

From: Brent Layton [brent.layton@xtra.co.nz]
Sent: Friday, 17 August 2012 9:44 a.m.
To: Karen Murray
Cc: 'Kristina Cooper'
Subject: Debt Premium Calculations for Airports - April 2012

Dear Karen

I would be grateful if you would direct my inquiry to the right person.

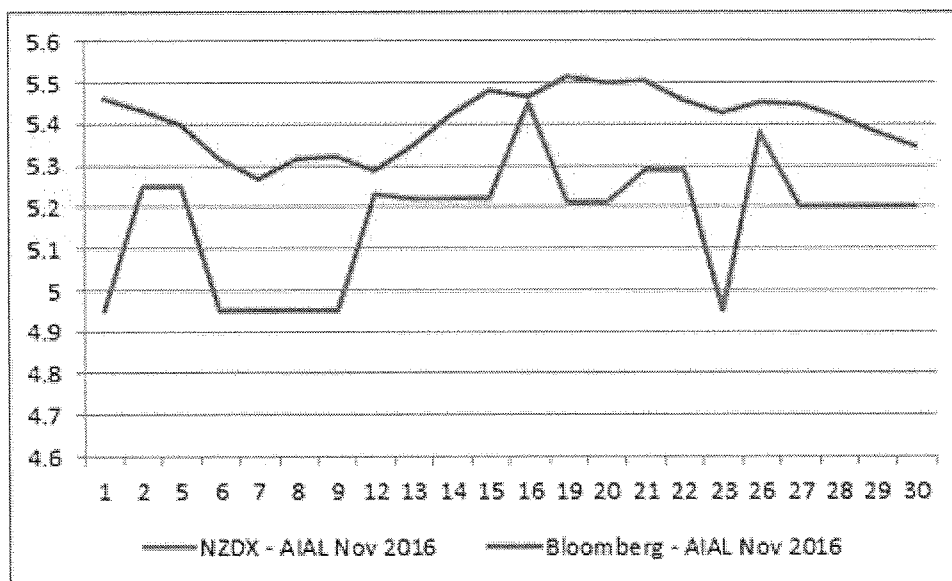
I have been checking on the Commission's calculation of the debt premium used when setting WIAL's cost of capital for information disclosure purposes in April 2012.

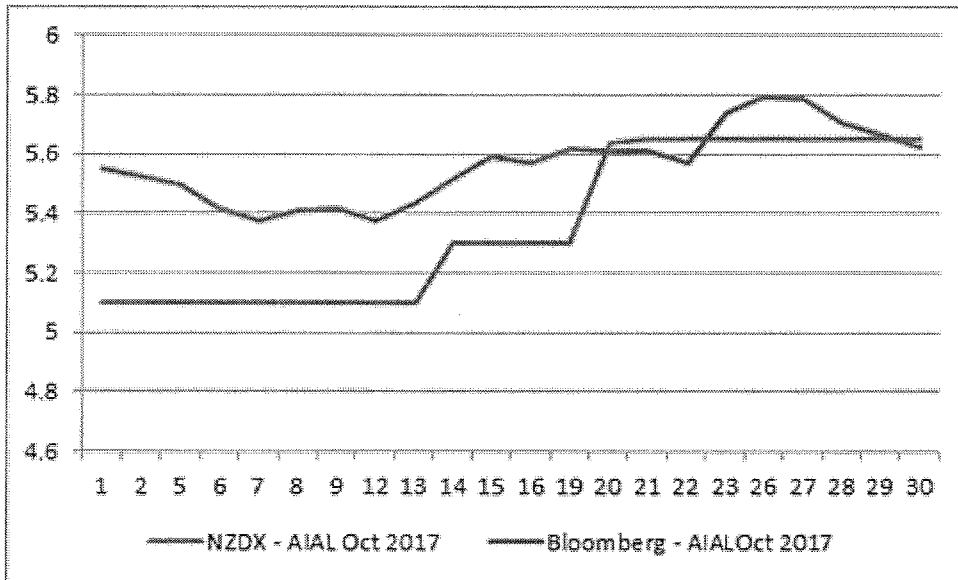
The Commission uses the Bloomberg bid yield to maturity data as its raw input. Specifically the data for AIAL bonds maturing in November 2016 and October 2017.

As far as I can determine, these data are proprietary to Bloomberg and not publicly available without subscribing to the service. The Commission has, however, published the Bloomberg data it used in a spreadsheet accessible through your cost-of-capital links <http://www.comcom.govt.nz/cost-of-capital/>. (The same spreadsheet appears to be not accessible through the Information Disclosure for airports links, which is where I would have thought it was logical to look for it).

AIAL's bonds are listed on the New Zealand Stock Exchange's debt market (NZDX); they were issues primarily aimed at the retail market. NZDX is a public market and the daily yields can be accessed by following the links to each issue at <https://www.nzx.com/markets/NZDX/bonds> and pressing on the "Interactive Chart" button on the page for each issue and scrolling the cursor across the chart.

Below I have charted the data for AIAL's Nov 2016 and Oct 2017 bonds according to Bloomberg and according to NZDX.





You will notice significant discrepancies between the two series. Bloomberg's data are for bid yields whereas NZX are based on closing bids and offers and actual trades. But even taking this into account, the differences are surprising. I may be wrong, but my understanding is that Bloomberg's data are compiled from quotes from dealers. There has been widespread fraud alleged very recently in relation to such quotes. It appears that dealers in international markets have been systematically rigging quotes to data vendors to suit their own positions.

In view of this and the discrepancy between publicly available data from NZDX and Bloomberg's data, is the Commission satisfied with its estimates of WIAL's debt premium are robust. The impact is material. Using the Bloomberg data the estimated debt premium in march 2012 was 1.94% but using the NZDX data and the same methodology it was 1.64%.

Regards

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