

9 November 2012

Dr Mark Berry
Chair
Commerce Commission
P O Box 2351
Wellington

By email: regulation.branch@comcom.govt.nz

Dear Dr Berry

Cross Submission on the Commerce Commission Section 56G Review of Auckland International Airport Limited

1. Wellington International Airport Limited ("**WIAL**") has reviewed the submissions made in respect of the Commerce Commission's ("**Commission**") section 56G review of Auckland International Airport Limited ("**AIAL**").
2. WIAL is also currently reviewing the Commission's draft WIAL report issued on 2 November 2012 and will consider the implications of the Commission's draft findings in respect of the AIAL review. In the interim there are two key issues where WIAL wishes to provide further comment.

Treatment of revaluation gains

3. Both Air New Zealand and BARNZ comment on AIAL's asset revaluations.
"Given that AIAL's 2011 disclosure identifies some \$75.4 million revaluation gains for Specified Airport Activity assets in the period since 30 June 2006 this is of major concern to Air NZ.¹"
"The treatment of asset revaluations and whether AIAL will treat all revaluations – both forecast and actual – as income for the purposes of setting charges as per the Commerce Commission input methodologies. The amounts are not immaterial. Revaluations included in Auckland Airport's annual financial accounts amounted to \$519m in FY11, made up of \$403m for land, \$56m for infrastructure and \$60m for runway, taxiway and apron revaluations.²"
4. Air New Zealand and BARNZ (together the "**Airlines**") continue to confuse financial reporting obligations with pricing for aeronautical services. AIAL, and the other airports, are required to revalue their assets periodically to comply with financial reporting standards and adopt methodologies that comply with these standards.
5. The extent to which revaluations are reflected in pricing is a distinct decision from financial reporting. The treatment in pricing is likely to depend on several factors such as whether

¹ Air NZ Limited Submission to the Commerce Commission, Commerce Act 1986, Part 4, Section 56G Review of Auckland International Airport, paragraph 30

² BARNZ Responses to Commerce Commission Section 56G issues Paper Relating to Auckland Airport page 5

revaluations are applied, the valuation methodologies that are used and risk sharing or wash up arrangements that may be established. For example the revaluation moratorium adopted at AIAL means that it is inappropriate for revaluation gains to be included in forecast regulatory income.

6. BARNZ also refer to the recognition of both forecast and actual revaluation gains. In referring to actual revaluation gains BARNZ continue to seek ex-post recognition of variations from revaluation forecasts which is inconsistent with behaviour exhibited by property owners in competitive markets. That is, property owners do not typically reduce future rental cash flows because an ex post valuation of their property exceeded their previous expectation nor do they seek to recover any ex post revaluation deficit by an increase in future cash flows.

Preparation of MVAU valuations

7. AIAL has provided Market Value Alternative Use (“MVAU”) land valuations for completion of its annual information disclosures.
8. BARNZ notes that it also commissioned an MVAU valuation of AIAL’s land and have submitted this to the Commission albeit that this does not appear to have been presented to AIAL during consultation.
9. In common with WIAL the BARNZ valuation advisers recommended a land valuation that is founded on different assumptions in respect of the proportion of commercial space required in the alternative use land plan, which consequently produces a lower land valuation.
10. The Commission is aware that WIAL did not agree with the alternative BARNZ land valuation for WIAL and the BARNZ submission in respect of the AIAL review indicates why there is a divergence between the valuations.

*“Overall while Common Ground’s approach to residential precinct development is realistic and rational its approach to the need for commercial floor space is grossly overstated and insufficient regard has been given to the employment and commercial service functions that the existing mixed use development area to the north of the airside land (excluded from the valuation area) may have on the commercial space requirements needed to service a population of 40,000 people. Unfortunately the overstatement by Common Ground of commercial floor space needs by 3 to 5 times casts serious doubt on the balance of their report findings and **tends to suggest that the underlying driver behind their report is to maximise the \$ value of the alternative land use scenario** [emphasis added]. In my view such an approach does not reflect the underlying philosophy of the “Input Methodology Determination” where the emphasis is upon a “predictable set of alternative uses due to existing and possible zoning and district plan requirements, contour and land area, surrounding land uses, as well as existing linkages and current market supply and demand.”³”*

11. WIAL agrees that its valuers have sought to maximise the value of land in the alternative use scenario. This is appropriate because it is consistent with the requirement in Schedule A of the Input Methodology Determination which states that:

“MVAU is the value of land in its highest and best alternative use. This latter term means the most probable use of airport land, other than for supplying specified airport services, or a use to the extent that it is influenced by specified airport services which is physically

³ BARNZ Responses to Commerce Commission Section 56G issues Paper Relating to Auckland Airport pages 22-23



possible, appropriately justified, legally permissible, financially feasible, and results in the highest valuation of the land in question.⁴

12. WIAL therefore reiterates that contrary to BARNZ's response, the valuation needs to be undertaken at its "highest and best" alternative use and this will likely involve a maximisation of the value of alternative land use scenario in accordance with Schedule A.
13. If you should wish to discuss our comments further please do not hesitate to contact me on 04 385 5105 or mharrington@wellingtonairport.co.nz.

Yours sincerely



Martin Harrington
Chief Financial Officer

⁴ Commerce Act (Specified Airport Services Input Methodologies) Determination 2010, 22 December 2010, Schedule A, paragraph A2(3)

