

Review of Christchurch Airport's revised information disclosure for its second price setting event

Draft report for consultation

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Commerce Commission
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1. Introduction

Purpose of paper

1. On 28 November 2014 Christchurch Airport voluntarily published a revised price setting disclosure describing the prices that apply from 1 December 2012 to 30 June 2017.¹ The revised information disclosure also provides information regarding the airport's planned approach to pricing for the period 1 July 2017 to 30 June 2032. We are seeking feedback on our analysis of the revised disclosure.

Review of information required under information disclosure regulation

2. Christchurch Airport is one of the three airports that are currently subject to information disclosure regulation under Part 4 of the Commerce Act.² Under this type of regulation, Christchurch Airport must publicly disclose information about its performance annually, and following a price setting event.
3. After information is disclosed by an airport, we are required to provide a summary and analysis report of the disclosed information. The purpose of summary and analysis is to promote greater understanding about the performance of each airport, their relative performance, and the changes in their performance over time.³
4. The three airports typically reset prices once every five years. Under the Airport Authorities Act, the three airports are required to consult on their prices at least every five years, and must consult before changing prices.
 - 4.1 Christchurch Airport's first pricing period under the information disclosure regulations ran from 1 July 2008 to 30 November 2012. Prices were set for this period at the first price setting event (PSE1) and the period is referred to as the PSE1 period in this report.
 - 4.2 The prices set at the second price setting event (PSE2) took effect on 1 December 2012, and the second pricing period is planned to run until 30 June 2017. This period is referred to as the PSE2 period in this report.

¹ Christchurch also published its 2014 annual disclosure and voluntarily re-disclosed its 2013 annual disclosure at the same time. However, this draft summary and analysis report only covers the price setting re-disclosure. The pricing re-disclosure is titled Christchurch International Airport Limited: "Supplementary Voluntary Disclosures: Price Reset 1 December 2012; Annual Disclosure for the Year ending 30 June 2013", 28 November 2014 (available on Christchurch Airport's website).

² S 56A of the Commerce Act sets out the Airport companies that are subject to information disclosure regulation under Part 4, namely: Auckland, Wellington, and Christchurch airports.

³ Refer: s 53B of the Commerce Act.

- 4.3 The next price setting event, which has not yet occurred, is referred to as the third price setting event (PSE3) and the PSE3 period will commence on 1 July 2017.
5. Christchurch Airport originally published the disclosure regarding its price setting for the PSE2 period on 19 December 2012. Following the findings of our review of that information, which are summarised below, Christchurch Airport reconsidered its pricing approach and the information regarding the revision to the pricing approach was published on 28 November 2014.

Original review of second pricing event was part of a wider exercise

6. Our original review of Christchurch Airport's PSE2 disclosure was undertaken as part of a wider exercise that reviewed the effectiveness of the information disclosure regime. This review was required under s 56G of the Commerce Act.⁴

Table 1: Publication dates for s 56 reports

Airport	Draft report	Final report
Auckland Airport	30 April 2013	31 July 2013
Christchurch Airport	15 October 2013	13 February 2014
Wellington Airport	2 November 2012	8 February 2013

7. We published a 's 56G report' for each of the three airports that described our review and our conclusions. Table 1 describes when we published draft and final reports for Auckland Airport, Christchurch Airport and Wellington Airport.

Findings from our original review

8. In our final s 56G report for Christchurch Airport we found some areas of performance where we had concerns. Information disclosure had not been effective in limiting expected excessive profits over the 20-year pricing period on which the airport's prices for 2012 to 2017 were based. When the airport set its prices for the PSE2 period, its target return for that 20-year period (ie, 2012 to 2032) was 8.9%, which was above the acceptable range of returns over that period (ie, 7.6% to 8.5%).

⁴ Commerce Commission "Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Christchurch Airport", 13 February 2014.

9. Our approach to assessing Christchurch Airport's returns over this 20-year period was specific to the information and circumstances relevant to the airport. We assessed the airport's price setting conduct over that period because, in its price setting disclosure for PSE2, the airport explained that its PSE2 period charges were the beginning of the recovery of the costs over the 20-year economic lifetime of its new integrated terminal project.
10. Christchurch Airport's target return for the PSE2 period only (ie, 6.8%) fell within an acceptable range of returns for the initial five-year period (ie, 6.6% to 7.6%). However, its conduct for PSE2 appeared to have been primarily influenced by the demand-related considerations affecting the airport for the PSE2 period (in particular the impact of the Canterbury earthquakes), rather than information disclosure regulation. It was not possible to predict whether information disclosure regulation would constrain the airport's pricing behaviour in the future if demand conditions were to improve.
11. Further, we concluded that information disclosure regulation had not been as effective in promoting pricing efficiency as we would have expected at the time of the s56G review. Christchurch Airport's PSE2 disclosure did not fully or transparently describe its pricing approach. The airport had not provided sufficient information to allow interested persons to assess its approach.
12. Our review also concluded that information disclosure had been effective in promoting incentives to innovate and to provide services at a quality that reflected consumer demand. We also noted there were a number of areas (operating expenditure efficiency, efficient investment, and sharing efficiency gains) where it was not yet possible to conclude on the effectiveness of information disclosure.

Christchurch Airport's voluntary disclosure following our report

13. Following our publication of the s 56G report, Christchurch Airport voluntarily published a revised version of its PSE2 pricing disclosure. This revised disclosure included changes to improve the transparency of its pricing approach that addressed a number of concerns raised in our s 56G report. We appreciate Christchurch Airport's efforts to improve its PSE2 disclosure.
14. The changes seek to improve transparency, without changing the pricing for the PSE2 period (unlike Wellington Airport, which changed its pricing before publishing its re-disclosure). Christchurch Airport has addressed a number of the concerns we had about the lack of transparency as to its pricing approach. We welcome the effort that Christchurch Airport has made in improving the transparency of its disclosure, and have set out our observations on the revised disclosure in this draft report.

15. However, we have not updated our conclusions on the effectiveness of information disclosure regulation in limiting Christchurch Airport's ability to extract excessive profits as a result of this review. Christchurch Airport's target returns over the 20 year period remains at 8.9%, which is above our view of an acceptable range (7.6% to 8.5%).
16. We note that some of the changes to Christchurch Airport's pricing approach may result in a reduction of prices in future pricing periods—all other things being unchanged—beyond the PSE2 period, and therefore a reduction in targeted returns. However, the revised disclosure provides insufficient information to fully assess the future impact of changes in the methodology.
17. This report and the submission process should assist Christchurch Airport in further improving the transparency of its pricing disclosures in future. The submission process also provides an opportunity for Christchurch Airport to improve stakeholder understanding about its pricing intentions from 2017 to 2032.
18. The feedback we receive on this report will also inform any changes to the disclosure requirements that we advance ahead of the next price reset in 2017. A summary of our initial observations can be found in Chapter 4.

How you can provide your views

19. Feedback should be provided to John McLaren (Manager, Regulation Branch) by 12 June 2015 by email (c/o regulation.branch@comcom.govt.nz).

Material published alongside this draft report

20. Published alongside this draft report is correspondence received from the Board of Airline Representatives New Zealand (BARNZ) in advance of publishing this draft report, which we will consider as a submission on this draft report alongside other submissions.

Next steps

21. We will release a final report on our review of the Christchurch Airport re-disclosures by 30 June 2015 after consideration of feedback on this draft report. We also plan to publish a final report on the profitability of Wellington Airport in its current pricing period at the same time.
22. After completing these reviews, we are likely to seek views on potential topics for future pieces of summary and analysis for airports. For example, analysis of historical returns may help provide a fuller picture of the performance of airports, as would developing our approaches for analysing expenditure and revenue forecasts.
23. At this stage, however, we invite you to provide your views on any aspect of this draft report.

2. Issues with transparency of previous pricing approach

Purpose of chapter

24. Christchurch Airport has approached its pricing differently to Wellington Airport and Auckland Airport. In this chapter we describe Christchurch Airport's original pricing approach for PSE2 and set out the key differences from Wellington Airport and Auckland Airport. We also explain our main concerns with Christchurch Airport's approach, as identified during the s 56G review. In Chapter 3 we discuss the extent to which we consider Christchurch Airport has addressed our concerns.

Summary of Christchurch Airport's pricing approach

25. At a high level, the approach to pricing that is most simple and transparent for stakeholders to understand is for an airport to set prices for each pricing period that targets a level of returns that is independent of the returns that will be targeted in future pricing periods.
26. In contrast, for PSE2, Christchurch Airport set prices for the PSE2 period in the context of the returns that were being targeted over a rolling 20-year period.
27. The remainder of this chapter describes the reasons for Christchurch Airport's 20-year pricing approach and our concerns with Christchurch Airport's approach.

Christchurch Airport's 20-year pricing approach

28. Christchurch Airport completed its integrated terminal project in March 2013 at a cost of \$237m, resulting in a doubling of the value of the regulatory asset base (RAB). In order to minimise price shocks and ensure that the total cost of investment is allocated fairly between current and future users, Christchurch Airport developed a 'long-run levelised constant real price' which allowed it to recover its costs over the economic life of the assets associated with the large investment.⁵
29. The levelised price path results in a lower price at the start of the 20-year period than would be established using straight-line depreciation as adopted by Wellington and Auckland airports. This relatively lower price is counterbalanced by a relatively higher price later in the 20-year period.

⁵ The airport describes the levelised price as a ceiling for prices and takes into account its commercial judgment based on the market situation (such as demand-related considerations) to decide whether to set prices below the cap. In the case of PSE2, the airport initially set prices lower than suggested by the levelised price model in order to reflect the economic conditions created by the Canterbury earthquakes. The airport has stated that when prices are lower than the levelised price model this 'under recovery' will not be compensated for with 'over recovery' in future periods.

30. In our s 56G report, we indicated that Christchurch Airport's reason for wanting to establish a levelised price path over multiple price setting periods is understandable. Christchurch Airport's levelised pricing approach is consistent with efficient pricing principles and is conceptually easy to understand.
31. However, we also explained that we had significant issues with how Christchurch Airport had implemented the approach in practice, how the approach might be implemented in future, and about the extent the implementation of the approach was transparent to interested persons.⁶
32. We suggested that Christchurch Airport's use of a standard straight-line depreciation approach in its disclosures, in conjunction with its levelised pricing approach may have meant that its pricing disclosures were less transparent than they could have been. We indicated that Christchurch Airport could have derived and disclosed forecast depreciated values of its RAB that were consistent with its levelised price path (ie, reflecting relatively low capacity utilisation in the short term, as well as an expectation of higher cash flows in the future). Doing so would have allowed interested persons to better assess the impact of its levelised pricing approach on expected returns.⁷

⁶ Commerce Commission "Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Christchurch Airport", 13 February 2014, paragraphs E13-E14.

⁷ Further description of our depreciation approach concerns is provided in paragraphs E24 to E28 of the s 56G report: Commerce Commission "Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Christchurch Airport", 13 February 2014.

Rolling 20-year pricing period

33. In its submission on our draft s 56G report, Christchurch Airport explained that it planned to set future prices based on a rolling 20-year pricing period rather than a fixed period. This rolling pricing period meant that the airport intended to restart a 20-year pricing period each time that it reset prices (generally every five years). For example, for PSE3 it would reset a new levelised price path (assuming its commercial judgment did not require a lower price) for the next 20 years. We noted that this approach differed from the understanding that stakeholders had from the pricing consultation process and the original PSE2 pricing disclosure.
34. The introduction of a rolling 20-year pricing period made it more difficult for stakeholders to understand the level of returns being targeted by Christchurch Airport. The rolling price period approach and our concerns about it are described further in paragraphs F55 to F62 of the s 56G report.⁸

Details of pricing beyond 2017 were unclear

35. There are a number of details of how the pricing approach is going to be implemented in future price setting events that are important for assessing returns. The s 56G report (particularly Attachment F) highlights a number of these details that were not clear from the original PSE2 pricing disclosure.
36. For the s 56G report, we derived an estimate of targeted returns for the 20-year period by relying on a series of assumptions. These assumptions were required because there were a number of aspects of the pricing—particularly beyond the PSE2 period—that the airport had not made clear. We were generally conservative in approaching these assumptions, resulting in a lower estimate of returns compared to alternative assumptions.
37. The pricing model that Christchurch Airport provided to airlines during consultation on PSE2 price setting only included detailed calculations for the first 10 years, which made it difficult to fully understand all the assumptions underpinning the entire levelised pricing period.

⁸ Commerce Commission “Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Christchurch Airport”, 13 February 2014.

Pricing approach implemented on a pre-tax basis

38. Another concern identified in the s 56G report was that Christchurch Airport had implemented its pricing approach on a pre-tax basis, rather than a post-tax basis consistent with the information disclosure framework.⁹ Airlines stated that this approach created confusion.
39. There was disagreement between Christchurch Airport and the airlines about the impact of using a pre-tax basis rather than a post-tax basis. We also did not agree with Christchurch Airport's assessment of the impact of its approach. It was therefore difficult for us to assess the forecast target return that Christchurch Airport might have expected the Commission to estimate for the 20-year levelised pricing period on a post-tax basis.

⁹ Commerce Commission "Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Christchurch Airport", 13 February 2014, paragraphs E54 and E55.

3. Main changes introduced in revised information disclosure

Purpose of chapter

40. Christchurch Airport has made changes to its pricing approach—as shown in its pricing re-disclosure—that address most of the concerns we published in our s 56G report. This chapter describes the main changes that Christchurch Airport has introduced in the revised information disclosure.

Main points to note from the changes

41. The main points of note from the pricing re-disclosure and related advice that Christchurch Airport has given us that we describe in this chapter are:
- 41.1 the airport has abandoned its rolling pricing period and introduced a fixed 20-year pricing period,;
 - 41.2 the airport has developed a new implied depreciation method, which seeks to aid transparency; and
 - 41.3 the airport has moved from disclosing information on a pre-tax basis to a post-tax basis.
42. These changes are discussed in the sections below.

Christchurch Airport has introduced a fixed 20-year pricing period

43. As discussed in Chapter 2, Christchurch Airport signalled that it would start a new 20-year pricing period at the start of every pricing reset (ie, every five years). The airport has signalled that it will no longer use a rolling pricing period and will revert to a fixed 20-year period beginning (1 December 2012 to 30 June 2032).¹⁰

¹⁰ In Incenta Economic Consulting’s report to Christchurch Airport (“Method for calculating the implied return of capital for PSE2 and initial discussion of method for re-setting prices for PSE3”, 27 May 2014, section 4.2.2), Incenta states that Christchurch Airport now intends to calculate the levelised price path of the remainder of the original period when reviewing prices for PSE3 rather than create a new levelised price path for a new 20-year period. However we note that this clarification was not included in Christchurch Airport’s revised PSE2 disclosure.

44. Because of Christchurch Airport's proposal that it would set prices as a series of 'overlapping' (or 'rolling') 20-year periods, we did not include any analysis of our assessment of the airport's expected profitability performance in the final s 56G report for Christchurch Airport. This is because the lack of information in Christchurch Airport's proposal regarding how its approach to overlapping 20-year periods would work in practice meant that its expected profitability performance was not transparent.
45. The change to a fixed 20-year pricing period improves the ability of interested persons (including us) to analyse Christchurch Airport's expected profitability. However, it remains difficult undertake an assessment of Christchurch Airport's expected returns over the 20-year pricing period because of other transparency issues.¹¹ The revised disclosure provides insufficient information to fully assess the future impact of changes in the methodology.

Christchurch Airport has developed a new implied depreciation method

46. In the s 56G report, the Commission suggested that the use of an economic depreciation method would be more consistent with the levelised price path. Economic depreciation reflects all changes in asset value (either up or down) other than due to capital expenditure. The forecast RAB value would no longer be rolled forward using standard depreciation and indexation assumptions.¹² Rather, the forecast RAB value in each year would be derived by adding capital expenditure and deducting economic depreciation.

Christchurch Airport have adopted an implied depreciation method for its disclosures

47. In response to our comments in the s 56G report, Christchurch Airport has adopted an implied depreciation method which it considers is more consistent with its levelised pricing approach. Christchurch Airport has restated its 2012 pricing disclosure using this implied depreciation method in an effort to make its pricing disclosure more transparent.¹³

¹¹ A 'performance assessment' refers to assessment of the returns that Christchurch Airport could expect to earn in practice if certain matters (such as the timing of cash flows and the treatment of the revaluation wash-up from PSE1) are treated in an alternative way that may be more accurate, but where that alternative treatment is not required by the regulatory requirements that were in place at the time prices were set.

¹² Rolling forward refers to the method of calculating the RAB value at the end of a year, based on the RAB value at the start of the year.

¹³ Christchurch Airport has also used this methodology for its annual disclosure for 2014 and restated its annual disclosure for 2013 on the same basis.

48. We welcome the effort that Christchurch Airport has expended to develop its new implied depreciation method. The introduction of the approach to calculating implied depreciation reflects the Commission's concerns published in the s 56G report that the PSE2 closing pricing asset base value (when established using straight-line depreciation) did not provide a good estimate of the airport's expected future cash flows.
49. Christchurch Airport's revised depreciation method calculates the implied depreciation by taking the forecast revenue for the PSE2 period (at the levelised price) and subtracting the airport's forecast returns (at its target post-tax cost of capital), forecast operating expenditure, forecast tax and forecast revaluations. The use of the levelised price for forecast revenue is consistent with Christchurch Airport's intention that its discounts below the levelised price for the PSE2 period are intended as a permanent under recovery and will not be recovered in future periods.
50. Christchurch Airport's revised depreciation method could be applied using forecast or actual values. The choice between the use of actual or forecasts values is determined by where the risk associated with differences between forecast and actual outcomes is allocated. Christchurch Airport's use of forecasts in its calculation of the implied depreciation is appropriate for its pricing disclosure given it is intended as a reflection of the airport's expectation of the value of its assets at the time it set prices.¹⁴
51. Conceptually, the introduction of an implied depreciation approach by Christchurch Airport is an improvement in that it better reflects the demand considerations that are implicit in the 20-year pricing approach; however, some issues with how the approach has been implemented remain. We are open to engaging with Christchurch Airport to help facilitate further improvements in the implied depreciation approach that would be useful before interested persons can have full confidence in the transparency of the disclosure.

Interested parties are not convinced that the revised approach gives greater transparency

52. In a letter published alongside this draft report, BARNZ has raised several concerns about Christchurch Airport's calculation of implied depreciation and, consequently, the RAB value disclosed. BARNZ considers that Christchurch Airport's levelised pricing approach was unnecessarily complex and does not support the use of this approach for future pricing events. BARNZ has significant concerns about

¹⁴ The calculation of implied depreciation using Christchurch Airport's forecasts may not be considered reasonable for annual information disclosures; however, Christchurch Airport's annual information disclosures are outside the scope of this report.

Christchurch Airport's use of its target post-tax weighted average cost of capital (WACC) in its calculation of implied depreciation.

53. Christchurch Airport's implied depreciation method provides a reasonable reflection of its pricing intent. However any areas of contention between the airport and airlines (including the level of return targeted) will remain as Christchurch Airport's key assumptions are effectively built into its revised asset roll forward calculation through the implied depreciation calculation.
54. The implied depreciation calculation does not necessarily result in an estimate of the RAB value for the assessment of returns which is fully consistent with the input methodologies.¹⁵ This issue will be considered as part of the seven-year review of input methodologies.

Christchurch Airport approach reflects its target post-tax return

55. As discussed further below, Christchurch Airport has indicated its calculation of future prices will be undertaken on a post-tax basis. This change in policy has been given effect in the calculation of implied depreciation. The implied depreciation calculation is based on using Christchurch Airport's target post-tax WACC of 9.76%.
56. By calculating the implied depreciation using its target return of 9.76%, Christchurch Airport has established a closing pricing asset base value for the PSE2 period that more accurately reflects its expectation of future returns under the levelised pricing approach.¹⁶

Christchurch Airport approach reflects the return of un-forecast revaluation gains

57. Christchurch Airport revalued its assets when setting an opening pricing asset base value for PSE2. This revaluation gain had not been factored into prices when they were set for PSE1. Consequently, Christchurch Airport reduced the revenue requirement for the PSE2 period in order to return the benefit to the airport from this revaluation to its customers.

¹⁵ Although this report does not assess Christchurch Airport's annual disclosure for 2014 and its re-disclosure of 2013, we are aware that the airport has used its implied depreciation methodology when estimating its RAB value for these disclosures. Christchurch Airport's estimate of RAB using its implied depreciation methodology uses the airport's target cost of capital rather than the input methodology compliant cost of capital. As a result, its calculated RAB value may not be consistent with the input methodology for asset valuation.

¹⁶ We use the term 'pricing asset base' when discussing Christchurch Airport's implied depreciation approach because other assets in the RAB, such as leased assets are still subject to straight line depreciation.

58. Christchurch Airport's calculation of implied depreciation incorporates the rebate for revaluations by grossing up the forecast revaluation from the levelised price for the value of the rebate. We note that this treatment is consistent with our preferred treatment of Wellington Airport's wash-up (rebate) relating to its 'Rock' terminal.
59. Christchurch Airport's calculation of implied depreciation assumes that the revaluation gains from the PSE1 period are fully rebated during the PSE2 period (rather than over the 20-year pricing period). This assumption avoids the need to carry forward any un-amortised gain from one pricing period to the next.

The method results in a lower closing asset base value

60. Christchurch Airport's implied depreciation method results in a lower pricing asset base value than that resulting from straight-line depreciation. Given the profile of the revenue under the levelised price path, when using depreciation values consistent with that path, we would have expected the pricing asset base value at the end of PSE2 to be higher than the pricing asset base value derived using standard depreciation and indexation assumptions.
61. Two key reasons explain why the pricing asset base value under Christchurch Airport's implied depreciation method is lower than the pricing asset base value under straight-line depreciation:
- 61.1 The move to a post-tax cost of capital has resulted in a lower overall target return due to concerns with how Christchurch Airport converted its post-tax target return to a pre-tax target return when setting its levelised price.
- 61.2 Forecast revenue under the levelised price has been grossed up for the rebate of revaluation gains prior to PSE2. This treatment is consistent with our treatment of Wellington Airport's wash-up relating to 'the Rock' terminal in the Wellington Airport s 56G report.
62. We are satisfied that these reasons explain why the final pricing asset base is lower than we had initially expected when the implied depreciation approach is applied.

Christchurch Airport has moved from a pre-tax basis to a post-tax basis

63. As described in paragraphs 38 to 39, Christchurch Airport's original PSE2 disclosure showed that pricing was established on a pre-tax basis. This approach resulted in a potentially higher level of returns because of the method the airport used to convert its post-tax WACC to pre-tax WACC. The disagreements over the conversion of WACC from post-tax to pre-tax also created transparency concerns.
64. We welcome this change and expect it to improve transparency in future.

4. Summary of our observations on the revised disclosure

Purpose of chapter

65. This chapter summarises our initial observations on Christchurch Airport's revised PSE2 disclosure.

Summary of our observations on the revised information disclosure

66. In summary, our observations on the revised information disclosure are as follows:
- 66.1 although there are still some areas for improvement, Christchurch Airport's efforts to improve the transparency of its disclosure following our review of its original disclosure are welcomed;
 - 66.2 the most significant improvement is the move from disclosure of information on a pre-tax basis, to a post-tax basis that is more consistent with the input methodologies that the Commission is required to apply when assessing profitability;
 - 66.3 the introduction of an implied depreciation approach by Christchurch Airport is an improvement in that it better reflects the demand considerations that are implicit in the 20-year pricing approach;
 - 66.4 we are open to engaging with Christchurch Airport to help facilitate further improvements in the implied depreciation approach that will allow interested persons to have confidence in the transparency of the disclosure; and
 - 66.5 the main area in which an Christchurch Airport could further improve the transparency of its disclosure is by providing improved information about the 20-year period that is referred to when setting prices for any particular PSE pricing period.
67. Overall, Christchurch Airport has addressed most of the concerns we had about the lack of transparency as to its pricing approach. We welcome the effort that Christchurch Airport has made in improving the transparency of its disclosure, and consider these improvements will help improve pricing efficiency in future.
68. We have not updated our conclusions on the effectiveness of information disclosure regulation in limiting Christchurch Airport's ability to extract excessive profits as a result of this review. This is because, based on the information provided in the revised disclosure, Christchurch Airport's target returns over the 20 year period remains at 8.9%, which is above our view of an acceptable range (7.6% to 8.5%).