

Auckland International Airport
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 AUCKLAND

4 April 2013

 Ruth Nichols
 Regulation Branch
 Commerce Commission
 Level 6, 44-52 The Terrace
 PO Box 2351
WELLINGTON 6011

BY EMAIL

Dear Ruth,

RE: AUCKLAND AIRPORT IRR CALCULATION

In its cross submission following the conference, at the request of the Commission, Auckland Airport provided an estimate of the IRR for regulated activities.

Since that estimate was developed it has come to our attention that three changes are required to our estimate:

- Forecast revenue.
- Opening asset base - works under construction.
- Discounting method.

Forecast revenue

Forecast revenues were provided in Schedule 18a of the price setting disclosure. In our original estimate we had applied the forecast total revenues requirement less the revenue smoothing adjustment. We have since realised this failed to account for \$3.6m - \$4m per annum of Other Income which is netted from this figure in Schedule 18a. The original and updated figures are provided below.

| Total Regulated Activities | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue - 18/3 submission | 222,197 | 236,284 | 248,079 | 259,922 | 271,753 |
| Revenue - corrected | 225,871 | 240,053 | 251,948 | 263,893 | 275,830 |
| Difference - Other Revenues | 3,674 | 3,770 | 3,869 | 3,971 | 4,077 |

Opening asset base

The IRR scenario, consistent with the WIAL final report approach, sets out the IM compliant opening values and the price setting closing values.

Our original estimates of the opening asset value included an estimate of works under construction. This was based on the price setting disclosure plus noise costs for works under construction.

Opening asset base – 18/3 submission

| Opening Asset Base per IM Asset Valuation | | |
|--|--------------------|---|
| 2012 Closing Asset Valuation | 1,119,427.5 | Schedule 4. 2012 Disclosure Statements |
| 2012 Closing WIP as per Pricing Disclosure | 1,789.4 | Schedule 18b(ii). Pricing Disclosure Statements |
| Total noise costs in 2012 closing WIP | 10,941.1 | Excluded from disclosure RAB |
| | 1,132,158.1 | |

This included only a subset of the regulated works under construction. The correct figure should be based on the full regulatory works under construction which is found in Schedule 4b (v) of the FY12 Annual Disclosure. This is shown below, less an adjustment to exclude the Northern Runway works under construction values from this total.

Corrected opening asset base

| Opening Asset Base per IM Asset Valuation | | |
|--|--------------------|--|
| 2012 Closing Asset Valuation | 1,119,427.5 | Schedule 4. 2012 Disclosure Statements |
| 2012 Closing WIP as per Information Disclosure (earlier) | 50,961.3 | Schedule 4b(v). 2012 Disclosure Statements - this is all regulated WIP (including noise costs) |
| Remove costs related to Northern Runway | (19,894.9) | |
| | 1,150,493.9 | |

Discounting method

In our submission of 18 March the analysis was based on mid-year cashflows on the understanding that this was the approach taken by the Commission in its Final Report for Wellington Airport. We now understand that this was a scenario undertaken by the Commission. Auckland Airport used end of year cashflows in its modelling for the Pricing Decision and was not requested to alter this to mid-year discounting during consultation. Therefore Auckland Airport's position is that end of year discounting is the appropriate method for IRR modeling. The model has been updated to correctly align this method with that used in the base case for WIAL.

We have attached an updated model which we request that you make available to all interested parties, together with this explanatory note. The resulting IRR estimate is 5.54%.

If you have any queries in relation to any of the above matters raised in this letter, please contact either myself or our Regulatory Affairs Manager, Adrienne Darling on 09 255 9090.

Yours sincerely,



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