

5 April 2013

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 Process and Issues Paper for the Section 56G Review of Christchurch International Airport Limited

1. Wellington International Airport Limited ("**WIAL**") provides this Cross Submission ("**Cross Submission**") on the Process and Issues Paper ("**Paper**") for the section 56G review ("**Review**") of Christchurch International Airport Limited ("**CIAL**") issued by the Commerce Commission ("**Commission**") on 8 February 2013.
2. WIAL has reviewed the submissions made by other interested parties and identified several specific issues that WIAL considers warrant further comment. We address these issues below.

Impact of Information Disclosure ("ID**") Regulation on CIAL**

3. The submissions made by Air New Zealand, BARNZ and Jetstar (together "**the Airlines**") continue to show little regard for the Commerce Act ("**Act**") ID regulation and often express conclusions that the ID regulation has had no impact on CIAL's pricing consultation or achievement of the Part 4 objectives of the Act.
4. However, WIAL considers that the Airline comments do not give appropriate regard to the intent and requirements of the legislation and in particular:
 - Do not take a balanced or overall view of the achievement of the objectives of Part 4 and instead emphasise the profitability analysis as more fundamental than the other objectives. The Airlines in fact in many cases acknowledge that the airports are providing appropriate levels of investment, innovation and service quality. Any assessment of the effectiveness of ID regulation must reflect a balanced view of all of these achievements.
 - Air New Zealand in particular conclude that ID regulation cannot be effective and give no regard to the intent of the regulation¹.
5. This is despite specific examples from CIAL, and the other airports in their respective section 56G reviews, which clearly demonstrate that ID regulation is influencing airport behaviour. Furthermore the information disclosures made by the airports to date clearly provide improved

¹ Air NZ Limited Submission to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review of Christchurch International Airport, 22 March 2013, page 3

information for interested persons to evaluate airport performance, albeit that this is presently only for a short period of time.

6. The Commission's section 56G reviews are an important component of the ID Regime and provide the airports with their first feedback from the Commission on how airport performance will be assessed by the Commission. This then provides the airports with the opportunity to modify their conduct to address any concerns raised by the Commission.
7. The success or otherwise of the ID regime will therefore only become clear as the regime becomes fully established and airlines and airports respond and perform over time.

Weighted Average Cost of Capital ("WACC")

8. The airports have submitted at length throughout the section 56G reviews that the WACC input methodology ("IM") should not be considered as a fixed or "bright line" benchmark. In addition, the airports have acknowledged that whilst it may be appropriate for the Commission to apply the IM in its own analysis, the Commission should give regard to the individual circumstances of each airport in evaluating variations from the Commission's analysis.
9. In particular WIAL has submitted² that the Commission should consider how the risk and financing assumptions for each individual airport could rationally differ from the IM, and consequently this will provide a reasonable explanation of any variations in an airport's actual or forecast outcomes from the Commission's modelling.
10. The BARNZ submission on the Commission's Paper demonstrates that BARNZ also agrees that it is appropriate for individual airport circumstances to be considered in evaluating an airport's performance. WIAL does not agree with many of the specific comments made by BARNZ in respect of CIAL's WACC, or that of their adviser Future Consultants, however BARNZ's recognition that a higher asset beta is appropriate for CIAL³, and therefore that the WACC IM should not be treated as a fixed benchmark, is consistent with WIAL's view.

Consideration of 2017 Asset Valuations

11. WIAL finds the submissions made by the Airlines in respect of prospective asset valuations in 2017 far fetched to say the least.
12. In the first instance, conclusions on performance should not be founded on speculation about future price setting behaviours for PSE3 or beyond. In addition, at the very least, where any such analysis is undertaken, it should make clear that this approach is predicated on future behaviours (which may or may not eventuate) and that airports may take alternative pricing approaches in future periods.
13. Secondly, it is clear from the two Price Setting Event Disclosures published by CIAL that they have taken an MVAU approach to land valuation for pricing before and after the introduction of the ID regulation. The Airlines submission that the Commission should consider prospective MVEU land valuations for CIAL in its section 56G review appears therefore completely unjustifiable when having regard to CIAL's actual past conduct.

² Wellington International Airport Limited's Substantive Submission to the Commerce Commission in Relation to its Draft Report to the Ministers of Commerce and Transport on how Effectively Information Disclosure Regulation is Promoting the Purpose of Part 4 for Wellington International Airport Limited, 30 November 2012, pages 7-9

³ BARNZ Responses to Commerce Commission Section 56G issues Paper Relating to Christchurch Airport, 23 March 2013, page 3

14. If you wish to discuss any comments further please do not hesitate to contact me on 04 385 5105 or at mharrington@wellingtonairport.co.nz.

Yours sincerely



Martin Harrington
Chief Financial Officer