BARNZ

VOICE OF THE AIRLINE INDUSTRY

SUBMISSION

Commerce Commission Review
Wellington Airport PSE4

Commerce Commission

10 June 2022

BARNZ is the respected and trusted voice of the airline industry in New Zealand

We work closely with the Government, regulators, airports and local communities to create an environment that fosters continued, sustainable growth for the airline industry in New Zealand. We do this through advocating for service quality and fair prices, which help our airlines grow their international and domestic services.

The 30 BARNZ members keep New Zealand connected to the world, directly enabling our tourism industry and delivering $8 billion of exports. They bring together families, friends and businesses, as well as the free flow of ideas, information and innovation that only happen when people come together face-to-face.

We champion the airline industry and its contribution to travel, trade and tourism in New Zealand.

We strive for fair-priced, customer-focussed airport, border agency services and infrastructure for our members and their passengers.

We help to win the airline industry's ability to grow and operate in New Zealand through consultation and engagement with the wider community.

BARNZ SUBMISSION

Introduction

1. BARNZ is pleased to provide this submission on the Commerce Commission Review of Wellington Airport's 2019-2024 Price Setting Event (4) on behalf of our airline members with current or planned future services at Wellington Airport, excluding Air New Zealand and the Qantas Group, who represent themselves on this matter. Our members are listed in the appendix.
2. BARNZ also provides with this submission the TDB Advisory review paper commissioned by BARNZ, outlining some aspects of the initial pricing proposal for PSE4, as referenced by the Commerce Commission.
3. BARNZ's contact person for this submission is:

Justin Tighe-Umbers
Executive Director
[redacted]

BARNZ overall response

Overall response

4. The Commission has stated that it is "broadly satisfied that its [Wellington Airport's] target return of 5.88% on its total RAB is reasonable and consistent with promoting the long-term benefit of consumers." The Commission also states that "We do not have significant concerns that Wellington Airport is targeting excessive profits over the PSE4 pricing period with its targeted return of 5.88%)".
5. While we acknowledge and welcome Wellington Airport's adjustment from previously targeting a 61st percentile closer to the Commission's adjusted estimated mid-point WACC (56th percentile), we share the Commission's concerns that some departures from how WACC inputs have been calculated are not justified.
6. As the Commission notes, $4.3m in charges to airlines is the difference between the 56TH percentile and the midpoint over the five-year pricing period. This is a material amount to airline customers that have made significant losses during the pandemic, and are now working to restore their balance sheets. These increases will naturally flow through to consumers as an increase in cost to travel.
7. It is important that all regulated airports continue to follow the input methodology rules, requirements and processes as set out by the Commerce Commission. Any departure from these must be for clearly set out exceptional circumstances, and with strong evidence provided by the airport for the reason why. With this in mind we share the Commission's preference that the WACC estimate uses a benchmark cost of debt

approach, and agree that Wellington airport's "significant departure" from this has not been sufficiently justified.

Specific matters

8. Commission approach to the review - the Commission notes that airports are still experiencing a difficult operating environment due to the Covid-19 pandemic, and that this "may limit stakeholder's ability to engage with a protracted or complex consultation". The Commission has targeted its focus on "expected profitability" and whether risk has been shared appropriately between the airport and its major customers.
9. Whilst we support this pragmatism in keeping a targeted scope for a review, BARNZ would like to note that service quality, innovation and cost efficiency continues to be important factors for airlines, especially in times of recovery. There can be a danger in expediting airport reviews too far. However in this instance as the industry emerges from the pandemic we agree it's appropriate to focus on ensuring the airport is not earning excessive profits, and that risk has been shared effectively.
10. Revenue deferral approach – the Commission has accurately outlined the revenue deferral approach insofar as BARNZ is concerned. BARNZ supported both six-month extensions of the price setting event (i.e. year 1 of PSE4), on the basis that it would enable WIAL to complete more detail in their masterplan and capex forecast assessment. This had the effect of pushing the price setting event into the start of the pandemic. The airport at that point took a further decision to extend the price setting out by a further 12 months. This was also supported by BARNZ on the basis that it would allow the holding of aeronautical charges flat until the border situation became clearer, an appropriate way to manage demand volatility.
11. Risk sharing approach - with regard to risk sharing, we note that the approach taken removed significant demand risk from the airport over years 1 and 2 of PSE4. This was an accidental consequence of the deferring of PSE4. Had the price setting event occur when it was originally intended (i.e. late 2018 / early 2019), the demand forecast would have been locked in for the five years, and no demand forecast refresh or wash up would have occurred. This would have manifested in further losses for the airport. Instead the airport has been able to effectively reset pricing with knowledge of the demand downturn that they otherwise would not have had.
12. This point was not reflected in the Commerce Commission review document. While airlines also had some benefit from the deferred price setting in terms of delayed pricing increases until demand recovered, in the interests of balance we feel this aspect should also be captured.
13. We also agree with the Commission that airports should be exposed to some of the asymmetric type 1 risk, as they can prepare to offset the impact when these risks manifest through efficient cost management.
14. Asset Beta – while BARNZ has agreed that the asset beta uplift from WIAL was modest, as stated we did not support the methodology used to calculate the operating leverage. We

submitted a paper to Wellington Airport from TDB advisory that accepted a 0.02 beta uplift in asset beta may be justified, but not the 0.03 beta used by the airport.

15. Cost of debt – we agree with the Commission that WIAL should follow the set process under IMs for the cost of debt, and use the benchmarked approach. Consistently following the IM approaches set out by the Commerce Commission is important to avoid a scenario where more favourable inputs are "cherry picked" to deliver more desirable WACC outputs.

APPENDIX – LIST OF BARNZ MEMBERS

Airline Members	
Air Calin	Air Chathams
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
Jetstar	Korean Air
LATAM Airlines	Malaysia Airlines
Philippine Airlines	Qantas Airways
Qatar Airways	Singapore Airlines
Tasman Cargo Airlines	Thai Airways International
United Airlines	Virgin Australia Airlines

Non-Airline Members	
Menzies Aviation (NZ)	OCS Group NZ
Swissport	