

Keston Ruxton
Manager Input Methodologies Review
Commerce Commission
PO Box 2351
Wellington 6140

18 August 2016

Dear Keston

Input Methodologies Review: Cross-submission on Draft Decision and Submission on Draft IM and ID Determinations

Cross-submission on Draft Decision

1. The Commerce Commission has invited cross-submissions on its draft decision released on 16 June 2016, as part of its review of input methodologies under the Commerce Act 1986. This cross-submission should be read in conjunction with NZ Airports' submission, which Auckland Airport is a party to and supports.
2. In addition to the issues raised by NZ Airports, we wish to make the following points:
 - (a) BARNZ appears to support the Commission's proposal to introduce a forecast assets held for future use schedule and to separate the relevant revenues from an airport's total regulatory income where they have been included in that schedule. However, BARNZ disagrees with the Commission's proposal to allow an airport to use the carry-forward mechanism to disclose revenues associated with assets held for future use.

In practice, we anticipate that any charges on assets held for future use would likely be disclosed in the assets held for future use schedule, on both a forecast and ex post basis. However, we agree with the Commission's proposal that the carry-forward mechanism should remain an alternative if, for whatever reason, it is not possible to use the future use schedule. We think it will be possible to provide transparency using this approach, and support the Commission's decision to allow airports to choose the approach that best aligns with their price setting decision.

- (b) IATA has expressed concern about pre-funding of investments. We do not think this is a concern in the current environment. We believe that it can be important to send efficient price signals about the costs of growing demand in certain circumstances, in order to avoid future inefficiencies if long-run costs are not properly signalled to consumers. We do not believe this amounts to "pre-funding" in the way contemplated by IATA. In the right circumstances, it represents an appropriate competitive market response that is in the long-term interests of consumers. We therefore support the Commission's proposal to allow revenue associated with assets held for future use to be disclosed and tracked separately alongside the carrying value of the relevant assets.
 - (c) BARNZ is clear that there have been no material issues with forecasting CPI in the information disclosure regime to date. In our view, BARNZ's comments support our view that disclosing IM-compliant forecast CPI is likely to provide minimal benefits to interested parties.

We support removing the proposed requirement for airports to disclose "IM-consistent forecast CPI" as part of the price setting disclosure and to identify the impact of any differences on the value of forecast revaluations, particularly where an airport elects to



apply a non-indexed approach in pricing. If an airport has not forecast to index asset values at CPI in their pricing approach, and is not required to index those asset values at CPI for annual disclosure purposes, we struggle to see the benefit in requiring them to disclose what would hypothetically happen to their asset values if the Commission's estimate of forecast CPI was applied.

- (d) BARNZ has suggested that airports should only be able to choose whether to index asset values or not at a category level, rather than for individual assets. We do not agree with this suggestion. As we have previously explained to the Commission, it is key that the disclosure requirements allow airports to reflect the approach that has actually been taken in pricing.

We support an approach where airports can roll forward individual assets in accordance with the indexing approach to those assets in pricing, with disclosure of aggregate revaluations at an asset category level. This will mean that individual assets within a category may have different indexing approaches applied for disclosure purposes, if that aligns with the pricing approach that has been taken.

- (e) BARNZ has indicated that it may be more appropriate in some situations for an airport to use the carry-forward mechanism rather than to amend its regulatory asset values (i.e. that it can see a scenario where the carry-forward provides a better solution than changing the indexing assumption that is applied to the asset base). We think this supports our view that the carry-forward mechanism is a viable alternative to requiring Auckland Airport to restate its regulatory asset base, depending on the approach that is taken in pricing for PSE3.

As we explained more fully in our main submission, we think the Commission should leave the restatement, carry-forward and pseudo-asset options open to Auckland Airport, so that it is able to provide the best and most transparent disclosure in light of the pricing decisions that are made.

Submission on Draft IM and ID Determinations

- 3. Auckland Airport has reviewed the Commission's proposed amendments to the IM and ID Determinations. We have been involved in the preparation of NZ Airports' submission on the technical drafting, and we are a party to that submission.
- 4. In addition to the points made by NZ Airports, we wish to emphasise the importance of a further round of technical consultation on the wording of the draft determinations if further changes are proposed by the Commission (including in response to substantive or drafting feedback from interested parties). These are complex and detailed documents, and it will be important to ensure that all parties are comfortable with the wording before the IM and ID requirements are finalised.

Yours sincerely,

Adrienne Darling
Head of Economic Regulation and Pricing
adrienne.darling@aucklandairport.co.nz