

11 July 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 SUBMISSION

- 1 Christchurch International Airport Limited (**CIAL**) appreciates the opportunity to comment on the Commerce Commission's (the **Commission's**) Process and Issues Paper and Draft Framework Paper in relation to the 2023 Input Methodologies Review (**IM Review**) (both dated 20 May 2022). CIAL is supportive of the Commission's approach of letting the review process be informed by the issues that are identified during consultation.
- 2 CIAL has assisted the New Zealand Airports Association (**NZAA**) in preparing its submission and supports the views expressed in that submission.
- 3 This submission briefly comments on specific topics that are of particular interest to CIAL. CIAL's views are informed by work it has recently undertaken in its PSE4 pricing consultation and work undertaken by Incenta Economic Consulting on its behalf.
- 4 There are two issues within the IM review consultation process that CIAL wishes to emphasise:
 - a. **Asset beta:** CIAL agrees with NZAA that it will be important for the Commission to update the cost of capital inputs, in particular, to update the asset beta estimate and reconsider the Commission's downward adjustment for asset beta. The NZAA submission provides some evidence to assist the Commission in updating these inputs. Please advise if there is particular information or evidence what would be useful in assisting the Commission to develop its thinking on these points.
 - b. **Risk sharing mechanisms:** CIAL's consultation for PSE4 prices took place while CIAL and its substantial customers were responding to the impacts of the Covid-19 pandemic. Events such as pandemics and natural disasters demonstrate the asymmetric risk that is faced by airports.

- c. There are risk sharing mechanisms available to airports that allow them to reallocate the risk between the relevant airport and its customers. This approach was adopted by Wellington International Airport Limited (**WIAL**) in its recent price setting event. We have reviewed the Commission’s consultation paper on WIAL’s price setting event. The Commission indicated its initial view was that the risk sharing mechanism was reasonable largely on the basis that WIAL’s substantial customers agreed to this approach.¹
- d. However, CIAL notes that there is limited guidance on when different forms of risk sharing will be reasonable or not. CIAL would appreciate guidance on how the Commission assesses the reasonableness of risk sharing approaches. This is particularly important for airports as the Commission only has the opportunity to comment on airports’ price setting decisions after prices have been set by which point CIAL cannot easily revisit these decisions.

Conclusion

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

Yours sincerely



Tim May
Chief Financial Officer

¹ Commerce Commission *Review of Wellington Airport’s 2019-2024 Price Setting Event – Consultation Paper* (13 May 2022) at [120].