

Christchurch Airport conference – some questions/information for cross-submissions

Although questions were directed at particular parties during the conference, all interested parties are welcome to submit on them. The relevant transcript page reference is also given so that you will be able to review the context in which the matter was raised.

| Party | Question/matter to be addressed in cross-submissions | Relevant page(s) in transcript |
|----------------------|---|--------------------------------|
| Christchurch Airport | Please provide the key assumptions used in the IRR analysis referred to in the presentation given at the conference. This should be provided in a standalone document so that it can be located next to the presentation on the Commission's website. | 32 |
| Christchurch Airport | Please provide a comparison of the revenues generated by Christchurch Airport's tax expense approach and the Commission's tax payable approach on a post-tax cash flows basis using the post-tax WACC as the discount rate. | 39-42 |
| Christchurch Airport | Do you consider the treatment of revaluations for tax purposes in the tax 'cross check' model (line 48) is correct for revaluations which occur in the current period and for revaluations associated with the previous period? | 39 |
| Christchurch Airport | Please clarify when the tax 'cross check' model was provided to the airlines. | 43 |
| All | Given the stated preference of all parties for the Commission's analysis to be undertaken for the 4 years 7 months for which prices have been set, how should the Commission establish the opening asset value to be used in our IRR analysis? What assumptions need to be made about the opening value (eg, when did the portions of the new terminal come into use?) and how do we ensure that the forecast of capex over PSE2 is consistent with the opening asset value | 45-47 |

| | assumptions? | |
|-----------------------------|--|---------|
| All | Could parties please describe how they consider the closing asset base should be determined for a 5-year IRR analysis? | 48 - 53 |
| Christchurch Airport | Could you please explain why you consider continuing your approach to setting a levelised price is more transparent than using the Commission's alternative depreciation profile methodology in future? | 49 – 50 |
| All | <p>In our analysis of Wellington Airport we stated that if the opening asset value used in the IRR analysis included unforecast revaluation gains related to the previous period, it was appropriate to gross up the revenue forecast for the current period when assessing expected returns (ie, to attribute the wash up as relating to the previous period). This would ensure that the return in the current period was not depressed as a result of over-recoveries from the previous period.</p> <p>We did not have to make any adjustment to Wellington Airport's forecast revenues in relation to the revaluation wash-up. This is because we did not use an opening asset value for Wellington Airport based on a MVEU land valuation (to which Wellington Airport's revaluation wash-up related) and therefore we did not recognise the existence of any revaluation wash-up in our expected returns analysis.</p> <p>We recognise that all parties at the conference were firm in respect of treating revaluations as income when setting prices.</p> <p>Given that Christchurch Airport has set its prices for PSE2 by treating revaluations related to the previous period as income, how should we treat the revaluations associated with the previous period when assessing Christchurch Airport's expected return?</p> | 55-57 |

| | | |
|-----------------------------|---|---------|
| Christchurch Airport | On what date did Christchurch Airport fix their cost of capital for PSE2 prices? | 58 |
| All | What is the appropriate WACC date for our IRR analysis, and why? | 58-59 |
| Christchurch Airport | What is the market risk premium applied in Christchurch Airport's WACC of 9.78%? Why is that market risk premium appropriate? | 62 |
| Christchurch Airport | Commissioner Begg invited Jeff Balchin's comment on the Dimson et al paper. | 63 |
| Christchurch Airport | Please clarify the distinctions between relative changes in the charges for freight and passengers. | 93 |
| All | How do you expect demand to change as a result of the new prices and pricing structure? | 94-95 |
| Christchurch Airport | Please explain the service levels, including reasons for those levels. | 95-96 |
| All | Please comment on the timing and level of spend on the new terminal - whether efficient and why. | 105-106 |

