

3 August 2022

IM Review team
Commerce Commission
Wellington

By email: im.review@comcom.govt.nz

To whom it may concern,

2023 INPUT METHODOLOGIES REVIEW – PROCESS AND ISSUES/DRAFT FRAMEWORK CROSS-SUBMISSION

- 1 Christchurch International Airport Limited (**CIAL**) appreciates the opportunity to provide a cross-submission in response to submissions received by the Commerce Commission (the **Commission**) on its Process and Issues Paper and Draft Framework Paper in relation to the 2023 Input Methodologies Review (**IM Review**) (both dated 20 May 2022).
- 2 CIAL has contributed to and supports the cross-submission made by the New Zealand Airports Association (**NZAA**), together with the report attached to that submission from Dr Tom Hird of CEG (the **CEG Report**).
- 3 In this cross-submission we comment briefly on specific issues of particular relevance to CIAL. CIAL's views are informed by work it has recently undertaken as part of its PSE4 pricing consultation and work undertaken by Incenta Economic Consulting on its behalf.
- 4 In particular, this cross submission makes some brief comments on relevant aspects of the TDB Advisory (**TDB**) Report prepared for and accompanying the BARNZ's submission. The aspects which CIAL comments on below are asset beta, asymmetric risk, rounding of TAMRP and benchmarking of credit ratings.

Asset beta

- 5 TDB makes the following points on asset beta, which CIAL wishes to address:
 - a. The first relates to adjustments for asset beta to provide ex-post compensation to airports for the impact of the pandemic. TDB submits that *“the Commission should resist Covid-related arguments for adjustments in the equity or asset betas”* and *“ex-post adjustments to compensate for risk events (like Covid) that have actually arisen would in effect be double counting the risk assessment elements in the cost of capital methodology”*.

- b. We consider that this submission does not focus the assessment on the correct question. As historic information is used to assess asset beta, the Commission's established methodology will, in CIAL's view, appropriately incorporate the effect of the pandemic. The question for the Commission is whether an adjustment should be made to remove it. We support the view in the CEG Report that there remains a strong case for the Commission to continue to apply its existing methodology (which will appropriately incorporate the impact of the pandemic).
- c. The second point relates to TDB's submission that a better sample of firms would be one that is smaller and excludes the largest (and multi-airport) firms. CIAL does not agree with this submission. We do not consider that there is any evidence to support the position that a smaller set of airport comparators would be more reflective of the relative risk profiles of New Zealand airports and see no basis for the Commission to depart from its established methodology for compiling and updating the comparator set.

Asymmetric risk

- 6 CIAL disagrees with TDB's suggestion that the Commission has rejected the principle that an allowance for asymmetric risk may be justified. In contrast, the Commission has accepted this principle on multiple occasions, in line with the advice of its expert panel on WACC in 2009, that additional compensation may be justified for asymmetric risk if such a risk is found on the facts to exist. Moreover, the Commission has recently found that the evidence justified such an allowance in the context of Chorus' regulated fibre services, in line with these same long-held principles.
- 7 One issue where the Commission has expressed a strong in-principle position is that any allowance for asymmetric risk should be provided via cash flow increments rather than via WACC increments; however, this is a second-order issue. The question of whether an allowance for asymmetric risk may be justified will depend on the evidence within a particular context, and so remains a key issue for the Commission's attention in the current review of the airport IMs.

TAMR rounding

- 8 The TDB Report suggests that the TAMRP estimate should not be rounded. CIAL disagrees and submits that the Commission should continue to follow a consistent approach for all regulated sectors. We endorse its proposal to use its 2020 estimate of 7.5%.

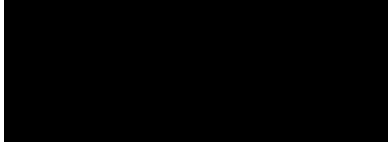
Benchmarking of credit ratings

- 9 CIAL submits that maintaining the notional long-term credit ratings for airports at A- would not be appropriate in the current environment and we support the Commission considering any updates to reflect the likely substantial worsening of credit metrics for all airports. However, assuming a continuation of the Commission's historic approach to allowing some flexibility when assessing individual airports, this would alleviate this concern.

Conclusion

10 If you have any questions about any aspect of this cross-submission, CIAL's principle submission or CIAL's position on any aspect of the IM Review, please contact Tim May.

Yours sincerely



Tim May
Chief Financial Officer