A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

24 October 2023

Ana Krpo
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Commerce Commission

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Dear Ana

Christchurch Airport Price Setting Event 4 Review

Air New Zealand welcomes the opportunity to make this submission on the Commission's Review of Christchurch Airport's Price Setting Event 4 for the FY23-FY27 period. Air New Zealand considers these reviews to be an important part of the regulatory framework applying to the airports subject to information disclosure regulation under Part 4 of the Commerce Act.

Nothing in this submission is confidential.

Air New Zealand notes that the Commission has chosen to focus this review on the expected profitability of Christchurch Airport over PSE4 and whether other decisions made by Christchurch Airport are promoting the purpose of Part 4, but is not explicitly addressing innovation, efficiency improvements, service quality, or sharing of efficiency gains. Air New Zealand considers this a pragmatic approach at this time but does wish to highlight the importance of quality, innovation and cost efficiency to customers. It will be important that ongoing review of annual disclosures continue to focus on these elements also.

The Commission has indicated it considers Christchurch Airport's estimate of post-tax WACC at 6.65% is reasonable, with the increase from the Commission's estimate of 6.32% largely attributable to use of a TAMRP of 7.5% rather than the 7% value specified in the Input Methodologies. The Commission has accepted use of 7.5% as this was the value it had adopted in its most recent determinations for Fibre and gas transmission services. It is noted that the 2023 Input Methodologies review draft decisions has adopted a value of 7% for this parameter. Air New Zealand accepts that Christchurch Airport could justifiably adopt the increased TAMRP at the time it set prices for PSE4.

Christchurch Airport's target return of 6.26%, below the Commission's mid-point estimate of 6.32%, appears reasonable. As noted, the reason for the reduction to 6.62% is attributable to route incentive costs not being recoverable through these charges. Air New Zealand welcomes Christchurch Airport's approach to these costs and considers it wholly inappropriate that other airports are able to adopt approaches whereby existing customers are effectively subsidizing the entry of competitors.

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Air New Zealand supported Christchurch Airport's approach in respect of:

- introduction of a transfer passenger rebate;
- use of a titled annuity depreciation approach, consistent with that adoptede in PSE3; and
- not applying a price smoothing or deferral approach.

Air New Zealand agrees with the Commission that the approach on these issues is reasonable and consistent with the purpose of Part 4.

Air New Zealand commends Christchurch Airport's approach to consultation on capital expenditure during this process. The initial proposal contained a number of items which airlines considered to be not required in this period or of sufficient uncertainty that meant they could be removed from the forecast. The airport listened to these concerns and for the most part took into account airline views, removing expenditure from the proposed plan in its final decision.

As the Commission notes, the major driver for the remaining capital expenditure is compliance. Air New Zealand is generally comfortable with the planned expenditure and agrees with the Commission that it is reasonable and consistent with the purpose of the Act.

In respect of the PLEXIT assets, Air New Zealand was comfortable with the airport's proposed approach to managing the sale from Airways NZ to Christchurch Airport and the potential impact on PSE4 pricing. It should be noted that this process is occurring across the New Zealand network, bringing with it the potential need for significant investment by airports in new lighting infrastructure, with resulting impacts on charges.

Please contact me if you have any queries relating to any of the above.

Yours sincerely

[redacted]

Sean Ford
Manager Aeronautical Suppliers