Wild at Heart
WellingtonAirport

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Dear Ruth

Wellington International Airport Limited (WIAL) Cross Submission on the Commerce Commission Section 56G Draft Report for WIAL

This is WIAL's cross submission in respect of the Commerce Commission's ("Commission") section 56G Draft Report for WIAL ("Draft Report"). This cross submission is separate to the cross submission made by the New Zealand Airports Association ("NZ Airports") which was prepared with input from and is fully supported by WIAL.

WIAL has reviewed the submissions provided by Air New Zealand Limited ("Air NZ"), Qantas Airways Limited ("Qantas") and the Board of Airline Representatives of New Zealand Inc. ("BARNZ") to the Draft Report. We provide comments below on issues raised in these reports however WIAL has not sought to repeat comments made in our initial submission on the Draft Report, and this cross submission is therefore complementary to this.

1. Air NZ Submission

1.1. Effectiveness of Information Disclosure ("ID") Regime

Air NZ concludes that the ID Regime has failed[1] which continues to demonstrate that Air NZ has a predetermined view that the new regime is not the appropriate form of regulation for airports. As noted in the Draft Report, it remains too early to assess the overall effectiveness of the ID Regime and Air NZ fails to recognise that the fundamental requirements for the regime are to:

- Promote outcomes consistent with competitive markets;

[1] Air NZ Submission on the Draft report to the Ministers of Commerce and Transport on how effectively disclosure regulation is promoting the purpose of Part 4 for Wellington Airport paragraph 7

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- Evaluate performance over time.

WIAL considers that the regime has not been provided with sufficient opportunity to be fully implemented and therefore it is far too early to judge its effectiveness. The ID regime will need time for successive outcomes to be disclosed, actual returns assessed and future behavior shaped in accordance with those assessments. WIAL notes that the views expressed by the Commission in the Draft Report regarding returns on capital refer to forecast returns based on achieving significant (and uncertain) future passenger growth. It would appear to be more appropriate to gauge the effectiveness of the regime when actual returns achieved over time can be assessed as the ID Regime is designed to accommodate.

Air NZ states that *"The fact that WIAL proceeded to set the charges it did, notwithstanding the knowledge of the new Part 4 regime, highlights a fundamental lack of any sort of credible threat which, in theory, is supposed to lie at the heart of the airport pricing information disclosure regulatory regime.[2]"*

Air NZ clearly is ignoring the fact that the Commission's Draft Report is the first feedback that WIAL has received from the Commission in respect of its information disclosures under the new regime and consequently WIAL has not previously had an opportunity to consider or respond to the Commission's views.

Air NZ has also critically ignored the clear market outcomes that WIAL has submitted that the Commission must consider in its review. In brief:

- WIAL's pricing is low by international standards;
- Returns on investment achieved in previous periods by WIAL are in line with the Commission's guidelines;
- Passenger numbers are growing and WIAL is seeking to facilitate this growth; and
- Investment is occurring when it is required.

These are fundamental aspects that must be considered in forming a conclusion on the effectiveness of the ID Regime.

Far from being unwilling to acknowledge the Part 4 regime as claimed by Air NZ, WIAL is seeking for the Commission to allow the regime to be fully implemented. Evaluation of the regime must consider all aspects of performance including market factors and WIAL's achievement against all limbs of the purpose statement, rather than the 'price control' approach being sought by Air NZ before the effect of the new prices can even be assessed.

1.2. 75th Percentile WACC

Air NZ has commented on the appropriateness of the Commission's application of the 75th percentile WACC to evaluate WIAL's forecast returns including making reference to a report provided by Future Consultants Limited which is attached to the BARNZ submission.

NZ Airports has commissioned Uniservices to comment on the Future Consultants report and WIAL has therefore not sought to address this issue in this cross submission. WIAL has however provided considerable comment in its earlier

[2] Ibid paragraph 7

submissions throughout the consultation process for the regime as to why the Commission should use the 75th percentile, as opposed to the mid point, in its analysis.

We also refer to our comments in our initial submission on the need for the Commission to consider sensitivities in its WACC assumptions that are relevant to WIAL.

1.3. Revenue-Profit Relationship

Air NZ seeks to magnify the significance of the purported excess profits that WIAL will receive in its table on paragraph 20 of its submission. At the 75th percentile assessment the excess revenue indicated by the Commission over PSE2 of $38.293 million, per table H17 in the Draft Report, is $1.36 per passenger (98c a passenger post tax).

WIAL notes that air fares to Gisborne, referred to in the Air NZ comments on pricing efficiency at paragraph 37, on 5 January 2013, one month advance booking, ranged from $176 to $343 one way, with return fares ranging from $250 to $343. WIAL notes that air fares are priced according to passenger demand as discussed in WIAL's pricing documents meaning that there is not a direct relationship between the cost of providing the service and the cost of an air fare. However, even if a direct relationship was assumed for argument's sake, a nominal air fare difference of $1.36 per passenger would equate to between 0.39% and 0.77% of the available Gisborne air fares sampled above and would have a negligible impact on demand. WIAL also notes that the fare sampling related to bookings one month out and that shorter term booking prices did not display available fares in the lower range.

However immaterial, WIAL notes that any demand impact which does occur due to airport charges would of course need to be balanced against the other Part 4 objectives, such as to incentivise investment and service quality. It is worth stressing that negative outcomes flowing from failures in these areas would have vastly greater negative impacts on the market than the price impacts referred to by Air NZ, even in the extreme case.

Furthermore as commented in WIAL's submission, amendments are required to the Commission's financial analysis such that this purported excess revenue will in fact be considerably lower than the figure in the Draft Report and consequently any price impacts will be substantially lower than the amounts suggested.

WIAL notes the Air NZ comment that financial outcomes for the leased and LUMINS activities should be excluded from the Commission's analysis. WIAL confirms that the Commission is following the Commerce Act requirements and consideration of alternative approaches would need to be discussed by all parties prior to any change in information disclosure, and analysis thereof, being made.

1.4. Network Impact

Air NZ states in its submission that any assessment of WIAL's pricing structure should take into account "*its impacts on the efficiency of the national air transport network*.[3]"

WIAL notes that during the consultation for PSE2, Air NZ requested WIAL to demonstrate that its proposed price structure did not result in inefficient scheduling

[3] Ibid paragraph 31

decisions by airlines. WIAL's response is set out fully in its pricing documents, but in summary WIAL noted that:

- Congestion pricing appeared to have clear benefits in terms of the efficient recovery of fixed costs, mirroring airline market pricing practices;
- WIAL is already at runway capacity at peak times in some weather conditions. Instances of demand exceeding runway capacity are forecast to increase over time;
- It is critical to the economic performance of the region to put in place a system to deal with congestion before it becomes an intractable and materially damaging issue. With the pricing structure generally reviewed only every five years, it is the future forecasted issues that are more relevant than the historical, or even current year, issues; and
- Administrative congestion management alone is unlikely to be efficient. Incumbent operators tend to favour systems that recognise a 'grandfathering principle' which elsewhere has enabled incumbent airlines to continue to operate small aircraft while demand from large aircraft from other operators is left unsatisfied. New entrants will prefer a pro-competitive system that requires incumbents to surrender runway capacity or a system based entirely on aircraft size. Neither is necessarily efficient and, in the absence of price signals, the outcome is likely to be protracted disagreement.

1.5. Sharing of Efficiency Gains

Air NZ comments that efficiency gains have not been shared with consumers because revenue increases have been higher than cost increases. However, this is simplistic and ignores several important facts:

- WIAL has achieved significant operating cost reductions per passenger since the commencement of PSE1 as demonstrated in the Commission's Draft Report.
- WIAL's operating cost forecast for future pricing periods are derived from prior year actual costs, and current year budgets, and therefore include achieved operating cost efficiencies in pricing forecasts.
- WIAL continues to be the most cost efficient of the major airports in Australasia.
- Revenue requirements depend on a considerable range of factors, not merely operating costs.
- The Commission's own PV analysis shows that WIAL's forecast revenue for 2013 is below the level required to achieve the Commission's WACC determination for that year.

1.6. Pricing Efficiency

WIAL responded to Air NZ's comments concerning efficiency of the pricing structure for smaller aircraft in its consultation for PSE2 and does not repeat these comments in this cross submission.

However, there are two other issues raised by Air NZ which WIAL considers warrant further comment.

- At paragraph 35 Air NZ notes that WIAL has forecast a $13 million PV surplus for terminal activities and a corresponding PV deficit for airfield activities. This is correct however this is a legacy issue from the pricing structure in PSE1, WIAL is seeking to address this imbalance over time and it did not impact the total forecast revenue for PSE2.

- Air NZ attributes cancellation of Gisborne/ Wellington services to increases in charges by both WIAL and Gisborne airports. WIAL notes again that the prices faced by passengers are primarily related to ticket demand and not directly influenced by operating cost. With this being the case, average fares on such regional routes are often considerably higher than on main trunk routes. WIAL considers it mischievous that Air NZ claims service cancellations are necessary due to changes in airport charges. The change in prices faced by Gisborne passengers following the airport price change on 1 April equated to between 66 cants and 133 cents per passenger (depending upon the amount of time each aircraft spends parked at the airport). WIAL considers it unlikely that this change necessitated the cancellation of services and considers it more likely that Air NZ is acting rationally and adjusting its capacity to meet market demand driven by other factors. WIAL notes that similar price changes have affected the Queenstown route, however in this instance Air NZ has increased capacity by 24%.

  This stated capacity reduction strategy also contrasts with Air NZ's approach to trunk services where it faces competition and where average fares are frequently much lower than on regional routes. WIAL notes the impact of airline competition, where capacity has recently been increased, through positive growth based marketing initiatives such as the Air NZ late night 'Night Rider' services.

  WIAL submits that the Commission must evaluate these claims by Air NZ before it considers placing any reliance on them.

2. Qantas Submission

2.1. Excessive Returns

Qantas comments on certain inputs to WIAL's pricing outcomes without appearing to consider the outcome shown by the Commission under the IM framework.

WIAL has adopted positions for pricing in respect of asset valuations, revaluation and cost of capital based on expert advice, although in respect of cost of capital WIAL did not follow the advice of its advisers which recommended a higher cost of capital to WIAL than was applied as a pricing input. In addition, WIAL also applied commercial concessions and wash up arrangements which reduced WIAL's revenue required for PSE2, and consequently provide a forecast return to WIAL well below its cost of capital.

Qantas does not appear to be recognising that the Commission's analysis under the IM framework effectively ignores WIAL's pricing inputs and compares WIAL's forecast revenue against the IM framework. Consequently WIAL's approach to asset valuation and the other factors is ignored by the Commission.

2.2. Comparison of Airport Charges

Qantas also comments on the comparison of WIAL's charges to Sydney Airport and notes that there are a number of factors which mean that the two airports are not directly comparable. WIAL does not disagree that comparisons can be difficult due to differences in the airport businesses, however it is reasonable to consider an analysis of New Zealand's, and WIAL's, airport charges to other jurisdictions at a high level to form a view of the performance of the New Zealand market. WIAL notes in particular that:

- BARNZ submitted a comparison of New Zealand airport charges to a sample of international airport charges to the Commission.
- NZ Airports engaged Airbiz Limited to review the BARNZ comparison and further develop the comparison of a range of New Zealand airport charges to the charges for all of the large airports in Australia.
- Qantas comments that published pricing schedules cannot be relied upon as airlines often have separate agreements with the airports. WIAL is aware that such agreements are often in place and consequently its comparison is to Sydney's average aeronautical charges per passenger (as obtained from data in the ACCC 2011 Airport Monitoring Report). WIAL confirms that this is not Sydney's published or "rack rate" of charges as claimed by Qantas. WIAL's analysis was derived from actual revenues and therefore reflects the impact of such commercial agreements. WIAL also provided this comparison for all large Australian airports in its initial submission on the Draft Report.

2.3. Commercial Concessions

Qantas dismisses two of the commercial concessions made by WIAL however they do not present the full facts.

- WIAL did not present an *"over inflated WACC"* as commented by Qantas. WIAL secured independent economic advice from Sapere Research Group who recommended an appropriate WACC for WIAL based on comparable commercial benchmarks. WIAL chose not to follow this advice and adopted a lower WACC pricing input of 9.51%. This reflects a commercial approach, and concession, by WIAL. Furthermore, WIAL's forecast return over PSE2, after commercial concessions and wash ups, was 8.1% which was below its adopted WACC.
- WIAL agrees that the Rock wash up was not a concession because WIAL had earned this income in a previous period. However, Qantas ignores the fact that this was a one way wash up arrangement that WIAL applied voluntarily, that is it took a commercial approach. Furthermore, WIAL incurred capex in PSE1 above its forecast for which it was not compensated in that period. WIAL considers that a balanced view of its approach for PSE2 shows that it made a genuine concession that had the effect of reducing the rate of return achieved over the pricing period.

2.4. Pricing Efficiency Issues for Qantas

WIAL's pricing structure for PSE2 contained a numbers of changes from the former structure that were beneficial to Qantas and its passengers. WIAL records these to enable the Commission to consider the Qantas submission from a more complete perspective as the Qantas submission does not appear aligned with the situation faced by Qantas. WIAL's pricing approach for PSE2:

- Provided reduced charges for international services due to the realigning of international and domestic charges to reflect common use of WIAL's facilities:
- Provided for improved efficiency of international passenger processing following discontinuation of the separate international departure fee; and
- Assumed increased efficiencies from asset utilisation with greater use of the Northern Pier as a common user terminal facility, including gainer greater advantage from the swing gate flexibility available within the Northern Pier.

These pricing structure changes demonstrate that WIAL has sought to improve the utilisation of its existing facilities thereby providing benefits to the airlines and passengers.

3. BARNZ Submission

3.1. Is Wellington Airport Operating Efficiently?

WIAL finds it extraordinary that BARNZ submits that *"...the evidence before the Commission is nonetheless more than sufficient to support a conclusion that there is no evidence in the first two years of information disclosure regulation of improvements occurring in Wellington Airport's operating efficiency. In fact, the evidence in relation to historical disclosures over the last two years very clearly shows that operating expenses have increased on a per unit basis immediately prior to and since the commencement of Part 4 information disclosure regulation and improvements in efficiency have not been achieved despite significant increases in passenger volumes having occurred.[4]"*

BARNZ appears to hope that the Commission will ignore several fundamental points which ultimately cannot be ignored:

- WIAL's cost forecast for PSE1 was established prior to contemplation of the ID Regime.
- Focusing on the two years of expenditure since commencement of the ID Regime indicates that BARNZ is not seeking to undertake an informed evaluation of WIAL's operating cost performance and is being opportunistic in identifying another low point for the Commission's analysis;
- Alternatively BARNZ has also sought for the Commission to commence its analysis from 2007, which is when WIAL's real costs per passenger were at their lowest point.
- WIAL has incurred significant real cost increases that it could not have forecast or avoided, in particular, increased insurance costs following the Christchurch earthquakes and costs relating to development, and compliance, with the ID regime.
- WIAL has achieved significant real cost decreases per passenger when a longer period is considered and as demonstrated in the Commission's Draft Report.

[4] Submission by BARNZ on Commerce Commission Draft Report On How Effectively Information Disclosure Regulation Is Promoting The Purpose Of Part 4 In Relation To Wellington Airport, 30 November 2012, page 3

WIAL disagrees strongly with the BARNZ comment that *"The Commission deciding that it is not worth incurring the costs of undertaking such a review should be expressly recorded as an assumption which is in Wellington Airport's favour.[5]"* The Airport Authorities Act 1966 ("AAA") consultation process provides the opportunity for WIAL's substantial customers to scrutinise WIAL's cost forecasts before they are established for the pricing period. These customers have been given the opportunity to further scrutinise WIAL's costs but elected not to do so. It is inappropriate now for BARNZ to submit that the Commission should fulfill the role of WIAL's substantial customers under AAA, which is beyond the requirement for an ID regime.

3.2. Is Wellington Airport Investing Efficiently?

WIAL has commented on the specific issues raised by Air NZ and BARNZ in the Commission's Draft Report and we do not comment further in this cross submission.

BARNZ states that the AAA capital expenditure consultation threshold was not reached for the Rock or RESA projects at WIAL. This is correct however the fact that BARNZ makes no further comment is misleading:

- WIAL can demonstrate that extensive consultation took place for these projects.
- WIAL provides its substantial customers with forecasts for all capital expenditure in pricing consultation and engages in exchanges of views on projects well below the AAA threshold. This is demonstrated in WIAL's consultation documentation for PSE2.
- Following agreement by the major New Zealand airports, NZ Airports, on behalf of the three main airports, agreed to make a joint submission with BARNZ to the Ministry of Transport recommending that the threshold in the AAA be reduced to a fixed level of $30 million.

It should be very evident that WIAL significantly exceeds the requirements set out in the AAA for consultation on capital expenditure projects.

Furthermore, WIAL notes that it is now required to provide detail in its IDs for projects over $5 million forecast for a 10 year period. This will further incentivise airports to discuss projects at this level with airlines and other key stakeholders.

3.3. Is Wellington Airport Innovating Appropriately?

BARNZ expresses disagreement with the Commission's conclusion that the ID Regime is incentivising innovation and suggests instead that the Commission should be concluding that ID has had no impact on innovation.

WIAL partly agrees with BARNZ in that WIAL has long been committed to achieving innovations in the operation of WIAL and in facilitating the services airlines wish to provide to their customers. However the additional information now required to be provided in annual information disclosures requires WIAL to provide increased public accountability of its achievements and WIAL considers that this will provide an ongoing incentive for innovation.

3.4. Is Wellington Airport Providing Services at the Quality Consumers Demand?

WIAL notes that in section 5 of their submission BARNZ note that they agree with the Commission's conclusions in respect of service quality although they disagree that the

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[5] Ibid page 3

AAA consultation requirement provides an incentive to understand the level of quality consumer's demand.

As commented in section 3.2 above BARNZ has not given full regard to the level of consultation that actually occurs.

3.5. Is Wellington Airport Sharing Efficiency Gains with Consumers?

BARNZ again limits its comments on WIAL's operating cost achievements to the first two years of the ID Regime. WIAL has commented on this issue above.

WIAL rejects strongly the BARNZ comment that WIAL is not sharing the efficiencies from economies of scope through the *"practice of allocating additional costs to the aeronautical business.*[6]*"* BARNZ refers to two examples which were addressed in consultation and in previous submissions to the Commission.

- Allocation of central terminal hall – BARNZ continues to ignore the actual use of this terminal area where passengers and airport visitors may wait for flights and consume food and beverage. The shared allocation of this space to aeronautical and retail use clearly reflects the actual common use of the area.
- Incentive programme – BARNZ continues to mischaracterise WIAL's incentive programme. WIAL confirms that there is no cost to the airlines, but rather reduced charges for all airlines from adoption of a higher passenger forecasts by WIAL than would have been adopted in the absence of the incentive programme. WIAL has accepted the risk that the higher passenger forecast will be achieved and therefore WIAL will earn its forecast revenues. BARNZ also overlooks the fact that if the incentive programme is successful then a higher passenger base for the next pricing period will allow for improved efficiencies in that period for all airlines and passengers.

3.6. Do the Prices set by Wellington Airport Promote Efficiency?

WIAL provided extensive comment on the rationale for its pricing structure in its consultation documentation and Price Setting Disclosure for PSE2. We do not repeat these comments in this cross submission. WIAL also notes that *"BARNZ agrees that some of the PSE2 prices set by Wellington Airport are more likely to improve efficiency than the PSE1 prices."* However, there are three points made by BARNZ that warrant further comment.

- BARNZ comments that WIAL will achieve actual counter charges above the level forecast in its pricing model. During the consultation process WIAL endeavoured to obtain comments from airlines on forecast counter use requirements that WIAL estimated and provided to the substantial customers for comment. Detailed comment was not received from airlines in consultation.

  Subsequently the airlines have confirmed that some discreet check-in areas are not able to be made available for use by other airlines. This means that if the hourly rate prescribed in the price schedule was to be applied to its full extent over these areas, the revenue collected would have the potential to exceed the forecast level over the pricing period. WIAL acknowledged this and undertook further discussions with its major airlines to achieve an arrangement that would

[6] Ibid page 6

result in WIAL aligning the revenue recovered with the forecast revenue from check-in counters.

BARNZ comments that *"the peak charge creates considerable risk of future excess charges being levied by the Airport[7]"*. WIAL confirms that this comment has no foundation. For PSE2, and future pricing periods, revenue requirements are determined from a building block approach with a pricing structure then developed to produce the required revenue. WIAL is therefore required to provide forecast pricing and volumes for consultation. There is consequently full discussion of proposed forecasts and transparency of the final positions adopted. WIAL's consultation documentation for PSE2 clearly shows the extensive documentation WIAL provided to the airlines for comment.

BARNZ correctly notes that WIAL has set a common terminal charge for domestic and international passengers of $5.25 per passenger in 2013. However, BARNZ also considers that the *"international passenger terminal charge has not been set at a level that signals the incremental cost of providing international terminal facilities, and it is highly likely that terminal charges for domestic passengers are cross subsidizing the cost of Wellington Airport providing international passenger terminal facilities."*

WIAL has responded in detail to its airlines and BARNZ during the consultation for PSE2 regarding the new price structure. WIAL noted that it has a single common-use terminal and, as identified in the recent 2030 Master Plan, it is WIAL's intention to retain this configuration in the medium to long term. As well as being a necessity due to WIAL's constrained site, this configuration has substantial benefits for customers. Travelers have short connection distances within the terminal, airlines are able to achieve efficiencies from aircraft and staff and assets can be utilised more intensively than if they were dedicated to either a type of use (international or domestic) or a specific airline customer.

As a consequence, WIAL confirmed that it was moving away from charges based on fully allocating average cost to individual passenger groups. WIAL considered that the historic allocation method was not appropriate in the context of establishing an efficient pricing structure. Efficiency principles suggest that all customers should be charged at least their marginal cost, and a subsidy would arise in the event any customer faces charges below its marginal costs. Given the low marginal and high fixed cost nature of airport infrastructure provision, subsidies and cross-subsidies rarely arise.

WIAL also notes that charging structures that result in international services paying materially higher airport charges than domestic services have been justified elsewhere based on the assumption that demand for international services is less elastic. This does not appear to hold true in the case of WIAL and its current Trans-Tasman international services. From a price efficiency perspective, this would suggest that Wellington's international services, (predominantly Trans-Tasman), should not be priced at higher levels than domestic services based on efficiency principles. In consideration of the above matters, WIAL's terminal charges were set at the same level for all passengers.

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[7] Ibid page 8

Further information regarding the principles behind the adopted price structure is included in WIAL's consultation documents.

3.7. Is Wellington Airport Earning an Appropriate Economic Return Over Time?

WIAL provides comment on several of the issues raised by BARNZ in its submission.

- Expert comment is provided by Uniservices in respect of the cost of capital issues, and is attached with the NZ Airports cross submission. This is in response to the Future Consultants Limited report included with the BARNZ submission.

- BARNZ comments that *"Regulation of New Zealand Airports is currently implicitly based on a dual till approach...[8]"*. BARNZ seeks to utilise this comment to substantiate its claim that the Commission should not be applying the 75th percentile WACC in its analysis. However the BARNZ comment about New Zealand regulation is factually incorrect. WIAL confirms that Parliament determined to explicitly retain a dual till approach in New Zealand and this is demonstrated by the requirements in the AAA and the Commerce Act.

  It is ironic that BARNZ refers to Heathrow as an example of a single till airport and yet does not mention that Heathrow has long been criticised for its infrastructure deficit and poor service quality. Furthermore Heathrow is one of only three airports in the United Kingdom that are regulated. It is also possible that the number of regulated airports will fall further as ownership of the three London airports is further segregated.

- An Array of Assumptions Favouring the Airport

  BARNZ refers to a number of items that have been addressed earlier in this cross submission and in WIAL's earlier submission and in consultation. BARNZ has determined that where it disagrees with WIAL it considers that forecasting adjustments ought to be made by the Commission. We do not address these areas further in this section of this cross submission but comment on two areas that were not commented on in WIAL's initial submission.

  - BARNZ continues to express disagreement with the Commission utilising WIAL's MVAU valuation in its analysis. WIAL has previously submitted that the Commission's role is to ensure that WIAL has prepared a valuation that meets the requirements of the IM.

    WIAL notes that it instructed its valuers Telfer Young ("TY") to prepare a valuation of WIAL's land holding in accordance with Schedule A of the IMs. TY in turn commissioned urban planners Boffa Miskell ("BM") to develop a master plan identifying potential land use options.

    TY and BM undertook an extensive process to determine the highest and best alternative use in accordance with the Commission's IMs. TY confirmed to WIAL in its valuation reports that the valuations provided were compliant and WIAL considered this and relied upon the expert advice from TY and BM.

    WIAL also notes that this valuation process included several meetings and the exchange of extensive consultation with its substantial airline

[8] Ibid page 10

customers and BARNZ and ultimately resulted in a reduction in the final MVAU valuation recommended by TY.

In short, WIAL considers that it adopted a professional and robust approach to its land valuation with advice from relevant expert advisors.

- WIAL has responded to Air NZ's comments on WIAL's leased assets in its earlier comments above. However, WIAL confirms that the PV deficit arising from leased assets for PSE2 is approximately $0.8 million, when comparing the return on leased assets with the return being sought by WIAL on the pricing asset base. Furthermore the expected return on leased assets (applying MVAU for land) is approximately 8.5% which is not inconsistent with the overall actual return being sought on WIAL's total pricing asset base. WIAL confirms that these returns are considerably less than the $3.7 million PV and 5.8% post tax return submitted by BARNZ.

In common with the airline submissions BARNZ is also ignoring a fundamental outcome from the Commission's analysis. WIAL forecast revenues for 2013 produce a PV deficit within the IM framework. When further consideration is given to the model, as addressed in WIAL's submission, it will further demonstrate that WIAL's forecast profit earnings are appropriate and are not inconsistent with Part 4.

We trust that you find this cross submission helpful in the Commission's assessment of the ID Regime. However, please do not hesitate to contact me should you have any further queries.

Yours sincerely

Martin Harrington
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