



Qantas Airways Limited
ABN 16 009 661 901
Procurement,
Fuel and Aviation Charges
Building QCD/G
Qantas Centre
10 Bourke Road
Mascot NSW 2020
Australia
Telephone (61 2) 9691 4963
Facsimile (61 2) 9691 5897

Ruth Nichols
Senior Legal Counsel
Regulation Branch
Commerce Commission
44 The Terrace
PO Box 2351
Wellington 6140
New Zealand

30 November 2012

Dear Ms Nichols,

The Qantas Group's response to the Commerce Commission Draft Report on Wellington Airport regarding Information Disclosure Regulation

The Qantas Group (including Qantas Airways and Jetstar Airways) has reviewed the Draft Report prepared by the Commerce Commission relating to Wellington Airport (WIAL). The Qantas Group would like to express its support of the Commerce Commission's finding that WIAL is earning an excessive return over time. The Qantas Group believes that the information disclosure regulation is not effectively promoting outcomes consistent with those produced in competitive markets in which WIAL would be limited in its ability to extract excessive profits.

The Qantas Group believes the key issues that are driving WIAL's excessive return over time include:

1. WIAL's use of its own asset valuation methodologies to revalue assets, resulting in the overstatement of asset values relative to Commerce Commission input methodologies;
2. WIAL treating only forecast revaluations as income with the airport retaining the benefit of any revaluations above forecast levels;
3. WIAL targeting a cost of capital recovery amount that exceeds the estimate of normal levels of returns provided by the cost of capital input methodology. The WACC of 9.51% is significantly higher than the Commerce Commission range of 6.08% to 8.04% WACC for an efficient operation. This was a significant concern for the Qantas Group throughout the consultation process; and



Qantas Airways Limited ABN 16 009 661 901
203 Coward Street Mascot NSW 2020 Australia
Telephone 61 (2) 9691 3636 Facsimile 61 (2) 9691 3339

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4. Introducing counter charges which do not suggest reasonable costs for the operation of counter services at Wellington Airport.

The Qantas Group would also like to comment on WIAL's recent claims that the Airport's charges on a per passenger basis are around 40 per cent lower than the published charges of Sydney Airport when converting to Australian dollars. It is not relevant to compare Wellington Airport directly with Sydney Airport due to the significant difference in the size of operation, their investment cycle, the number of international and domestic passengers and general cost base. Furthermore, airlines have separate agreements with Australian airports so a comparison against published charges is inaccurate. Essentially, it is inappropriate for airports to use other airport pricing approaches as justification for charges as one airport's inappropriate price setting behaviour can lead to others following suit.

WIAL have also made claims of providing concessions to airlines however the Qantas Group believes this to be misleading based on its experience. To illustrate, WIAL provided an over inflated WACC which needed to be adjusted to reflect a workably competitive market. Furthermore, WIAL's capex wash-up represents money paid by airlines which needed to be refunded back as a result of the delayed completion of Wellington's terminal infrastructure, 'The Rock'. These are not commercial concessions but rather a re-evaluation of the baseline of the allowable revenue and consequential prices which are in fact still too high.

As a member of the BARNZ Executive and Costs and Regulatory Committees, the Qantas Group was well-informed of the matters communicated by BARNZ throughout the pricing consultation process with WIAL. The Qantas Group would like to take this opportunity to express that BARNZ' understanding and assessments were consistent with the Qantas Group view. The absence of previous formal submissions by the Qantas Group should not be interpreted as a lack of interest or an acceptance of WIAL's airport pricing.

The Qantas Group appreciates the opportunity to provide feedback as part of consultation and disclosure process. We hope this process will be successful in ensuring that information disclosure regulation effectively promotes outcomes consistent with those produced in competitive markets such that Wellington Airport is limited in its ability to extract excessive profits going forward.

If you have any questions or require any further clarification on the points I have raised, please feel free to contact me.

Yours sincerely,

Fiona Leishman

Manager Category and Supplier Relationship – Airports & Air Traffic Management (ATM)

CC. Jean Elverton – Head of Procurement – Fuel, Carbon and Aviation Charges
Tim Castine – Manager Aviation Charges – Jetstar Airways
Peter Winter – Manager Finance - Jetconnect & Qantas NZ



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