QANTAS GROUP

22 June 2018

Jo Perry
Chief Advisor, Compliance and Performance Analysis
Regulation Branch
Commerce Commission

Via email: Regulation.branch@comcom.govt.nz

Dear Ms Perry,

Qantas Group's Cross Submission Response

Qantas Airways and Jetstar Airways (the Group) appreciate the opportunity to provide feedback on Auckland Airport's response to the Commerce Commission's draft report on AIAL's PSE3 pricing (the 'AIAL's Response').

The Group reiterates our position that Auckland Airport has the second highest margin (EBITDA) in the world- second only to Sydney Airport – demonstrating the risk of privatisation of monopoly assets with insufficient regulatory oversight.

The Group also supports the position advanced by the Board of Airline Representatives New Zealand (BARNZ). Whilst the Group is not represented by BARNZ in negotiations with Auckland Airport under s2A of the *Airport Authorities Act* 1966, Qantas is a member of BARNZ and has reviewed BARNZ's submission to the Commerce Commission regarding its AIAL Response. The Group supports the positions advocated for by BARNZ, specifically that:

- judgement when assessing a target return should not detract from evidence and justification;
- it seems inconsistent with the regulatory framework to determine WACC based on capital spend for assets that will not be commissioned in this pricing period;
- evidence suggests that the case for a 0.08 beta uplift is weak & AIAL's expenditure is not nearly as risky as they claim; and
- dual till is a relevant consideration for aeronautical WACC.

Furthermore, the Group has also had an opportunity to review the report compiled by TDB (commissioned by BARNZ), and also supports the findings of this analysis. The Group continues to assert that AIAL have not sufficiently justified their higher beta (and subsequent WACC); a position reinforced in this report.

Finally, on the matter of the Second Runway, it will ultimately be the consumers who will bear the cost of AIAL's ~$8m over-capitalisation on the Second Runway land as a result of the higher-than-justified WACC being sought. These same consumers will also be forced to absorb the costs resulting from the Runway Land Charge from 2021. As previously argued, imposing the Runway Land Charge in the absence of investment will artificially inflate AIAL's returns unsustainably, will not improve current services, and is an inequitable cross-subsidisation by current airlines for future entrants, and should not be introduced.

The Group stands by its previous feedback provided to the Commission on AIAL's PSE3 pricing determination, while also supporting the submission by BARNZ (including the TDB findings). If you have any questions about this submission, please contact Mr Sam Henderson (Samuel.Henderson@jetstar.com).

Yours sincerely,

Andrew Parker
Group Executive Government, Industry International and Environment