Auckland Council Investments
An Auckland Council Organisation

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Commerce Commission
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Submission on Commerce Commission draft Section 56G Report on Auckland International Airport Limited (AIAL)

Background

Auckland Council Investments Limited (ACIL) is AIAL's largest shareholder with 22.4% shareholding (at 31 December 2013). ACIL is a Council-controlled organisation owned by Auckland Council. The dividends received by ACIL from AIAL contribute to the distributions from ACIL to the Council which are then utilised for the benefit of Auckland ratepayers.

ACIL made a submission in October 2012 on how effectively information disclosure regulation is promoting the purpose of Part 4 of the Commerce Act 1986 (Act) in relation to Auckland International Airport Limited (AIAL)

Discussion

Overall ACIL was pleased with the Commission's draft conclusion that the information disclosure is effective in limiting Auckland Airport's ability to earn excessive profits.

As communicated in the previous submission, ACIL still believes that the prices set by AIAL through the PSE2 are very fair to airlines and their customers. A reduction in international air services charges and an increase in domestic charges, to reflect the costs needed to improve domestic terminal services, followed by increases around the expected rate of inflation was appropriate.

AIAL estimated that its expected returns in each of the five years of PSE2 would be in the range of 7.1% to 9.2%. We are pleased with the Commission's conclusion that the equivalent return over the whole period of PSE2 of 8% is within Commission's estimated range of appropriate returns for AIAL.

However ACIL still maintains that the midpoint benchmark WACC estimate (7%) cannot with certainty be the true WACC for Auckland Airport. Importantly, we do not believe that a return of less than the estimated 75th percentile return is a sufficient return from an investor's prospective.

Accepting a WACC at the 75th percentile at least goes some way to recognise that there can be an error in estimating a company's WACC. We do not think at this level revenues will be excessive relative to the actual WACC.

We also reiterate the other points we made in our submission of 18 October 2012.

ACIL notes that, through their submissions, airlines advocate using a cost of capital at the 25th percentile. We consider the implied return at that level to be inadequate given the risks associated with investing in AIAL. The adoption of lower targeted returns would undermine AIAL's ability to attract capital and invest in innovation and projects that result in efficiencies.

Summary

It is crucial that the regulator continues to incentivise investment which is in the interest of today's consumers and shareholders as well as future generations. This will require that Auckland Airport achieves an appropriate return on investment which in our view should be no less than the Commission's 75th percentile estimated WACC.

Yours faithfully

Gary Swift
Chief Executive