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By email: [REDACTED]

7 September 2023

Comment on the CEG cross-submission

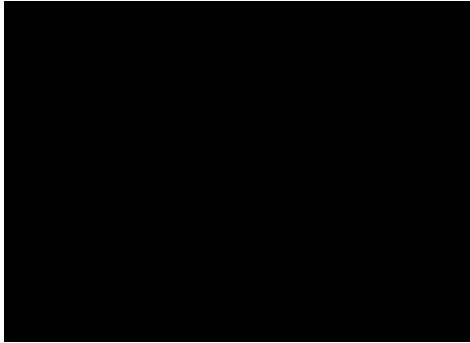
1. You have asked whether we would like to offer any comments on the new material that CEG has produced in relation to airport asset beta for the current Input Methodologies review.
2. We observe that a key implication of the additional empirical evidence that CEG introduces in paragraphs 131 to 166 is that the number of routes served by an airport has substantial explanatory power in terms of the airport's asset beta.¹ Moreover, once this factor has been accounted for, whether the airport resides in a developed or developing country is much less important, and potentially unimportant (whilst CEG finds that the developed/developing status has weak statistical significance in one model, CEG suggests that this arises from the effects of an outlier, which we think appears likely).
3. We would draw from this finding that:
 - a. there is no reliable basis for excluding airports from the sample of comparable entities simply because they operate in a developing country
 - b. the apparent feature in the larger sample of airports that there is a difference in the asset beta between airports operating in developed and developing countries is likely to stem from the differences in the characteristics of those airports, such as the number of routes served, rather than the fact that they operate in a developing or developed country, and
 - c. the New Zealand airports – being small and serving relatively few routes – are much more like the countries operating in developing countries than those in the Commission's sample that operate in developed countries.
4. We remain of the view that the best course of action for the Commission would be to continue to apply the wide sample of airports to estimate the asset beta as it did in the 2016 Input Methodologies (subject to applying a test of liquidity, as the Commission has proposed). However, we agree with CEG that, if the Commission was minded to narrow the sample of airports, or to make adjustments to the asset beta that is derived from the wider sample, then that narrowing or adjustment step should be based upon a reliable predictor of asset betas, and should not be based upon the developed or developing status of the country in which the airports operate.

¹ CEG (9 August, 2023), *Review of Submissions on asset beta estimates for airports*.

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Yours sincerely,



Jeff Balchin
Managing Director