li> <li>• Unless benchmarking is constructed and interpreted carefully, there is a risk that inaccurate policy inferences will be drawn from unreliable estimates.”</li> </ul> <p>253. WIAL considers that Australasian airports provide a reasonable benchmark for WIAL because their operating models and regulatory environments are similar.”</p> <p>WIAL notes that BARNZ provided benchmarking information to the Commission during the WIAL Review and that NZ Airports subsequently commissioned Airbiz to review the BARNZ information and to undertake further benchmarking of charges in comparison to Australasian airports. The Airbiz report provides appropriate benchmarking information to be used during the AIAL review. Further comment on benchmarking is made earlier in this report.</p>
9. What are the strengths and weaknesses of the current ID requirements?	
9.1. What are the additional costs to AIAL of complying with information disclosure?	WIAL unable to comment.
9.2. How much of the information disclosed during the recent price setting round would have been publicly disclosed, or disclosed to airlines, in the absence of information disclosure regulation?	WIAL notes that the airlines received comprehensive information as part of AAA consultation. WIAL is aware of AIAL’s need for sensitivity regarding the publication of market sensitive information due to its equity listing on the NZX. However, we cannot comment on the extent of information that AIAL may have publicly disclosed in the absence of the ID Regime.

Commission Questions	WIAL Comment
<p>9.3. What are the benefits to AIAL, airlines and other consumers of AIAL's services of using the information disclosed?</p>	<p>The airlines have historically received comprehensive Information and consequently the ID Regime is unlikely to provide much additional benefit to them. However, the disclosures provide substantial information for other interested persons that was not previously publicly available and this will enable them to obtain a more comprehensive understanding of AIAL's pricing and performance.</p>
<p>9.4. What additional information (not captured in responses to the questions above) could be added to the current ID requirements that would better help you assess whether the purpose of Part 4 is being met?</p>	<p>WIAL continues to submit that the ID Regime is in its infancy and consequently should be given time to develop before changes are considered. WIAL has not received any direct feedback from the Commission or other interested parties to date and is not aware that the other airports have received any feedback.</p> <p>WIAL notes however that Air NZ proposed in its cross submission following the WIAL conference that several changes be made to the information disclosure requirements, namely<sup>7</sup>:</p> <ul style="list-style-type: none"> <li>• Amending the existing cost allocation methodology;</li> <li>• Determining a pricing methodology; and</li> <li>• Amending the existing information disclosure determination to require disclosure of additional information on determination of pricing.</li> </ul> <p>WIAL does not consider that these changes are warranted at the present time with information disclosures, including consultation documentation, providing detailed explanations and economic rationale for the pricing approaches adopted by WIAL.</p> <p>Effectively Air NZ is seeking development of more prescriptive methodologies however this would be complex to achieve even for the three airports subject to information disclosure regulation with each airport having quite different characteristics. WIAL submits that the requirement for any more prescriptive input methodologies should not</p>

<sup>7</sup> Air NZ – Post-Conference Cross-Submission to the Commerce Commission on WIAL s 56G review – 17 August 2012 paragraph 84

**Commission Questions**

**WIAL Comment**

be given consideration unless it can be shown that airports are not achieving the Part 4 objectives, and do not respond to feedback where the Commission considers that changes in behaviour are required.