

Commerce Commission

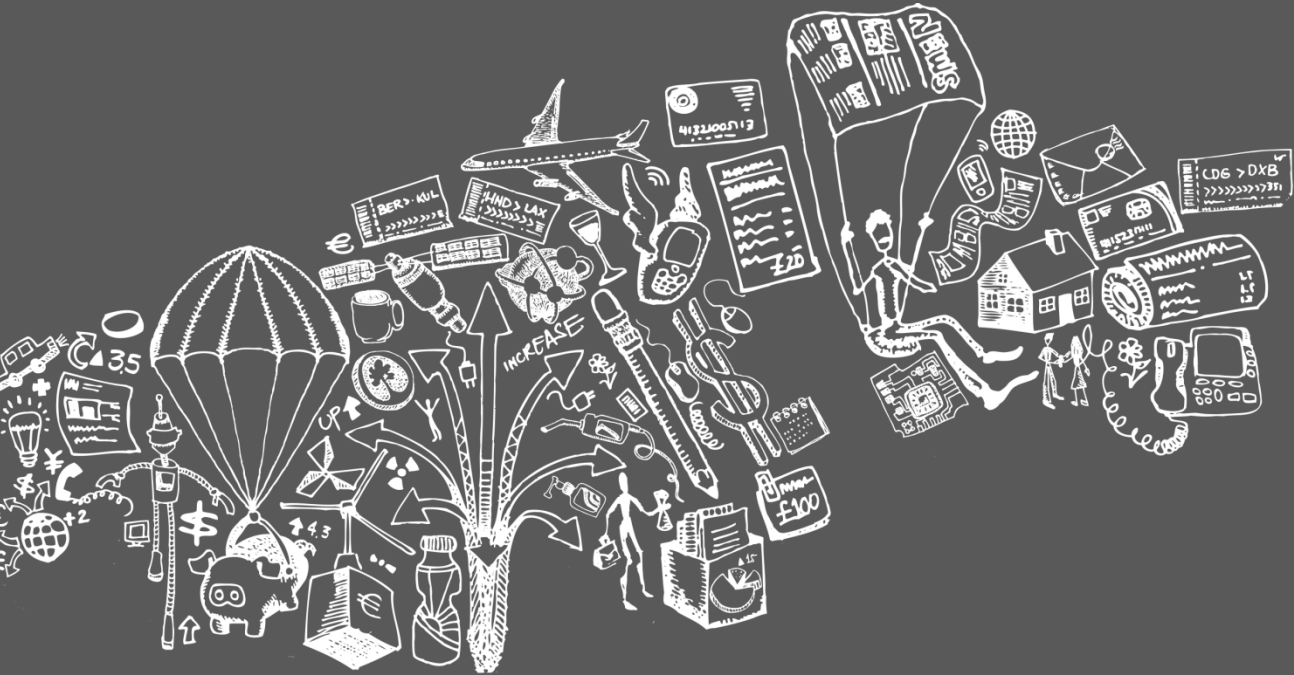
Airport Land Valuation Methodology

Supporting Paper for Proposed Amendments to Commerce Act (Specified Airport Services Input Methodologies) Determination 2010 Schedule A

5 November 2015

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Purpose

This paper has been prepared for the Commerce Commission (Commission). The purpose of this paper is to set out:

- ▶ the key issues identified and discussed at the Airports Input Methodologies (IMs) Land Valuation workshop (the Workshop) relevant to Schedule A and Information Disclosure (ID) regime; and
- ▶ the recommended amendments to Schedule A and the ID regime to address the issues identified at the Workshop.

Background

The Commission has decided to fast track the consideration of airport services land valuation methodology amendments. The land valuation methodology amendments are scheduled to be made available prior to the end of February 2016 so that Market Value Alternative Use (MVAU) land valuations can be prepared consistent with the input methodologies (IMs) prior to the commencement of the 2017 price-setting consultation and the fast track amendments can be completed and re-integrated back into the overall IM review process before the Commission releases draft decisions on the IM review in mid Q2 2016.

The scope of the amendments being considered as part of this fast track process is the application of the MVAU airport land valuation methodology. As set out in the Commission's update on fast track amendments dated 3 July 2015, the Commission will be focusing on:¹

- ▶ narrowing the potential range of airport land values that can be derived under the requirements, including removing compliance ambiguities;
- ▶ updating the airports land valuation requirements so they align to the current valuation standards and valuation industry practices applying in New Zealand; and
- ▶ considering when land valuation methodology amendments will apply.

Consideration of the appropriateness of using a MVAU methodology is not within the scope of the fast track process. This is open to be considered as part of the main IM review. This allows consideration of the appropriateness of the methodology alongside the other airport services IMs.

Workshop Overview

The airport land valuation methodology Workshop was held on 2 October 2015 at Wellington Airport. The Workshop was facilitated by EY with Commission staff and EY advisers (including EY valuation expert) attending and participating in the Workshop. The stated objectives of the Workshop were to;

- ▶ understand stakeholder views on the factors that drive differences in valuation outcomes under MVAU methodology; and
- ▶ understand stakeholder views on possible changes to the airport land valuation methodology and land valuation process run by the Airports, as driven by sound valuation and economic principles.

The Workshop was conducted using a round table format that allowed an open discussion and exchange of information, with the majority of the discussion being led by stakeholders through a combination of presentations and group discussion.

Workshop Agenda and Attendees

The Workshop agenda was based upon matters raised by stakeholders in previous submissions, identified by the Commission and identified by EY when reviewing the valuations and related material. A draft of the agenda was discussed with representatives from Board of Airline Representatives New Zealand (BARNZ) and NZ Airports Association (NZAA) prior to the Workshop.

¹ Commerce Commission, Input Methodologies Review Process Paper - Update on Fast Track Amendments, 3 July 2015.

The Workshop was attended by representatives from BARNZ, NZAA, Air New Zealand (Air NZ), Wellington International Airport Limited (WIAL), Christchurch International Airport Limited (CIAL) and Auckland International Airport Limited (AIAL). In addition BARNZ had legal, valuation and planning advisors attending and NZAA had legal, valuation, economic and commercial advisors attending.

Workshop Discussion

The Workshop provided a robust discussion that identified ambiguities that were driving material variations in valuations along with areas where there were aligned and opposing views on the valuation methodology interpretation and the required changes to Schedule A or ID regime.

BARNZ and the NZAA tabled information on the treatment of zoning and associated costs within the HBAU plan in the Workshop and provided additional material on the treatment of zoning following the Workshop. BARNZ also tabled information on the HBAU process and consistent reporting at the Workshop. The BARNZ and NZAA papers can be found on the Commission's website.²

The Workshop agenda, summary of the views expressed at the Workshop and attendees are contained in appendix A, B and C respectively.

The following section sets out the key issues, stakeholder views and EY recommendation on the proposed changes based on the Workshop discussion. The drafting changes required to Schedule A to implement the recommended changes are contained in Attachment A to the Commission's reasons paper.

Schedule A and Valuation Standards

Recommendation

We recommend that Schedule A is updated to remove any inconsistencies and repetition across the Schedule A requirements, explanatory notes, definitions and referenced standards.

Reasons

Following a detailed review of Schedule A and referenced standards it was apparent that there were a number of inconsistencies between the content of the requirements, explanatory notes and definitions and material overlap and redundancy between the contents of Schedule A and the referenced standards. While it appears the parties have come to some common ground on the interpretation of the Schedule A requirements, explanatory notes and standards there remains a risk that these could create ambiguities going forward. For this reason, and following discussions with the Commission, we recommend that Schedule A be updated to remove the inconsistencies between the requirements, explanatory notes and definitions and the overlap with the referenced standards.

The proposed amendments to Schedule A reflect this approach, including clause A3 setting out the valuation requirements and A4 setting out the special assumptions that need to be made when undertaking an MVAU valuation.

Recommendation

We recommend that Schedule A be updated to reference the current valuation standards, including changes to clauses A3-A7 as required.

Reasons

Schedule A clauses A3 to A7 currently reference the following valuation standards:

- ▶ IVS 2–Bases Other Than Market Value;
- ▶ IVS 3–Valuation Reporting;
- ▶ IVGN 1–Real Property Valuation; and
- ▶ ANZVGN 1–Valuation Procedures Real Property.

² <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/input-methodologies-review/airport-fast-track-processes-for-im-review/>

Since the IMs were determined in 2010 the IVS framework and general standards have been restructured. This included the deletion of IVS2 Bases Other Than Market Value, removal of the terminology "Bases Other than Market Value" from the IVS framework and the replacement of IVS3 Valuation Reporting with IVS103 Reporting.

While there have been a number of changes to the IVS framework and general standards it is considered that these, if adopted, will not materially change the MVAU valuation methodology or the level of reporting currently required by Schedule A.

It is considered that Schedule A should be updated to reference the current valuation standards to ensure consistency with best valuation practice and that the standards commonly used by valuers are applied to the airport valuations. The parties at the Workshop supported updating Schedule A to reference the latest valuation standards, including updates to clauses A3-A7 as required.

Treatment of Land Zoning

Recommendation

We recommend that Schedule A is updated to clarify that the treatment of zoning costs in the HBAU plan. This would include defining the starting point for zoning of land subject to MVAU valuation, what needs to be taken into account when determining the zoning starting point and whether the valuers need to determine the cost (both direct and indirect) and time associated with moving from the zoning starting point to the zoning required for the development of the land in its highest and best alternative use.

The Commission has provided its view on how the economic concept of opportunity cost applies to the treatment of zoning costs. To support those views, Schedule A should be updated to require the valuer to:

- ▶ use as the starting point for zoning the land subject to an MVAU valuation, either the zoning status prior to it being zoned an airport, the zoning consistent with the surrounding area, or the current zoning
- ▶ consider and include in the MVAU valuation the likelihood, timing and costs (both direct and indirect if any) of the land being rezoned from the starting point for zoning to the zoning required for the development of the land in its highest and best alternative use; and
- ▶ set out in the valuation report how they determined the starting point for land zoning and the likelihood, timing, and costs (both direct and indirect if any) of moving from the starting point for zoning to the zoning required for the development of the land in its highest and best alternative use.

We have proposed drafting changes to Schedule A clause A3 and A4 consistent with the Commission's draft decision.

Reasons

The most significant ambiguity driving historic differences in valuations is the treatment of airport land zoning and associated costs to achieve the HBAU plan. The key point of difference between BARNZ/Air NZ and NZAA/Airports is whether the starting point for zoning in the HBAU plan is its current (aeronautical) zoning or zoning that is most likely to apply if the airport did not exist.

BARNZ and Air NZ consider that:

- ▶ Schedule A directs that existing zoning for the airport land is the starting point;
- ▶ this may be aeronautical but may also include other activities permitted as part of the underlying existing zoning;
- ▶ the valuer must determine what zoning changes are required for the alternative use and the likelihood of obtaining these;
- ▶ the direct and indirect costs of obtaining any necessary zoning changes must be taken into account;
- ▶ direct costs include council, legal, specialist costs to obtain the zoning changes;
- ▶ indirect costs include the developer's holding costs while the zoning changes are obtained; and
- ▶ the time allowed to obtain the zoning changes must be realistic in light of the proposed alternative use.

NZAA and the Airports consider that:

- ▶ in workably competitive markets, investors earn a return on land at least equal to its value in an alternative use;

- ▶ any deduction for the cost and time for rezoning from airport use would produce a value less than its value in an alternative use and hence not be consistent with the objective of establishing the social opportunity cost of land used as an airport;
- ▶ land in the (hypothetical) alternative use should not be zoned as an airport; and
- ▶ under Schedule A the starting point for zoning is zoning that is consistent with the surrounding environment.

Both BARNZ and NZAA and their advisers provided information in the Workshop and additional information following the Workshop on the treatment of re-zoning costs in land valuation. Those materials are available on the Commission's website.

We recommend that Schedule A is updated to clarify the treatment of zoning in order to remove the ambiguity that currently exists. These amendments would include defining the starting point for zoning, guidelines on what needs to be taken into account when determining the zoning starting point and whether the valuers need to determine the cost (both direct and indirect) and time associated with moving from the zoning starting point to the zoning required for the development of the land in its highest and best alternative use.

Supporting Information

Recommendation

We recommend that Schedule A be updated to contain direction on the need to provide information supporting the MVAU valuation, including the requirement to undertake economic analysis to support the HBAU plan where appropriate, justify any changes from the special assumptions set out in Schedule A and general requirements to provide sufficient and appropriate information to support the analysis and conclusions. These changes have been included in clauses A2, A3 and A4 of Schedule A.

Reasons

Schedule A, including the international valuation standards required to be applied for valuations under Schedule A, do not specifically set out the need for the valuers to undertake economic analysis to support the proposed alternative land use in its HBAU plan. The level of economic analysis undertaken to support the HBAU plan within airport valuations has been a point of contention between the Airports and BARNZ to date, with BARNZ stating that additional economic analysis should have been undertaken to support previous WIAL valuations in particular.

At the Workshop the parties supported amending Schedule A to include additional direction on the need to undertake economic analysis to support the HBAU plan where appropriate and that this additional direction should be included in the explanatory notes of either clause A10 or A11 of Schedule A.

We recommend that Schedule A be updated to contain direction on the need to provide information supporting the MVAU valuation including economic analysis where appropriate in order to reduce any ambiguity within Schedule A. These requirements are set out in A2, A3 and A4 of Schedule A.

Explanation and Reconciliation of changes in Subsequent Valuations

Recommendation

We recommend that the ID requirements be updated to require an explanation of why and how the valuation has changed from the previous valuation and that this explanation is largely qualitative in nature.

Reasons

Schedule A or the ID regime does not require changes to valuations over time to be explained or reconciled. We believe ID should incorporate this requirement to enhance transparency of the valuation reports and allow interested parties to understand key drivers influencing outcomes between valuations. We understand that different valuers may undertake valuations over time and that undertaking a detailed line-by-line reconciliation of the changes in valuations may impose additional audit and compliance costs for the Airports. For this reason we recommend that the explanation and reconciliation of valuations be largely qualitative in nature. This should ensure additional transparency without inflicting materially higher costs on the Airports.

At the Workshop the parties agreed that there is likely to be a benefit from providing an explanation of why and how the valuation has changed from the previous valuation, it could be difficult and costly to do a detailed reconciliation and the ID requirements should be updated to require an explanation of changes in valuations and this explanation be largely qualitative in nature.

Consideration was given to whether the explanation of changes between valuations should be included in Schedule A or the ID requirements. Parties supported the inclusion of the requirement in ID as valuers may be reluctant to undertake a reconciliation with an earlier valuation prepared by a different valuer.

Explanation and Reconciliation of MVAU Land Valuations and Valuation Information in Information Disclosure

Recommendation

We recommend that ID is updated to require a reconciliation and explanation of any differences between the MVAU land valuation contained in the valuation reports and the valuation information contained in ID.

Reasons

The ID regime does not currently require an explanation or reconciliation between MVAU land valuations and the valuation information contained in ID. This can make it difficult for the Commission and interested parties to understand the relationship between the information and outcomes contained in the valuation reports and the valuation information contained in ID. Given this issue we believe there would be benefits associated with increased transparency from the ID regime requiring a reconciliation and explanation of any differences between the MVAU land valuation and the valuation information contained in ID.

Parties at the Workshop supported this approach.

Treatment of Asset Transfers under HBAU Plans

Recommendation

We recommend that Schedule A should not specify the treatment of future maintenance costs or other potential liabilities associated with assets transferred to local authorities under HBAU plans.

Reasons

The treatment of the WIAL seawall within its HBAU plan was discussed during the Workshop.

Schedule A currently states that 'costs of seawall or coastal protection systems save for those necessary for the alternative use' are excluded from the MVAU. BARNZ view is that under the HBAU plan the seawall would be transferred to the Council but costs should be included in the MVAU for ongoing seawall maintenance, which will either need to be funded through a mechanism such as a capitalised maintenance contribution to the Council or additional reserve contributions to offset the future liability assumed by the Council. WIAL view is that under the HBAU plan the seawall would be transferred to the Council and the Council would cover future maintenance costs.

The transfer and treatment of the WIAL seawall is one example of assets that could be hypothetically transferred to local authorities under HBAU plans compiled by the airports. The transfer of assets to local authorities and the treatment of any associated future costs is likely to depend on a number of factors including the type of asset, possible future liability, local authorities view on the asset being transferred, direction provided by the District Plan and precedents from previous asset transfers.

Given the number of factors that need to be considered we recommend that valuers use their professional judgement to assess and determine the treatment of any asset transfers including assessing requirements in the relevant District Plan and previous asset transfers where possible to support their decision.

Consistent Reporting Schedule

Recommendation

We recommend that Schedule A is not updated to specify a standard valuation modelling approach or a standard valuation reporting structure or content.

Reasons

At the Workshop parties discussed the possible benefits and costs associated with valuers using a standard valuation modelling approach and using a standard valuation reporting structure.

With respect to using a standard valuation modelling approach we consider that:

- ▶ it would be difficult to specify or build a model for valuers to use when compiling airport valuations;
- ▶ while there may be some consistency and transparency related benefits from using a consistent model for airport valuations these would likely be outweighed by the costs associated with building a model and the potential constraint on the market for professional valuation services; and
- ▶ the use of different models by valuers has not caused any major issues to date; and

With respect to using a standard reporting structure or content we consider that:

- ▶ the current reporting requirements set out and referenced in Schedule A are sufficient to provide for clear and comprehensive valuation reports;
- ▶ any proposed improvements in reporting can be discussed and considered through the pricing consultation process currently undertaken; and

Given the points above we recommend that Schedule A is not updated to specify a standard valuation modelling approach or a standard valuation reporting structure or content. Parties at the Workshop supported this approach.

Divergence in MVAU Outcomes

Recommendation

We recommend that a valuation variation threshold should not be set for determining whether valuations are appropriate.

Reasons

Schedule A does not currently set out a threshold for an acceptable variation in MVAU outcomes for the same airport over the same time period or a process to resolve variations outside this range. These issues were discussed by parties at the Workshop.

Given the MVAU valuation methodology, the number of inputs and assumptions required to produce a valuation and the possible degree of variation between those inputs and assumptions we believe it would be difficult to determine what an acceptable valuation variation could be. We consider the focus should be on ensuring a consistent valuation process and justifying the inputs used in the valuation as opposed to focusing on the specific valuation outcome. We also consider that the pricing consultation process will continue to be helpful in identifying and discussing issues driving valuation variations.

For these reasons we recommend that a valuation variation threshold is not set for determining whether valuations are appropriate. Parties at the Workshop supported this approach.

Appendix A: Workshop Agenda

Ref	Start	Session Topic	Duration
1	9.00	Introduction and Welcome	5 minutes
2	9.05	Agenda and Purpose <ul style="list-style-type: none"> ▶ Overview of the workshop agenda ▶ Overview of the purpose of the workshop 	10 minutes
3	9.15	Role of Information Disclosure <ul style="list-style-type: none"> ▶ Role of information disclosure and relationship with pricing 	15 minutes
4	9.30	MVAU Framework <ul style="list-style-type: none"> ▶ Role of Specified Airport Services Input Methodologies Schedule A (guidance or prescriptive) ▶ Schedule A and valuation standards 	30 minutes
5	10.00	Drivers of Valuation Variations <ul style="list-style-type: none"> ▶ Issues or ambiguities in Schedule A driving variations in valuation ▶ Options for removing or reducing ambiguities in Schedule A 	60 minutes
	11.00	Morning Tea	15 minutes
6	11.15	Key Airport Inputs <ul style="list-style-type: none"> ▶ Fact sheet for airport land information and other relevant inputs ▶ Process for determining agreed fact sheet 	30 minutes
7	11.45	Highest and Best Alternative Use Plan <ul style="list-style-type: none"> ▶ Process for developing HBAU plan ▶ Demand, timing and other analysis required to develop HBAU plan ▶ Reducing ambiguities associated with HBAU 	75 minutes
	1.00	Lunch	60 minutes
8	2.00	Highest and Best Alternative Use Plan (continued) <ul style="list-style-type: none"> ▶ Process for developing HBAU plan ▶ Demand, timing and other analysis required to develop HBAU plan ▶ Reducing ambiguities associated with HBAU 	30 minutes
9	2.30	Consistency and Transparency <ul style="list-style-type: none"> ▶ Use of consistent valuation model (software) across airports ▶ Use of consistent reporting schedule approach across airports ▶ Explanation and reconciliation of changes in valuation over time ▶ Explanation and reconciliation of differences between MVAU land valuations and valuation information contained in information disclosure ▶ Supporting information for market based inputs 	60 minutes
	3.30	Afternoon Tea	15 minutes
10	3.45	Divergence in MVAU Outcomes <ul style="list-style-type: none"> ▶ Reasonable range of MVAU outcomes ▶ Need for a process to resolve difference outside range 	30 minutes
11	4.15	Valuation Changes Resulting from Changes to the IM <ul style="list-style-type: none"> ▶ Treatment of historic valuations, future valuations and effect on ROI 	30 minutes
12	4.45	Wrap Up <ul style="list-style-type: none"> ▶ Further information required and next steps 	15 minutes
	5.00	Workshop close	

Appendix B: Summary of Views at the Workshop

Agenda Ref	Summary of Views By Session
1	<p>Introduction and Welcome</p> <ul style="list-style-type: none"> ▶ John McLaren (Commission) welcomed the participants to the workshop, introduced the Commission's advisers and provided an overview of the Commissions process for updating the airport services land valuation methodology.
2	<p>Agenda and Purpose</p> <ul style="list-style-type: none"> ▶ Paul Melville (EY) provided an overview of how the workshop will be run, the purpose of the workshop and the agenda items for discussion.
3	<p>Role of Information Disclosure</p> <ul style="list-style-type: none"> ▶ Hamish Groves (Commission) provided an overview of the regulatory framework applying to airports, relevant regulation, the purpose of information disclosure, and the input methodology (IM) review and fast track process. ▶ Craig Shrive (Russell McVeagh representing NZAA) noted that under the information disclosure regime there is currently no requirement to agree land valuations. However, consultation with other stakeholders is currently required and followed under Airports Authority Act (AAA) 1966 (for pricing). This is the process where engagement on land valuations has occurred.
4	<p>MVAU Framework</p> <p><u>Role of Specified Airport Services Input Methodologies Schedule A (guidance or prescriptive)</u></p> <p>BARNZ</p> <ul style="list-style-type: none"> ▶ Additional direction should be provided on the level of economic analysis required to support the Highest and Best Alternative Use (HBAU) plan. <p>NZAA</p> <ul style="list-style-type: none"> ▶ The current level of prescription contained in Schedule A is appropriate. ▶ Commission should carefully consider the costs and benefits of any further prescription in Schedule A before making any amendments. <p><u>Schedule A and valuation standards</u> BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ Schedule A should be updated to reference the latest valuation standards including updates to clauses A3-A7 as required.
5	<p>Drivers of Valuation Variations</p> <p><u>Issues or ambiguities in Schedule A driving variations in valuation</u></p> <p>The remaining key ambiguity driving differences in valuations was the treatment of airport land zoning and associated costs to achieve the HBAU plan. The key point of difference between BARNZ/Air NZ and NZAA/Airports was whether the starting point for zoning in the HBAU plan was aeronautical zoning or zoning consistent with the surrounding land use.</p> <p>BARNZ and Air NZ</p> <ul style="list-style-type: none"> ▶ Schedule A directs that existing zoning for the airport land is the starting point ▶ This may be aeronautical but may also include other activities permitted as part of the underlying existing zoning. ▶ The valuer must determine what zoning changes are required for the alternative use and the likelihood of obtaining these. ▶ The direct and indirect costs of obtaining any necessary zoning changes must be taken into account. ▶ Direct costs include council, legal, specialist costs to obtain the zoning changes. ▶ Indirect costs include the developer's holding costs while the zoning changes are obtained. ▶ The time allowed to obtain the zoning changes must be realistic in light of the proposed

Agenda Ref	Summary of Views By Session
	<p>alternative use.</p> <p>BARNZ tabled a presentation that set out their views on the treatment of re-zoning costs in land valuation. The presentation is available on the Commission website under 'Airport fast track processes for input methodologies review'.</p> <p>NZAA and the Airports</p> <ul style="list-style-type: none"> ▶ In workably competitive markets, investors earn a return on land at least equal to its value in an alternative use ▶ Any deduction for the cost and time for rezoning from airport use would produce a value less than its value in an alternative use and hence not be consistent with the objective of establishing the social opportunity cost of land used as an airport. ▶ Land in the (hypothetical) alternative use should not be zoned as an airport. ▶ Under Schedule A the starting point for zoning is zoning that is consistent with the surrounding environment. <p>Sapere Research Group (representing NZAA) tabled a paper that set out their views on the treatment of re-zoning costs in land valuation. The paper is available on the Commission website under 'Airport fast track processes for input methodologies review'.</p> <p><u>Options for removing or reducing ambiguities in Schedule A</u></p> <ul style="list-style-type: none"> ▶ Provide clarity for the treatment of zoning costs within the valuation and update Schedule A.
6	<p>Key Airport Inputs</p> <p><u>Fact sheet for airport land information and other relevant inputs</u></p> <p>BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ A fact sheet at the start of the valuation report could improve transparency. ▶ This could be provided by BARNZ and the airports agreeing and using a standard fact sheet in the valuation reports. ▶ Schedule A should not be updated to include or require a fact sheet to be used
7&8	<p>Highest and Best Alternative Use Plan</p> <p><u>Process for developing HBAU plan</u></p> <p>BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ The consideration and discussion on the HBAU plan provided by the existing pricing consultation process is sufficient. ▶ Schedule A should not include any additional processes relating to the development of the HBAU plan. <p><u>Demand, timing and other analysis required to develop HBAU plan</u></p> <p>BARNZ</p> <ul style="list-style-type: none"> ▶ Schedule A should contain additional prescription on the need to undertake economic analysis to support the HBAU plan and that this should be contained in the Schedule A Requirements; <p>NZAA</p> <ul style="list-style-type: none"> ▶ Initial view was that it was unclear what benefits would be obtained from including additional prescription on the need to undertake economic analysis to support the HBAU plan in the Schedule A; <p>BARNZ Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ Following discussion views of parties was that Schedule A should contain additional direction on the need to undertake economic analysis to support the HBAU plan where appropriate and that this additional direction should be included in the explanatory notes of either clause A10 or A11 of Schedule A.

Agenda Ref	Summary of Views By Session
	<p>BARNZ tabled a presentation setting out their views on the HBAU process. The presentation is available on the Commission website under 'Airport fast track processes for input methodologies review'.</p>
9	<p>Consistency and Transparency</p> <p><u>Use of consistent valuation model (software) across airports</u> BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ It would be difficult to specify or build a model for valuers to use when compiling airport valuations; ▶ While there may be some consistency and transparency related benefits from using a consistent model for airport valuations these would likely be outweighed by the costs associated with building a model and the potential constraint on the market for professional valuation services. ▶ The use of different models by valuers has not caused any major issues to date. <p><u>Use of consistent reporting schedule approach across airports</u> BARNZ</p> <ul style="list-style-type: none"> ▶ The executive summary of the valuation reports should contain more information than currently provided. <p>BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ Improvements in reporting (such as improvements in the executive summary) can be discussed and considered through the pricing consultation process currently undertaken. ▶ There is no need to specify a valuation report structure or for Schedule A to set out report requirements over and above those required by the valuation standards referenced in Schedule A. <p>BARNZ tabled a presentation setting out their views on consistent reporting. The presentation is available on the Commission website under 'Airport fast track processes for input methodologies review'.</p> <p><u>Explanation and reconciliation of changes in valuation over time</u> BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ There is likely to be a benefit from the valuation reports providing an explanation of why and how the valuation has changed from the previous valuation. ▶ It could be difficult and costly to do a detailed reconciliation between valuations given the number of inputs that could potentially change and that valuations may be undertaken by different valuers. ▶ Requiring a detailed reconciliation between valuations is also likely to increase the audit and compliance costs. ▶ ID requirements should be updated to require an explanation of changes in valuations and this explanation should be largely qualitative in nature with no requirement to do a 'line by line' reconciliation. Airports proposed that this is best provided for in information disclosures (as valuers may be reluctant to undertake a reconciliation with an earlier valuation prepared by a different valuer). <p><u>Explanation and reconciliation of differences between MVAU land valuations and valuation information contained in information disclosure</u> BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ There could be benefit in ID requiring a reconciliation and explanation of any differences between the MVAU land valuation and the valuation information contained in ID; ▶ The reconciliation and explanation should only be required in the year that the valuation was produced. <p><u>Supporting information for market based inputs</u> BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ It is important to provide sufficient supporting information in the valuation report to justify key market based inputs; ▶ The pricing consultation process should continue to be used to identify market based inputs that may require additional supporting information;

Agenda Ref	Summary of Views By Session
	<ul style="list-style-type: none"> ▶ The requirements and guidance provided by Schedule A with respect to the level of supporting information for market based inputs is sufficient.
10	<p>Divergence in MVAU Outcomes</p> <p><u>Reasonable range of MVAU outcomes</u></p> <p>BARNZ</p> <ul style="list-style-type: none"> ▶ BARNZ planning adviser stated that if the variation in valuation was greater than 10% then there is likely to be a problem with the inputs. ▶ BARNZ also considered that if there was a material divergence then the Commission should use its powers under Part 4 to commission a peer review of the valuation, just as it did during the s56G review process. <p>NZAA</p> <ul style="list-style-type: none"> ▶ NZAA considered the 10% figure referenced by BARNZ was too low and did not reflect the level of judgement contained in the multiple valuation inputs. ▶ NZAA advised that NZ case law suggests a legitimate valuation variation could be significantly higher than a 10% range. <p>BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ It would be difficult to determine what an acceptable valuation variation should be. ▶ The focus should be on the process and the inputs not the outcome. ▶ As the regulatory regime matures and the number of valuations undertaken increases the degree of variation between inputs and assumptions used by different parties should reduce. ▶ The pricing consultation process should continue to be used to identify and discuss issues driving valuation variations. ▶ A valuation variation threshold should not be set or used to assess whether valuations are appropriate.
11	<p>Valuation Changes Resulting from Changes to the IM</p> <p><u>Treatment of historic valuations, future valuations and effect on ROI</u></p> <p>NZAA and Airports</p> <ul style="list-style-type: none"> ▶ The regulatory regime requires the input methodologies to be applied on a forward looking basis. ▶ This issue of whether input methodologies should be applied on a retrospective basis is an issue that cuts across the entire regulatory regime in Part 4 of the Commerce Act. <p>BARNZ and Air NZ</p> <ul style="list-style-type: none"> ▶ Where historic valuations are found to be noncompliant with the IMs the historic valuations should be updated in order to comply. <p>BARNZ, Air NZ, NZAA and Airports</p> <ul style="list-style-type: none"> ▶ Any changes to the rules should be applied from the next MVAU valuation.
12	<p>Wrap Up</p> <p><u>Further information required and next steps</u></p> <ul style="list-style-type: none"> ▶ BARNZ and the NZAA tabled information on the treatment of zoning and associated costs within the HBAU plan in the workshop ▶ BARNZ and the NZAA plan to provide written responses to the Commission on the other party's information by 14 October 2015.

Appendix C: Workshop Attendees

#	Representing	Name	Position
1	Auckland Airport	Adrienne Darling	Acting Head of Regulatory and Pricing
2	Auckland Airport	Michael Graham	Manager Finance
3	BARNZ	Dougal Smith- Expert - Property Advisory	Registered Valuer
4	BARNZ	Mike Foster - Expert - Zomac Planning Solutions Ltd	Director
5	BARNZ	Kristina Cooper	Legal Counsel
6	Air New Zealand	Sean Ford	Manager Aeronautical Suppliers
7	Christchurch Airport	Andrew Souness	Regulatory and Asset Accounting Manager
8	Christchurch Airport	Tim May	Chief Financial Officer
9	Commerce Commission	Hamish Groves	Consultant
10	Commerce Commission	John McLaren	Manager, Compliance and Performance Analysis
11	Commerce Commission	Kimberly Foo	Project Administrator
12	Commerce Commission	Florian Steinebach	Senior Analyst
13	EY	Paul Melville	Associate Director
14	EY	Richard Bowman	Partner
15	EY	Abhay Padia	Senior Consultant TAS
16	NZAA	Christopher Graf	Senior Associate, Russell McVeagh
17	NZAA	Kieran Murray	Managing Director, Sapere Research Group
19	NZAA	Chris Stanley	Director, Telfer Young
20	NZAA	Richard Chung	Director, Wareham Cameron
21	NZAA	Mike Basher	Director, Kooba
22	NZAA	Craig Shrive	Partner, Russell McVeagh
23	Wellington Airport	Martin Harrington	Chief Financial Officer
24	Wellington Airport	Meena Parbhu	Legal Counsel

Disclaimer

This paper has been prepared for the Commerce Commission. The purpose of this paper is to set out the key issues identified and discussed at the Airports Input Methodologies Land Valuation workshop relevant to Schedule A and Information Disclosure (ID) regime; and the recommended amendments to Schedule A and the ID regime to address the issues identified at the Workshop. EY accept no responsibility whatsoever for reliance on this report other than for the purpose for which it was intended.

Review of report

EY reserves the right, but is under no obligation, to review any assumptions included or referred to in this report and, if EY consider it necessary, to revise our report in light of any information, inaccuracies, or alterations to the information provided that are relevant to this report, which was in existence and becomes known to us after the date of this report.