



Submission

Airports Information Disclosure amendments

To Commerce
Commission

9 April 2019

Introduction

1. This is the response of the Board of Airline Representatives New Zealand (BARNZ) to the Commerce Commission on the consultation paper *Airports backward-looking profitability information disclosure amendments: Draft reasons paper*, published on 28 March 2019.
2. This submission is made on behalf of the BARNZ member airlines, listed in the Appendix. Some members may make their own submissions.
3. The submission first discusses the series of amendments proposed in the paper. It then discusses the question of whether separate profitability disclosures are required for 'standard price' and 'non-standard price' regulated airport services.
4. BARNZ's contact person for this submission is:

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Comments on proposed amendments

5. The table below provides BARNZ's comment on each proposed amendment in the draft decision.

| Proposed amendment | BARNZ response |
|--|---|
| Disclose backward-looking profitability information using IRR approach, where the IRR is comparable to a post-tax WACC (and no IRR comparable to a vanilla WACC is disclosed). | Agree. The IRR comparable to a post-tax WACC is the most useful profitability indicator. |
| Disclose pricing period to date and annual IRRs in both forecast and backward-looking disclosures. | Agree. This enables interested persons to track airport profitability against forecast. |
| Require explanations of variances from forecast profitability, including due to changes in accounting treatments | Agree in principle. It is important to have explanations of variances. We understand the Commission's intention is not to set a threshold above which variances must be explained, but to leave some discretion for airports to explain the significant variances. We are comfortable with this, provided it is kept under review to make sure the important variances are all explained sufficiently. |

| Proposed amendment | BARNZ response |
|--|---|
| | <p>We note the explanations of variances may be the same across schedules – for example, schedule 6 may explain a variance in actual to forecast capex. This explanation may also be relevant to variances shown in schedule 1 and schedule 4 (assets commissioned) and repeating the same explanation in all three places seems unnecessary. We would be comfortable with it being explained once in one schedule, and then other schedules referring back to that schedule.</p> |
| <p>Backward-looking cash flow timing assumptions to be consistent with forward-looking cash-flow timing assumptions, except for assets commissioned.</p> | <p>Agree. The cash-flow timing assumptions should be consistent between backward and forward-looking disclosures.</p> <p>There is value in recording the timing of major asset commissioning. This is already disclosed in schedule 1 so is not a new requirement. Where the commissioning date of a new asset creates a variance between forecast and actual profitability, this can be explained by the airport.</p> |
| <p>Disclose annual carry-forward balances in backward and forward-looking disclosures</p> | <p>Agree. This will help to keep track of carry-forward balances and give a better view of underlying profitability.</p> |
| <p>Removing requirement to disclose offsetting revenue for works under construction roll forward</p> | <p>Agree.</p> |
| <p>Aligning assets held for future use disclosure between forward-looking and backward-looking disclosures</p> | <p>Agree.</p> |
| <p>Retain backward-looking non-standard depreciation disclosure</p> | <p>Agree. This will be useful to understand the impacts of any non-standard depreciation approaches.</p> |
| <p>New requirements apply immediately for AIAL and CIAL and for WIAL from the start of the new pricing period</p> | <p>Agree in principle.</p> |

| Proposed amendment | BARNZ response |
|--|---|
| | <p>This raises the question of when WIAL's new pricing period begins – WIAL will reset prices for its next pricing period within the next 12 months. However, there will be a wash-up to effectively back-date prices to 1 April 2019. Because of the effect of the wash-up, we consider that the disclosure requirements should assume WIAL's new pricing period begins on 1 April 2019.</p> <p>So the new backward-looking disclosure requirements for WIAL should first apply to the full FY20 disclosure year.</p> <p>Also, new clause 2.3(7) should be amended to cater for the scenarios where prices are changed part-way through a disclosure year but a wash-up is applied back to the start of the disclosure year. Clause 2.3(7) requires disclosures to be made based on the date at which a price change takes effect part-way through a disclosure year. But where a wash-up is applied back to the start of the year, the airport should disclose information that is consistent with the most recent price setting event for the period of time covered by the wash-up.</p> |
| Removal of transitional Excel schedule 9 for 2009 and 2010 | <p>Agree.</p> <p>Schedule 9 is still required, but the Excel template no longer needs to include the 2009 and 2010 transitional versions of schedule 9.</p> |

Disclosure of profitability information for standard price and non-standard price specified airport services

- The Commission's draft decision is that airports should continue to disclose backward-looking profitability for all RAB assets only. In other words, the profitability disclosures will relate to the entire regulated service (all specified airport services) and backward-looking

disclosures will not include stand-alone profitability information for standard price aeronautical services (ie terminal and airfield charges, etc) and non-standard price (ie leased) services.

7. For airports to disclose profitability information between 'standard price' and 'non-standard price' regulated services would be a significant increase in the disclosure burden. We do not think this should be introduced in this round of ID amendments, but this is a question we want to revisit later.
8. The Commission has committed to reviewing airport profitability in non-priced services in the near future. Part of that review should consider the ongoing disclosure requirements for non-standard price services relative to the other regulated airport services. The question of what profitability reporting for standard price and non-standard price services is needed should be addressed through that review. We encourage the Commission to start this review as soon as possible so customers can have confidence the returns being earned on leased services are reasonable.

Appendix – List of BARNZ Members

| Airline Members | |
|---------------------------|----------------------------|
| Air Calin | Air China |
| Air New Zealand | Air Tahiti Nui |
| Air Vanuatu | Airwork |
| American Airlines | Cathay Pacific Airways |
| China Airlines | China Eastern Airlines |
| China Southern Airlines | Emirates |
| Fiji Airways | Hainan Airlines |
| Hong Kong Airlines | Jetstar |
| Korean Air | LATAM Airlines |
| Malaysia Airlines | Philippine Airlines |
| Qantas Airways | Qatar Airways |
| Sichuan Airlines | Singapore Airlines |
| Tasman Cargo Airlines | Thai Airways International |
| Tianjin Airlines | United Airlines |
| Virgin Australia Airlines | |
| Associate Members | |
| Menzies Aviation (NZ) | OCS Group NZ |
| Swissport | Glidepath |