

Date of meeting: 25 January 2012 18.05/13103
Time: 1:00pm to 3:00pm
Location: Teleconference
Parties: Auckland International Airport Ltd, Board of Airline Representatives of New Zealand Inc; Christchurch International Airport Ltd, Wellington International Airport Ltd, Commerce Commission
Classification: Public
Subject: Airports ID amendments workshop: Minutes

Participants

Adrienne Darling	AIAL	Martin Harrington	WIAL
Phil Neutze	AIAL	Mike Basher	WIAL
Kristina Cooper	BARNZ	David Rauscher	ComCom
John Beckett	BARNZ	Hamish Groves	ComCom
Andrew Souness	CIAL	Karen Murray (Chair)	ComCom
Helen Sharp	CIAL	Robert Gordon	ComCom
Neil Cochrane	CIAL	Simon Copland	ComCom

1. Introduction

The Commission thanked the participants for the submissions received and explained that the purpose of the workshop is to provide opportunity:

- for the substance of submissions to be clarified where necessary as part of being considered by the Commission
- for participants to raise questions and comments on other parties' submissions so that the Commission can consider these
- for parties to seek clarifications from the Commission on the draft amended determination

2. Timing of Price Setting Event

In submissions, AIAL, CIAL and WIAL agreed with extending the period between the price setting event and when disclosure must be made, but suggested this should be 60 working days rather than the proposed 40 working days. BARNZ disagreed, suggesting that the disclosure should occur at the same time as the price setting event or, failing this, the current

20 day period be retained. Air New Zealand considered that preparatory work for disclosure should be largely completed by airports before final prices are set.

The airports noted:

- the final picture on pricing and the pricing methodology is available only once consultation is complete. While some material can be prepared in advance, consultation should not be progressed with a pre-drafted pricing disclosure ‘waiting in the wings’
- each airport follows a sequential process in preparing the disclosure. Each airport prepares a draft disclosure which involves repackaging and updating the consultation materials and collating other information into the draft. The draft is submitted to a steering committee and/or to the Board for consideration. WIAL additionally schedules a legal review and a review by its external auditors. CIAL’s process includes legal input and a due diligence requirement comparable to those used for debt instruments. AIAL’s process includes a due diligence process with signoff by managers and third party consultants. AIAL makes an early disclosure to substantial customers two days before the disclosure is released
- after a number of disclosures a 40 working day period might become achievable, but with pricing disclosures typically made at 5-year intervals it will take some time to build up experience
- consultation and preparation of the disclosures is carried out by the same staff
- the transitional pricing disclosure could not have been prepared in 20 days
- pricing disclosures are enduring documents covering a 5–10 year horizon and presenting major economic decisions for each airport
- if price disclosures were to be released simultaneously with the price announcement, then the period between the start of consultation and the announcement of prices would possibly need to be extended and could result in less notification time for airlines
- airports have a limited resource capacity and the companies are currently preparing annual information disclosures at around the same time as preparing the pricing disclosures

BARNZ noted

- interested persons—analysts and the public—will want access to the disclosure information, not just airport media releases, when the prices are announced
- the transitional pricing disclosures required people’s minds to be turned back four years; future disclosures should not take as long
- If price disclosures were to be released simultaneously with the price announcement, then consultation could possibly be brought forward

- the timing of the price setting disclosure is more critical than the timing of the annual disclosures. If resource limitations necessitated that a disclosure be deferred, BARNZ would prefer deferral of the annual disclosure
- much of the information for disclosure will have already been prepared for consultation. This includes spreadsheets and other information prepared for in consultation such as the aims and objectives of capital expenditure projects. Information that is not the subject of the consultations that lead to the pricing event, such as information concerning aircraft and freight, can be prepared in advance
- the assertion that pricing consultation and the preparation of pricing disclosures are separate processes is incorrect

Reason for the airports' changed view

Commission staff noted that before the original determination was released, airports had seemed fine with a 20 working day period. Airports responded that:

- having seen the substance of the required disclosures and the work involved 'behind each sentence in the determination', airports regard it as a comprehensive piece of work
- the environment has changed in the last 12 months with the discussion of director certification requirements and directors' concerns with putting their name to certification. 20 days is not realistic because of the sequential sign-off process that is needed

3. Revenue requirement not applicable to a price setting event

In its submission, WIAL raised concerns about the Schedule 18a revenue disclosure requirement that distinguishes the component of specified airport services that is subject to consultation under the Airport Authorities Act.

The Commission confirmed that the Forecast Total Revenue Requirements disclosure is concerned with all regulated businesses. Schedule 18a of the draft amended determination contains a new line (row 28) to subtract the 'total revenue requirement not applicable to the price setting event'.

Commission staff explained they had previously thought that airports were going to consider total revenue requirements in consultation, and now understand from WIAL that this will not necessarily be the case.

WIAL proposed that the Commission consider that the new line in Schedule 18 doesn't go anywhere except to provide links to the consultation documents.

AIAL commented that row 28 relates only to revenue not associated with price setting events, but not to its building block components. Commission staff explained that they recognised this but were concerned that this might result in confidential information being disclosed, as differences might be easily pin-pointed. It would also make the disclosure substantially larger. AIAL agreed, noting that it would require the allocation model to extend out five years.

WIAL suggested that the commission clarify the definitions relating to the derivation of Forecast Total Revenue Requirement by deleting the words “for the purpose of consultation undertaken as part of a price setting event”.

AIAL agreed that in order to reconcile forecasts with actuals then the approach of identifying total revenue requirement (‘100% scope’) and identifying the carve-out was appropriate.

WIAL agreed that disclosure should be about the total business. WIAL’s concern relates to the subtraction in row 28, and it considers that removing this line would not make much difference to value of the disclosure.

4. Transitional operating expenditure disclosures

The transitional provisions in the draft amendments propose that Airports not be required to disclose operating expenditure by category in the initial disclosure year. BARNZ has suggested that the transitional provisions should require operating expenditure to be disclosed either using the new categories or (if this information is not available, then) the old AAA categories.

The airports advised that that they are now in a position to disclose operating expenditure in the new categories. WIAL noted that it would struggle to achieve disclosure using the new categories in time for its 28 February disclosure date. BARNZ noted that it would prefer the WIAL disclosure to be delayed one month with the operating expenditure allocated to the new categories. WIAL agreed that a 1 month extension would allow it to disclose using the new categories.

5. Amendments to definitions for related party disclosures

In its submission, AIAL requested further explanation of the rationale, in regard to related party transactions, for the proposed revisions to the definitions of ‘net operating revenue’ and ‘operating expenditure’ and the new definitions for ‘market value of asset disposals’ and ‘other related party transactions’.

AIAL and WIAL expressed concern that the market value disclosed in Schedule 5 is inconsistent with the regulatory profit statements.

Commission staff explained that an intention of the regulatory profit statements is to identify any loss or gain on the sale to a related party with reference to market value. The Schedule 5 disclosure provides interested persons with information to make a corresponding adjustment if they so choose. Specific valuation methods for determining market value are not prescribed, but future investigation could potentially occur if a significant event involving an asset transfer occurs.

WIAL asked how the definitions would apply to, for example, to the transfer of part of a building. Commission staff noted that this may not be a common occurrence but, should suppliers experience difficulties with specific examples in the future, the Commission can look more closely at the effectiveness of the requirement if requested.

6. Assets with nil physical asset life in determining revaluations

In its submission, AIAL queried the need for an adjustment for 'assets with nil physical asset life' used in determining revaluations.

Commission staff explained that assets with an opening RAB value may have nil asset lives at the end of the disclosure year and are therefore ineligible for revaluation under the relevant asset valuation IM. The values of such assets therefore need to be identified and removed from the revaluation calculation.

AIAL indicated that it understood the need for this disclosure.

7. Offsetting revenue in works under construction

In its submission, AIAL requested a fuller understanding of the proposed additional Works under Construction calculation, including 'offsetting revenue'.

The Commission staff noted that the 'offsetting revenue' adjustment included in the proposed adjustments was required so that the ID Determination aligned with the relevant asset valuation input methodology (cl. 3.9(5)(a)).

8. Requests for additional space in templates

Commission staff confirmed that the additional space requirements can be accommodated.

9. Term credit spread difference

AIAL and WIAL noted in submissions that the term credit spread difference calculation is producing spurious results.

AIAL commented that understanding hinges on the definition of the 'execution cost for an interest rate swap'. AIAL agreed to email a proposed analysis and revised definition to workshop participants. WIAL and CIAL agreed to add anything to AIAL's email should they have any further questions.

10. Requested amendments to input methodologies

Submitters requested that we address matters raised relating to the amendment of the Airports IM Determination. These relate to the definition of net revenue associated with the cost of excluded assets, including: treatment of tax in net revenue (AIAL); and treatment of net revenue where disclosed as information disclosure revenue (BARNZ).

Commission staff confirmed that these matters are being addressed separately to the Airports ID Amendments.

11. Draft Energy ID Determination

Commission update on matters potentially relevant to Specified Airport Services.

Commission staff reminded participants that on 17 January it released its draft information disclosure determinations for electricity distribution businesses, gas distribution businesses, and gas transmission businesses. In some matters the treatment proposed may be of

interest to participants and the Commission welcomes submissions from all parties. The Commission noted that these submissions are made in respect of the information disclosure requirements for each energy service. Should any material changes to the Airport Information Disclosure be proposed in the future, there will be an opportunity for submissions at that time through the standard consultation process.

12. Other matters

BARNZ noted that it has not yet reflected on the table in Appendix 2 of WIAL's submission and asked if the Commission has a view on each issue listed in the table.

Commission staff responses are tabled below.

Issue	Response
Clause 2.5(1)(e)	The revised definition appears reasonable. Staff will discuss it with Commissioners. BARNZ agreed to advise participants quickly should it have any concerns with the proposed definition.
Clause 2.5(1)(h)	Largely covered in item 3
Clause 2.6(2)	Notes the errors identified
Adjustment from cost allocations	The revised definition appears reasonable.
Airside circulation inbound	Notes the errors identified
Assets with nil physical life	Covered in item 6
Capital expenditure	Covered in item 5
Forecast for period to date	Will review the drafting to ensure clarity
Forecast cost of capital, forecast depreciation, forecast operational expenditure, forecast other income, forecast revaluations, forecast tax, forecast value of assets employed	Covered in item 3
Forecast revenue for services applicable to the price setting event (and changes in Schedule 18)	Covered in item 3
Market value of asset disposals to a related party	Covered in item 5
Operating cost	Notes the errors identified

RAB (tax value)	Notes the drafting error identified
Revenue smoothing adjustment	Notes the drafting error identified (and that AIAL also has proposed a clearer definition for consideration)

Airports observed that the revised disclosure templates need to be issued as soon as possible, particularly to provide time for WIAL to make its next disclosure. The Commission agreed to advise all airports by the end of the week when the templates will be available.

AIAL noted that drafting amendments were still required to clarify the definition of “changes in asset allocator” and “change in cost allocator” in the ID Determination as it was not clear that only a change in the nature of the allocator used (as opposed to a change in the metrics produced by the allocator) required disclosure. The other participants confirmed that they agreed and understood this interpretation. The Commission undertook to clarify the drafting as appropriate.

AIAL requested that the Commission consider whether the treatment of revenues from excluded assets should be treated in a similar way to costs relating to excluded assets by excluding them from disclosures (refer table in Attachment 1, item relating to Sch 10A and clause 1.4 ‘operating costs’ definition in the Consultation Paper dated 19 December 2011). The Commission undertook to consider whether this issue can be considered given that it had been effectively raised as a new item outside the current consultation framework and advise parties accordingly.

The Commission noted its intention to prepare minutes and circulate them to participants by the end of Friday for review, correction and revision. All corrections and revisions should be received by the Commission by the end of Tuesday 31 January.

The Commission intends to finalise amendments ASAP. There will be no written cross submissions.

Signed: _____
Karen Murray