# Auckland Airport cross-submission on section 53B review

# 19 December 2017

**Appendix B – Transcript of the capex comments made during Auckland Airport's investor day (17 November 2017)**

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### Time: 14:00

**Shane Solly: The flexibility to react to changing business, a lot of the investment you are doing is to ramp up / ramp down, in a scenario when you weren't growing at 7% international passenger growth, let's say it was zero, post this investment plan you are going through, how will you deal with that?**

*Adrian Littlewood: Yeah really good question, in fact that's why we are obliged to put out a 10-year view on capex as part of the price consultation – we've got a pretty locked 5-year plan and I think the fundamentals will in terms of passenger volume will see us through that period but there is no doubt that and I think history from the past 5 years has suggested that conditions change very quickly so I think we have tried to set the plan up that we will be able to modularise or or change modes quickly if we can.*
*So if you look at our programme, the Domestic terminal finishes around 2022 end of PSE3, so there is a bunch of quite important*
*Arrivals will be done for International*
*A lot of road and other transport activities done*
*So the system will get a fundamental capacity upgrade*
*Then I think we need to look and say what are the conditions leading into PSE4*
*Do we think it's time to just change the curve on some of those investments and hold or pause?*
*So it's possible at a level but not perfectly possible always*
*But I'd say PSE2 versus PSE3 is a good example of how that can oscillate*
*And I think you can see the other things in the market completely change*
*So we are completely up for that and I think that is the right response and the airlines would expect it as well*

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### Time: 23:30

**Shane Solly: Just on the runway timing, in the 2028 assumption is there a belief that the runway productivity is going to be lifted between now and then?**
*Adrian Littlewood: There is some expectation of runway productivity but we'd like to keep pushing that*

**Shane Solly: and just in terms of when it needs to be finalised do you need to have a firm commitment on 2028 before you start putting the runway land charge in place?**
*Adrian Littlewood: Yes, so we have put and maybe Phil will touch on this later but yeah we have some triggers before the runway land charge would be applied, Phil remind me what they are*
*Philip Neutze: yes so a Board resolution to begin construction and we have incurred $50m of cost on construction*

**Shane Solly: So you're sort of a couple of years away from making that decision**
*Adrian Littlewood: 2021 is around the time we said when we would expect that and that's just looking ahead to $50m is a fairly sizeable chunk of dough having been spent but then*

*you're really starting to step into some really big spend so you've got to make that commitment to go so you really need at least 5 years*

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**Time: 01:53:52**

*Philip Neutze: We do have circa $2b of aeronautical investment as I touched on, building infrastructure build over the next 5 years and the Commerce Commission has begun the process of reviewing Auckland Airport and Christchurch's decision..*

*So we are focused on delivery now. That is deliberate that we have got customer satisfaction and service levels at the top of this chart on the right. The infrastructure that we are planning to deliver is only about delivering the service levels and customer experience that we targeted for the business and it is a well-established principle that if airports can find a way to deliver those service levels to optimise the capex program, to optimise operational expenditure and still deliver the same service levels then that's great, it's actually win win because it means as we go into the next pricing period we have a lower regulatory asset base, we have a lower underlying operational expenditure and that translates to lower charges for airline customers going forward, but also provides an opportunity to enhance returns over the current pricing period, and if we are able to do that that also has implications for our balance sheet and whether or not balance sheet support is required*

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**Time: 02:10:15**

**Marcus Curley: I know I take the point that if everything goes to plan you may not need commercial equity – but on the flipside if you don't sell North Queensland, Capex is the capex and the runway turns up in 2028 – what's the upside number?**
*Philip Neutze: Yeah I think we should just comment again on the ability to flex the capex programme.*
*We have done some analysis, we see about 40% of the forecast capex over PSE3 as being able to be tweaked in relation to changes in passenger and aircraft throughput, so that's quite a release valve for us*

**Marcus Curley: So you committed to that under pricing and now you say you are not planning on doing it**
*Philip Neutze: We will have to manage the infrastructure investment responsibly in relation to demand and you will see that over PSE2 we have actually incurred 80% more capex than what we priced*
*That was a response to much higher pax growth than we forecast ultimately as you will see from the pricing disclosure our returns came out very close to what we targeted.*
*If we had a drop off in passenger and aircraft throughput through the airport our revenues will drop, our ROI will drop, it is responsible for us to drop our investment.*
*We will continue to monitor how the cumulative ROI is looking versus the target.*

*Adrian Littlewood: Marcus, the best example is if you think back to 2008/9 during the GFC we actually canned the northern runway so that was going to be going ahead and we deferred price increases at the same time*
*So we actually adjusted within pricing period after consultation because conditions materially changed so*
*I think that would be expected of us to be at least considering that option should there be a serious change in conditions we forecast*
*On the other side if things pan as we expect we bear that risk for the pricing period*

**Marcus Curley: So, you would only lower the capex if the passenger volume forecasts weren't meeting the expectations or?**
*Adrian Littlewood: No, I think it is something we would judge on the facts and the basis*
*It would particularly be addressed if there was a significant lick of new capacity maybe coming along that wasn't judged to be required for example – we would look at that.*

*But, you know, it's not a hard fixed game, as Phil said we spent more than we forecast because the demand justified.*
*If there was a massive change in market structure or a massive global event that seriously changed structures, I think it would be on us to consider the option of flexing*

**Marcus Curley: So what you're saying is it's too early to judge how much equity you need because you could lower capex if passenger numbers didn't turn up?**
Adrian Littlewood: *I think the plan is the plan, these things change, we've got a plan in place and you know, we'll play it as we go.*
*But, I think what Phil said is, we'll act early if we feel we need to do it – we've got options there as well*

**Marcus Curley: Yeah, so I suppose my question was, if the plan is the plan, how much equity do you need? I suppose we model the plan – you know, we don't generally model a GFC or another major crisis, rightly or wrongly**
Adrian Littlewood: *Well I think the figure a few people, and these are scenarios that have been put out, sort of in that 500 mark might be a possibility with the current structure we have set.*
*Probably a reasonable estimate under current conditions.*
*But as Phil said the model is incredibly sensitive to performance so if we over-perform on passengers for example, if we can get more, if we can deliver on the outcomes we have committed to for lower*
*Then we expect in terms of investment to take that [proceeds]. So that's, those are all positives*

**Marcus Curley: If you were going to delay capex, is the domestic terminal the most logical thing to get pushed out?**
Adrian Littlewood: *No I think we are committed to that*

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**Time: 02:34:50**

**John Middleton: I'm not quite sure I understand the messaging on capex. Sounds like there is flexibility in that number?**
**But if there is flexibility in that number how does that flexibility reflect in price rises with the airlines?**
Adrian Littlewood: *When I say flexibility I probably think over 10 years. In the 5-year period we have a confirmed capital plan that we are going to be executing on*
*Our opportunity is to; can we outperform on passengers and bear the benefit of that.*
*What I was highlighting was that we had an example in PSE1 or PSE2, no the end of PSE1, where the GFC hit, we chose to defer what was planned runway investment and held off the price increase that was scheduled on that basis.*
*So that was an example of a pretty material change where we consulted with the airlines and said we are planning to do this and they said great, that makes sense, let's do it.*
*So over a 10-year period there will definitely be flexibility to wax and wane our capital programme as it's shown in the PSE3 disclosures to match what's required.*
*In this next 5 years, I expect that we will be spending what we will be spending. Question for us, is can we get the same outcome for lower investment than we had otherwise predicted.*
*That is still an opportunity and that is something that should be expected of us and that risk sits and that opportunity sits with us so if it ends up costing us more we bear that risk and if we can do it for less and deliver the same outcome it benefits us as well.*

**John Middleton: so the airlines are essentially taking your traffic downside risk off you?**
Adrian Littlewood: *Well no, we bear that downside risk for the next 5 years.*
*I'm trying to highlight a probably a quite a dramatic change as an example rather than a modest change example*

*So we can go back and consult at any time, we are obliged to do every 5 years, but if something dramatic happened that is a risk we would have to think about and consult the airlines.*

*Philip Neutze: Yes and just add to that, if the capex forecast was the capex forecast was the capex forecast then PSE2 would have stuck to the capex forecast and we would have spent 80% less than what we were going to and things would be looking pretty grim now*
*So we do flex based on actual demand and it's not true to say if we don't hit the forecast we have broken our bargain*
*We don't contract with the airlines to guarantee they'll give us the forecast revenue either so it's absolutely at the airport's discretion to flex all the elements depending on how things pan out.*

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