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REVIEW OF CHRISTCHURCH AIRPORT'S 2022-2027 PRICE SETTING EVENT (PSE4) – CROSS-SUBMISSION ON THE COMMERCE COMMISSION'S CONSULTATION PAPER

This is Christchurch International Airport Limited's (**CIAL**) cross-submission in relation to the Commerce Commission's (**Commission**) consultation paper about its review of CIAL's 2022-2027 price setting event (**PSE4 Review**).¹

No part of this submission is confidential.

Unnecessary to consider in this context whether a higher asset beta was available

We acknowledge NZ Airports Association's (**NZAA**) support for the Commission's draft conclusion that CIAL's WACC estimate of 6.65% and target return of 6.26% are reasonable. NZAA has also argued that it would have been reasonable for CIAL to have set its prices against an updated estimate of asset beta.

It is not necessary for the Commission to determine, in the context of CIAL's PSE4 disclosure, whether a higher asset beta was available. In our PSE4 disclosure we expressed our reservations as to whether the Commission's estimate of asset beta properly captures all risks that apply to airports, but we applied the asset beta as set out in the IMs.²

The Commission is in the process of updating its estimate of asset beta as part of the 2023 IM Review. We have explained in our submissions our concerns with the Commission's draft decision.³ We remain of the view that the Commission's proposed new methodology is not well supported by economic theory or evidence, and that retaining the current approach is materially better. The Commission is considering those issues in the context of the IM Review.

¹ Commerce Commission, *Review of Christchurch Airport's 2022-2027 Price Setting Event: Consultation Paper* (26 September 2023) (**Consultation Paper**).

² CIAL, *Disclosure Relating to the Rest of Aeronautical Prices for the Period 1 July 2022 to 30 June 2027* (18 August 2022) (**Disclosure**), at [141].

³ For example, in relation to the 2023 IM Review, CIAL submitted on the importance of the asset beta properly reflecting the actual systematic risk of regulated airport services, noting there are differences across each airport relating to risk profiles, customer base, pricing structures, and leverage. CIAL, *2023 Input Methodologies Review – Submission on the Commerce Commission's Draft Decision* (19 July 2023), at p.1-2.

The appropriateness of using an updated TAMRP

We note the Board of Airline Representatives NZ's (**BARNZ**) submission that it is not clear from the Consultation Paper why the Commission considers the uplift to the tax adjusted market risk premium (**TAMRP**) is justified. In CIAL's view applying the Commission's most recent TAMRP estimate of 7.5% is justified for the reasons set out in our Disclosure:⁴

- TAMRP is an economy-wide, rather than service-specific, measure and therefore Commission's estimates of TAMRP in the context of other regulated services are equally applicable to airports. The latest Commission estimate of TAMRP available when we were setting prices in 2022 (7.5%) was estimated in the context of the Fibre IMs in 2020⁵ and then also applied in an amendment in 2022 to the GPB IMs in the course of setting the current default price-quality path.⁶ In contrast, the TAMRP that appears in the Airport IMs was determined in 2016 (as part of the 2015/16 IM Review). There is no reason in principle why the Commission's most recent estimate of TAMRP would not apply to airports;⁷
- while the regulatory periods in these sectors are shorter (four years for gas and three years for fibre) the Commission was explicit that the appropriate TAMRP for gas pipeline businesses was unaffected by the length of the regulatory period;⁸ and
- we have been consistent in our approach to TAMRP and asset beta in that we have used the most recent Commission estimates that were available when we were setting prices.

Recovery of route incentives

We note the support from BARNZ and Air New Zealand (**AirNZ**) for our decision not to recover route incentive costs. The Commission acknowledges, further, that route incentive payments are a cost to CIAL and are not funded from our regulatory revenue allowance.⁹

In this instance, CIAL has made a commercial choice not to recover route incentive costs, in consultation with our customers. For the avoidance of doubt, we consider it is open to airports to recover costs associated with incentives in regulated prices (as, for example, Chorus does under the Fibre IMs). Incentives are efficient and benefit customers where the expected incremental revenue from incentives exceeds the costs of incentives as this reduces average prices in future.

The Commission has previously accepted that it is consistent with the Part 4 purpose for airports to recover such costs:¹⁰

We agree with Christchurch Airport that active promotion of growth in traffic through the airport is likely to be in the long-term interests of passengers. Incentive payments like this can be beneficial to all airlines and passengers by increasing the demand over which the large fixed costs of Christchurch Airport can be shared. Therefore, the existence of these types of payments does not, by itself, raise concerns that Christchurch Airport can expect excessive profits over the PSE3 period.

Efficiency of capex

Finally, we welcome BARNZ and Air New Zealand's acknowledgement that our forecast capex is reasonable, and Air New Zealand's endorsement of our approach to consultation.

BARNZ has suggested that the Commission's PSE review process does not sufficiently address the efficiency of capex. We note, in that regard, that airports are distinguishable from other regulated services in that we are required to consult with a concentrated and sophisticated group of customers

⁴ Disclosure, at [145].

⁵ Commission, Fibre Input Methodologies: Main final decision – reasons paper (October 2020), at [6.535].

⁶ Gas Transmission Services Input Methodologies Amendment Determination (No. 1) 2022 [2022] NZCC 6 at 2.4.2(7) (25 March 2022).

⁷ Commission, *Reasons Paper on Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths – weighted average cost of capital (Reasons Paper)* (25 March 2022), at [3.10]: "the TAMRP is an economy wide parameter and therefore should be the same across all sectors".

⁸ Reasons Paper, at [3.19].

⁹ Consultation Paper, at [78].

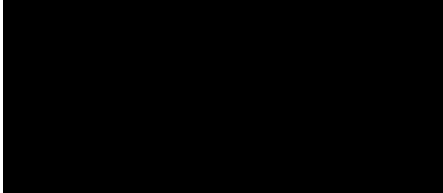
¹⁰ Commission, *Review of CIAL's pricing decisions and expected performance (July 2017 – June 2022): Final report* (November 2018), at [120].

on our proposed capex as part of price-setting, and also where we propose to incur substantial capex in-period.

We welcome the detailed and constructive engagement that we get from airline customers on our capex plans. We responded to that feedback by refining our proposal prior to finalising charges for this regulatory period. The consultation process, and our receptiveness to feedback, should give the Commission comfort that our capex forecasts are prudent and efficient.

If you would like to discuss any aspect of the contents of this cross-submission, please feel free to contact me.

Yours sincerely



Tim May

Chief Financial Officer