



9 November 2023

Ana Krpo  
Regulatory Performance Manager  
New Zealand Commerce Commission

By email: [infrastructure.regulation@comcom.govt.nz](mailto:infrastructure.regulation@comcom.govt.nz)

Dear Ana,

**RE: Qantas Groups cross-submission on NZCC's review of Christchurch airports 2022-2027 price setting event**

Qantas thanks the New Zealand Competition Commission (NZCC) for the opportunity to cross submit on Christchurch PSE4 responses, and seeks to make a number of comments on the New Zealand Airports Association (NZAA) response.

The response from the NZAA appears to use the NZCC's review to open up issues that go beyond CIAL's price setting event. Our material points of disagreement are as set out below.

- a) At paragraphs 16-19 of their submission, the NZAA expresses a concern that "focussing too much on profitability at the expense of the other limbs means that a balanced assessment of airport performance will not be provided to interested persons response addressing the need to balance the objectives of regulation." The NZAA goes on to worry that such a focus may favour short term consumer benefits over long term consumer benefits, and therefore create an imbalance. We do not agree that there is a problem to solve here, nor would we support a specific review. We have demonstrated in our IM Review submissions how airport profits do not present a constraint on capital investment today. We also anticipate demonstrating that the required capacity in Auckland can be delivered within the draft IM parameters as part of the Auckland Airport PSE4 review.
- b) At paragraphs 20-24 of its submission, the NZAA seeks to set out the risks of under-rewarding airports by under-estimating WACC. We disagree with that view. Whilst the NZAA has examined the costs of restricting capacity on airline availability and fares, it has ignored the costs that over-rewarding airports present on airline availability and fares.
- c) At paragraph 27 of their submission, the NZAA states that "It is reasonable and consistent with workably competitive markets for airports to use the most recent and up to date information when setting prices". We agree with this position, but note also that changes in input methodologies that may occur from time to time also constitute new information to reset prices – even when such changes occur outside of price setting events.
- d) We agree with the NZCC on the findings quoted in paragraph 34 of the NZAA response. IM debt-rating and cost of debt should not be based on or influenced by actual costs because they do not necessarily reflect efficient costs. With a view to a simpler position than the NZAA

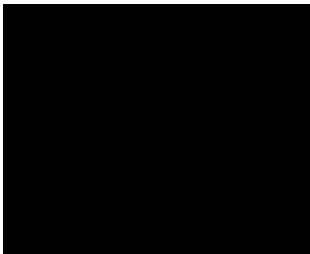
lays out in paragraphs 33-41, we stress that it is important to estimate the efficient\_cost of debt.

- e) In response to paragraphs 42-45 where the NZAA contends that the risk specifics of each airport should be considered, we see fundamental problems when airports seek to define their own relative risk exposures in order to lodge higher asset betas than considered appropriate under the IM benchmarks.
- a. History shows airport views of their own asset beta do not form any kind of normal distribution around the Commission's benchmark. Rather, individual airport submissions tend to be consistently skewed above the commission's benchmarks. Sometimes the justifications provided can appear contradictory or selective: too big vs too small, too much leisure vs too much international traffic. The NZCC should be duly sceptical of any beta or debt claims for higher rewards than its benchmark, and should ensure that over time there is a tight adherence to the benchmarks, or a narrow bell-curve of rewards centred on the benchmark mid-point.
  - b. To the extent that regulators provide airports a higher reward in response to higher risk profiles arising from controllable decisions (such as capital plans), airports are incentivised to grow their risks including inefficiently. The NZCC should closely consider airline customer views when assessing the efficiency of decisions that increase risk.

The question of risk, contrary to NZAA's position is not solved for by having a large comparator set as NZAA suggests, but by having a relevant comparator set. We have commented on this at length through the IM Review process.

We thank you for this opportunity to make a cross submission on Christchurch Airport's price setting event.

Yours sincerely,



Seb Mackinnon

Head of Commercial Airports