

Introduction and approach to submission

1. The Commerce Commission ("**Commission**") has invited comments on its draft amendments to the Input Methodologies ("**IM**") and Information Disclosure ("**ID**") Determinations of 22 June 2016 (together the "**draft Determinations**") as part of its review of input methodologies ("**IM Review**") being undertaken pursuant to section 52Y of the Commerce Act 1986 ("**Act**").
2. New Zealand Airports Association ("**NZ Airports**") appreciates this opportunity to submit on the draft Determinations. This submission should be read in conjunction with our submission of 4 August on the Commission's draft decision.
3. Our approach to this submission has been to:
 - (a) Set out our material and/or substantive comments on the proposed amendments in the main body of this submission;
 - (b) Then provide technical comments and proposed amendments to the draft Determinations in track-changes. Our annotations and tracked amendments to the draft IM Determination are provided at Appendix One, and the same are provided for the draft ID Determination at Appendix Two;¹ and
 - (c) Provide the Schedules for price setting disclosures with suggested changes and annotations, attached at Appendix Three. We note that the Commission has made a few changes to the Schedules relating to annual disclosures. Apart from Schedule 4 (attached at Appendix Four), we have not considered these changes in depth, nor have we considered how the annual disclosure Schedules may (or may not) need to be amended to align with the *ex-ante* changes proposed in this submission. That is based on our understanding that the Commission will separately consult on amendments to annual disclosure schedules in the future.
4. Our comments on the draft Determinations (and ID Schedules) are without prejudice to our submissions of 4 August 2016 on the draft decision. That is, for the purposes of this submission, unless indicated otherwise, we have commented on the basis that the Commission is seeking to implement its draft decision via the draft Determinations, even if we disagree with those decisions. Accordingly, we have not sought to provide suggested drafting where our preferred approach is materially different to the Commission's proposals.
5. We emphasise that a further technical consultation round will be important, including to:
 - (a) Review material changes the Commission intends to make in response to submissions on its draft decision;
 - (b) Further clarify the implementation of some of its proposals - in this submission we have sought to identify particular topics that, in our view, merit further discussion; and
 - (c) Review any proposed drafting changes made by the Commission, given the importance of the wording of the determinations and schedules themselves.
6. The Commission has also published a "companion log" for the IM and ID Determinations to assist those making technical submissions on the draft Determinations. NZ Airports has had regard to this document in preparing this submission.

¹ Our approach has been to accept the Commission's proposed changes to the IM and ID determinations. Therefore, all changes to the determinations at Appendices One and Two were made by NZ Airports.

Discussion of proposed changes to IM/ID Determinations

Airport Input Methodologies draft Determination	
Affected clause	NZ Airports' comments
Part 1 - General Provisions	
Next closest alternative (clause 1.5)	<ol style="list-style-type: none"> 1. As explained at paragraphs 48-51 of NZ Airports' submission on the Commission's draft decision, we consider the Commission's proposed "next closest alternative" approach to be a helpful addition to Part 4 regulation. Here, we set out our understanding of how this is proposed to be implemented, and where we think further clarity on implementation detail will be helpful. 2. Our understanding from the draft decision and IM Review Report is that the "next closest alternative" is not an IM in itself, and sits outside the Determination. 3. That is because if the next closest alternative approach is intended to be an IM: <ol style="list-style-type: none"> (a) Then the statutory process for establishing an IM must apply (as required under section 52V of the Act). Therefore, it would not be appropriate for the Commission to decide on the level of consultation to undertake (if any), as the Commission suggests it will do when it is applying the next closest alternative approach (clause 1.5(4)(d) of the draft IM Determination); and (b) It will also need to satisfy section 52T(2) of the Act: namely, that it is sufficiently certain so that regulated suppliers know how it affects them and will be applied by the Commission. 4. It is clear that the Commission does not intend to comply with these requirements each time it invokes a "next closest alternative" methodology. That, to us, suggests that a particular methodology to be used in any individual circumstance is not intended to be an IM. We invite the Commission to confirm that our understanding is correct (as it is not fully clear from the reasons papers). 5. We have proposed some amendments to clause 1.5 to clarify what we understand to be the intended implementation process - including that the Commission must consult if it decides to adopt a next closest alternative approach on its own initiative.

Part 2 - Cost Allocation	
	<p>6. NZ Airports is of the view that the additions to clause 2.2(3-5) are a product of proposed changes to electricity distribution IMs to address concerns about revenues and costs from emerging technologies. This is disappointing, as a positive feature of the original cost allocation IM setting by the Commission was recognition that airports and airlines constructively engage on cost allocation and achieve positive outcomes for consumers.</p> <p>7. We note that BARNZ does not support the proposed amendments in their current form, as they may make it difficult for airports to use proxy allocators when it is appropriate to do so.</p> <p>8. Accordingly, NZ Airports submits that the proposals should be deleted.</p>
Part 3 - Asset Valuation	
Depreciation (clause 3.4)	<p>9. We understand the intent is that disclosure of depreciation must be consistent with the approach adopted in pricing.</p> <p>10. However, the current drafting of clause 3.4(5) conflates pricing with disclosure requirements. We have suggested amendments to clause 3.4(5) of the draft IM Determination to make clear that the IM stipulates requirements for the price setting event disclosures an airport is required to make under the ID Determination, rather than the setting of prices.</p>
Revaluation (clause 3.7)	<p>11. NZ Airports' suggested changes are necessary to give effect to our submission on the draft decision at 214(b) that an airport can have different revaluation approaches for assets within each asset category. (As noted in Auckland Airport's submission (at paragraph 14) it is understood this is the Commission's intention.) That being the case, our proposed amendments seek to have the clauses apply at the individual asset level; not the asset category level.</p> <p>12. As with depreciation above, we have also proposed amendments to clause 3.7 to make it clearer that ID must be consistent with pricing decisions, but that ID does not dictate the required pricing approach.</p>
Value of commissioned asset (clauses 3.9(3) and 3.9(6))	<p>13. Despite the Commission's draft decision to retain the status quo as discussed in the Report on the IM Review (chapter 20 at page 164), the draft amended IM Determination proposes that the ceiling for finance costs will be the weighted average cost of debt rather than post tax WACC. NZ Airports understands that this is an error and the Commission intends to correct the draft amended IM to reflect the draft decision during technical consultation. We support that and have proposed the requisite amendments to revert to the original IM in Schedule One.</p> <p>14. We think the Commission's proposed approach to capital contributions may create a risk of unintended consequences in some situations. Under the Commission's proposed approach, if a capital contribution is received for a project, then the relevant assets (including any assets held for future use) must be transferred to works under construction, even if those assets would not otherwise meet the test to be classed as a works under construction. If a partial capital contribution is</p>

	<p>received, and construction is not yet underway, we think the Commission’s proposal creates a risk that financing costs cannot be accrued on the assets transferred to works under construction (as the IMs require financing costs to be suspended if construction is suspended). We have not proposed changes to the IM to address this scenario, but we encourage the Commission to ensure that its proposal to require assets to be transferred to works under construction does not have unintended consequences for the accrual of financing costs.</p>
<p>Alternative methodologies with equivalent effect (clause 3.13)</p>	<p>15. NZ Airports supports the Commission's proposal to introduce additional flexibility for asset revaluations (see paragraph 216 of our submission on the draft decision).</p> <p>16. We have proposed some amendments, consistent with our submission on the draft decision, to reflect that it may not be possible to ensure that an alternative methodology is strictly of equivalent effect. We note that the ID Determination (clause 2.5(s)) appropriately does not require airports to demonstrate that the alternative methodologies have equivalent effect to the IM (which would, in any event, be impossible without actually applying the IM). We have sought to achieve consistency between IM and ID requirements. We think our proposed amendments are consistent with the Commission's intent, and will not widen the circumstances in which an alternative methodology can be used.</p> <p>17. We are of the view that the certification under Schedule 23 should be removed.</p>
<p>Part 5 - Cost of Capital</p>	
<p>Estimating the WACC and standard error after a price setting event or when requested by an airport, and Publication of WACC estimates and standard error (clauses 5.5 and 5.6)</p>	<p>18. NZ Airports' submission on the draft decision proposed a materially different approach to the Commission's proposal to only publish a mid-point estimate and standard error.</p> <p>19. If the Commission accepts our submissions, then the technical consultation phase should be used to develop alternative amendments.</p> <p>20. Proposed clause 5.5 would implement the Commission's draft decision to allow airports to request the Commission to publish a WACC estimate for a quarter that it would not otherwise publish an estimate for. The intent is to ensure that a WACC estimate is available close to the time at which prices are set, which will also be used for profitability assessment (regardless of whether it is requested to be published).</p> <p>21. We have proposed a further amendment to clause 5.6 to make it clear that the closest WACC estimate prior to a price setting will be used for profitability assessment. We understand that the Commission accepts that airport price setting should not be assessed using information that was not available to airports at the time they set prices.</p>

Information Disclosure Determination	
<i>Affected clause</i>	<i>NZ Airports' comments</i>
<i>Part 1 - General Provisions</i>	
TCSD	22. We have deleted all definitions that are only relevant to the TCSD, as we support the Commission's proposal to remove the TCSD requirements from the ID Determination.
Definition of, and formula for, "assets held for future use forecast closing cost" and related definitions	23. We have proposed edits to the relevant definitions and formula. This is to ensure there is no confusion with operational costs and tax. NZ Airports' edits are consistent with other disclosures. 24. The definition of disposals does not include works under construction. Therefore, separate provision for these ought to be made here.
Definition of "forecast closing carry forward adjustment"	25. As set out in our submission on the draft decision at paragraph 209, the forecast closing carry forward adjustment can only be an indication of intent. All pricing decisions must be consulted on by airports. The definition in the draft ID Determination should reflect that and identify the possibility that the intended offsets to future pricing events are subject to views expressed in consultation at the time of those future events. 26. We have also proposed minor drafting changes to clause 2.5(1)(e) of the draft ID Determination for this reason.
Definition of "forecast operational expenditure" and various other "forecast" definitions relevant to Schedules 18 and 19.	27. As we understand it, a range of definitions are proposed to be common to both the full Schedule 18 forecast and the Schedule 19 pricing asset base forecast. However, matters such as forecast revaluations, capex, opex, revenue etc will all be different depending on whether they are calculated for the purpose of Schedule 18 or 19. 28. As such, the Commission may need to provide additional definitions or alter existing ones. This is something NZ Airports believes should be included in the technical consultation stage. 29. We have tried to identify definitions that we believe will need to be considered in this respect.

<p>Definition of "proposed risk allocation adjustment"</p>	<p>30. The proposed definition risks blurring the distinction between airport price setting events (undertaken in accordance with the Airport Authorities Act 1966 ("AAA")) and information disclosure requirements under ID. Under the AAA regime, in light of their obligation to consult and then set prices, airports cannot commit to adjusting their opening investment value (which is an information disclosure concept) at the start of the next pricing period.</p> <p>31. We understand the intent, but the drafting proposed is problematic. Accordingly, NZ Airports has suggested amendments to align this definition with the purpose of ID, while still giving effect to the intention behind the carry forward mechanism.</p>
<p>Definition of "unforecast revaluation gain/loss"</p>	<p>32. This definition appears to align with the scenarios two and three discussed at pages 83 to 86 of Topic Paper 5 of the draft decision. The problem, as we see it, is that the definition does not allow for another important scenario. That is, if an airport forecasts (and discloses) a periodic land revaluation, it is unclear whether the definition applies. If it does, the application of limb (a) would nevertheless require the entire actual periodic revaluation to be included as an unforecast revaluation for the subsequent PSE disclosure. In our view, the appropriate approach is for only the "true" unforecast part of the revaluation to be included in the carry forward (ie the difference between actual and forecast periodic revaluation).</p> <p>33. Alternatively, the Commission needs to clearly state that in the scenario above, airports would be entitled to make a further adjustment to the opening carry forward adjustment (via "other opening carry forward adjustments") to ensure that the forecast periodic revaluation is reinstated into the opening investment value. However, the less complex and more transparent approach would be to only require the true unforecast part of the revaluation to be included in the carry forward in the first place.</p> <p>34. We seek clarification on limb (b) of the definition. We understand that the Commission intends this to implement scenario 3 - where an airport has switched from non-indexing to an indexed approach (and revalues its land). However, the language used does not clearly convey that intent. Rather, it confusingly suggests that in the situation where an airport is not indexing, indexed revaluations must nevertheless be included as unforecast.</p> <p>35. We have also suggested amendments to clarify that unforecast revaluation can be calculated from the establishment of the initial RAB.</p> <p>36. Given the materiality of the Commission's proposed treatment of unforecast revaluations to the review process, we ask that the Commission further engage on this topic during the technical consultation. It would be helpful to both clarify the Commission's intent, and then ensure that the drafting of the definition clearly achieves that intent.</p>

Part 2 - Disclosure Following Price Setting Event

Carry forward mechanism (clause 2.5(1)(d))	37. As identified in our submission on the draft decision at paragraph 237-241, the concept of "degree of acceptance" is not appropriate. A summary of views expressed during consultation is more appropriate. We have also reflected this approach in our annotations to the revised ID Schedules (where appropriate).
WACC percentile equivalent (clause 2.5(h))	38. In our view, as drafted this provision appears to be at odds with section 53F of the Act. As we understand it, the provision requires airports to apply part of the WACC IM in their information disclosure requirements. 39. Our submission on the draft decision sets out what we believe will be a better approach to WACC percentile matters.
Depreciation and asset lives (clause 2.5(1)(p))	40. Clause 2.5(p)(i) prescribes an explanation of, and evidence of how, the standard depreciation methodology reflects the expected value or utilisation of the RAB. If an airport is following an IM compliant depreciation approach, an explanation should not be required. As such, we have proposed its removal. 41. Further, we do not understand why airports should be required to explain the use and impact of the standard depreciation approach under the IM. NZ Airports submits that this clause should be removed. 42. If airports are to be required to provide evidence of the asset utilisation, this is likely to require external advice supporting the proposed asset lives. 43. This addition is unnecessary and unduly onerous because: (a) the IM refers to asset lives being set by airports with no reference to any requirements for external advice (clause 3.6); (b) there has not been any suggestion of inappropriate asset lives being set by airports; and (c) airports have very large numbers of assets. The requirement to disclose any change in forecast asset life sets an onerous burden for the airports in relation to low value assets. Disclosure of such changes would be immaterial and yet require extensive monitoring processes by the airports if the disclosure requirement is retained at this detailed level. 44. As such, this addition represents an unjustified additional burden and cost on airports, and should be removed.
Forecast IM CPI and forecast Pricing CPI (clause 2.5(r))	45. NZ Airports understands that BARNZ sees no material issues with the forecasting of CPI to date. This reinforces our view that this requirement adds more detail and complexity without adding any value. It should be removed. We have also made changes to Schedule 18 to reflect this.

Annual Schedules

Schedule 4: Report on Regulatory Asset Base Roll Forward

4b(viii): General workability of assets held for future use tracking disclosure	46. We are of the view that the opening and closing values in Schedule 4b(viii) relating to the tracking of assets held for future use values do not reconcile from year to year, which creates complications for airports in disclosure reporting and may create confusion for interested parties. We have not proposed edits at this stage, but we suggest this is a schedule that will require engagement from the Commission and interested parties.
4b(iii): Non-Standard Depreciation Disclosure for Year of Change	47. This has been removed from Schedule 4 because: (a) according to the draft decision, an airport cannot change a depreciation methodology during a pricing period; and (b) the requirement to explain the non-standard depreciation methodology is already included in Schedule 18 and 19, which is in line with the requirements of 2.5(1)(p).

Pricing Schedules

Schedule 18: Report on the forecast total asset base revenue requirements and Schedule 19: Report on the forecast pricing asset base revenue requirements

Asset base information	48. The draft schedules presume that the asset bases for the previous year will be known at the commencement of a pricing period. This will not be the case. As such, airports will need to roll forward the asset bases for at least one year to establish commencing values for a pricing period.
Assets held for future use	49. The disclosure has been amended to allow for the transfer of assets held for future use to capital work in progress.

Appendix One - IM determination in track changes



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**[DRAFT] Commerce Act (Specified Airport Services Input Methodologies)
Determination 2010**

Consolidating all amendments as of [XX] [XX] 2016

Publication date: [XX] [XX] 2016

Commerce Commission

Wellington, New Zealand

Determination history		
Determination date	Decision number	Determination name
22 December 2010	709	Commerce Act (Specified Airport Services Input Methodologies) Determination 2010
14 November 2014	n/a	Determination of Input Methodologies by the High Court in <i>Wellington International Airports Ltd and others v Commerce Commission</i> [2013] NZHC 3289 (11 December 2013)
24 February 2016	[2016] NZCC 3	Airport Services (Land Valuation) Input Methodologies Amendments Determination 2016
[XX] [XX] 2016	[2016] NZCC [XX]	Airport Services Input Methodologies Amendments Determination 2016

COMMERCE ACT (SPECIFIED AIRPORT SERVICES INPUT METHODOLOGIES) DETERMINATION 2010

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Pursuant to Part 4 of the Commerce Act 1986 the Commerce Commission makes the following determination:

PART 1 GENERAL PROVISIONS

1.1 Title

This determination is the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010.

1.2 Application

- (1) This determination applies to **specified airport services**.
- (2) This determination must be applied in accordance with-
 - (a) the **input methodologies** in this determination; or
 - (b) if clause 1.5(1) applies, the next closest alternative approach.

1.3 Commencement

This determination comes into force on the day after the date on which notice of it is given in the New Zealand Gazette under s 52W of the **Act**.

1.4 Interpretation

- (1) In this determination-
 - (a) unless stated otherwise, references to Parts are to named and numbered parts of this determination;
 - (b) unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa; and
 - (c) unless stated otherwise, any reference to an allowance, amount, cost, sum or value is a reference to an allowance, amount, cost, sum or value determined in relation to an **airport** in respect of a **disclosure year**.
- (2) In this determination, including in the schedule, the words or phrases in bold type bear the following meanings:

2009 disclosed assets means the assets included by the **airport** in question in the 'Non-current assets' category of the **statement of financial position** in the **2009 disclosure financial statements**;

2009 disclosure financial statements means the disclosure financial statements completed by an **airport** under regulation 4 of the **airport regulations** for the accounting period (as defined in regulation 2(1) of those regulations) ending in 2009;

A

accounting-based allocation approach means the methodology described, in respect of-

- (a) **asset values**, in clause 2.2(1); and
- (b) **operating costs**, in clause 2.2(2);

Act means the Commerce Act 1986;

aircraft and freight activities has the same meaning as defined in s 2 of the Airport Authorities Act 1966;

airfield activities has the same meaning as defined in s 2 of the Airport Authorities Act 1966;

airport means a company described in s 56A(2) of the **Act** insofar as it provides **specified airport services**;

airport regulations means the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999;

asset allocator means a proportion of a quantifiable measure used to allocate **asset values** that are not **directly attributable** and whose quantum is-

- (a) based on a **causal relationship**; or
- (b) equal to a **proxy asset allocator**;

asset category means one of the following asset types-

- (a) **land**;
- (b) sealed surfaces;
- (c) buildings and infrastructure; and
- (d) vehicles, plant and equipment;

asset life has the meaning specified in clause 3.6;

asset value means, in respect of an asset used by an **airport** for the undertaking of-

- (a) **regulated activities** only; or
- (b) **regulated activities** and the **supply** of one or more **unregulated service**,

in-

- (c) the **disclosure year 2009**, its **unallocated initial RAB value**; and

all other **disclosure years**, its **unallocated closing RAB value**;

B

business day means any day on which statistics relating to trading in New Zealand government bonds are published by a financial information service such as Bloomberg or Reuters;

C

capital contributions means money or the monetary value of other consideration charged to or received from **consumers** or other parties for the purposes of asset construction, acquisition or enhancement;

capital expenditure means

- (a) subject to paragraph (c), for the purpose of unallocated works under construction, costs:

Comment [A1]: The Commission inserted a new definition in the IM that is different to the definition included in the ID Determination. To maintain cohesion between the two determinations, NZ Airports propose to replicate the definition from the ID definition.

- (i) incurred in the acquisition or development of an asset during the **disclosure year** that is, or is intended to be, **commissioned**; and
- (ii) that are included or are intended to be included in the value of assets **commissioned** relating to the **unallocated RAB**;
- (b) subject to paragraph (c), in all other instances, costs:
 - (i) incurred or forecast to be incurred in the acquisition or development of an asset during the **disclosure year** that is, or is intended to be, **commissioned**; and
 - (ii) that are included or are intended to be included in the value of **assets commissioned** relating to the **RAB**;
- ~~(c) costs incurred or forecast to be incurred in the acquisition of an asset as determined in accordance with clause 3.11 are deemed to have been incurred or forecast to be incurred in the year in which they are included in the value of **transfer to works under construction**; costs that have been or will be included in a **value of commissioned asset**, but only to the extent that the costs have been or will be included in a **closing RAB value**;~~

causal relationship means, in relation to-

- (a) **asset values**, a circumstance in which a factor influences the utilisation of an asset during the 18 month period terminating on the last day of the **disclosure year** in respect of which the asset allocation is carried out; and
- (b) **operating costs**, a circumstance in which a cost driver leads to an **operating cost** being incurred during the 18 month period terminating on the last day of the **disclosure year** in respect of which the cost allocation is carried out;

closing RAB value means the value determined in accordance with clause 3.3(4);

Commission has the same meaning as defined in s 2 of the **Act**;

commissioned means used by the **airport** to **supply specified airport services** other than **excluded services** and **commission** shall be construed accordingly;

commissioning date means the date that an asset is first **commissioned**;

consumer means a person that consumes or acquires **specified airport services**;

corporate tax rate means the prevailing rate of income taxation applying to companies as specified in the **tax rules**;

cost allocator means a proportion of a quantifiable measure used to allocate **operating costs** that are not **directly attributable**, and whose quantum is-

- (a) based on a **causal relationship**; or
- (b) equal to a **proxy cost allocator**;

cost of debt means the amount specified for r_d in clause 5.1(4);

CPI means-

- (a) subject to paragraph (c), in respect of the December 2010 quarter and subsequent quarters, the consumer price index stipulated in the 'All Groups Index SE9A' as published by Statistics New Zealand;
- (b) subject to paragraph (c), in respect of each quarter prior to the December 2010 quarter, the same index as described in paragraph (a) multiplied by 1.02;
- (c) in respect of quarters prior to any quarter in which the rate of **GST** is amended after this determination comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index (expressed as a decimal) arising from the amendment; and
- (d) in respect of a forecast value for a quarter, **forecast CPI**;

D

debt premium has the meaning specified in and is the amount determined in accordance with clause 5.4;

decommissioned asset means an asset (other than a **disposed asset**) formerly used in or in relation to the **supply** of **specified airport services** other than **excluded services** that has been permanently withdrawn from such use;

depreciation means an allowance to account for the diminution in a **non-land asset's** remaining service life potential in the **disclosure year** in question with respect to its **opening RAB value** and the amount of such allowance is determined in accordance with clause 3.4;

directly attributable means, in relation to-

- (a) **asset values**, wholly and solely related to an asset used by the **airport** in or in relation to its undertaking of a **regulated activity**;
- (b) **operating costs**, wholly and solely incurred by the **airport** in or in relation to its undertaking of a **regulated activity**; and

disclosure year shall be construed as a 12 month period ending on the date specified in an **ID determination** as the last date in the period to which annual disclosure relates;

*Example: whilst the **ID determination** provides that disclosure is required by Auckland International Airport Limited in respect of the 12 month period ending on 30 June, **disclosure year 2010** means, in respect of Auckland International Airport Limited, the twelve month period ending 30 June 2010;*

disposed asset means an asset that, in the **disclosure year** in question, has been sold or transferred by the **airport**, or has been irrecoverably removed from the **airport's** possession without consent, but is not a **lost asset**;

document has the same meaning as defined in s 2 of the **Act**;

E

easement means a right to use but not possess **land** belonging to another **person** or a right to prevent certain uses of another **person's land**;

easement land means **land** acquired with the intention of-

- (a) creating an **easement** in respect of it; and
- (b) disposing of the **land** thereafter;

excluded asset means-

- (a) an asset that is acquired or held to **supply excluded services**;
- (b) property to the extent due to the incursion of **land conversion costs** except Auckland International Airport Limited's costs of seawall construction;
- (c) an asset that is not used to **supply specified airport services** as on the last day of the **disclosure year** 2009; or
- (d) **easement land**;

excluded services means **services supplied** in markets directly related to the holding of any facilities or assets for the future undertaking of—

- (a) **aircraft and freight activities**;
- (b) **airfield activities**; or
- (c) **specified passenger terminal activities**;

F

finance lease has the same meaning as under **GAAP**;

fixed life easement means an **easement** that-

- (a) is of fixed duration; or
- (b) whilst of indefinite duration, is to be held for a fixed period;

forecast CPI means, for-

- (a) a quarter prior to the quarter for which the **post tax vanilla WACC** applicable to the relevant **price setting event** was determined, **CPI**, excluding any adjustments made under the definition of **CPI** paragraphs (b) or (c), arising as a result of an event that occurs after the issue of the Monetary Policy Statement referred to in paragraph (b);
- (b) each later quarter than described in paragraph (a) for which a forecast of the change in headline **CPI** has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the **post tax vanilla WACC** applicable to the relevant **price setting event** was determined, the **CPI** last applying under paragraph (a), extended by the forecast change; and
- (c) quarters later than described in paragraph (b), the forecast last applying under paragraph (b), adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the

Comment [A2]: We note that this definition is not used in the IM Determination. Its only purpose appears to be to establish a definition of "forecast IM CPI". For the purposes of ID the forecast CPI is required to be disclosed in Schedule 18 along with the forecasts actually used by airports in pricing. As discussed in the cover submission, we think the overall approach to forecast CPI is confusing and unnecessary.

Comment [A3]: This change to "post tax" is reflective of airports' approaches

Comment [A4]: The relevance of this requirement is unclear to NZ Airports as CPI in this subparagraph should be an actual outcome

forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (b).

found asset has the meaning specified in clause 3.10(1);

G

GAAP means generally accepted accounting practice in New Zealand, save that, where the cost of an asset is being determined in accordance with this determination, only the cost model of recognition is applied insofar as an election may be made between the cost model of recognition and the fair value model of recognition;

GST has the same meaning as defined in s YA 1 of the Income Tax Act 2007 as amended from time to time, and any equivalent legislation that supplements or replaces that definition;

H

highest and best alternative use has the meaning given in Schedule A;

I

ID determination means an information disclosure determination in relation to **specified airport services** made by the **Commission** under s 52P of the **Act**;

identifiable non-monetary asset has the same meaning as under **GAAP** save that goodwill is excluded;

indexed revaluation rate has the meaning specified in clause 3.7(7)(a);

initial RAB has the meaning specified in clause 3.1;

initial RAB value means value of an asset in the **initial RAB** determined in accordance with clause 3.2;

input methodology has the same meaning as defined in s 52C of the **Act**;

investment grade credit rated means endorsed with a credit rating by an established credit rating agency (such as Standard and Poor's) of "investment grade" on that agency's credit rating scale applicable to long-term investments;

L

land excludes-

- (a) **easements**; and
- (b) real property to the extent due to the incursion of **land conversion costs**;

land conversion costs means-

- (a) costs incurred in-
 - (i) the holding and levelling of **land**;

- (ii) seawall reclamation;
 - (iii) sea protection; or
 - (iv) seawall construction; or
- (b) any other costs incurred relating to the conversion of **land** for use in the **supply of specified airport services**;

leverage means the ratio of debt capital to total capital and is the amount specified in clause 5.2(1);

local authority has the same meaning as defined in s 5(1) of the Local Government Act 2002;

lost asset means an asset having, in relation to a particular **disclosure year**, an **unallocated opening RAB value** but determined by an **airport** in that **disclosure year** never to have been used to provide **specified airport services** in, where the disclosure year is-

- (a) the **disclosure year** 2012 or earlier, any prior **disclosure year**; or
- (b) any other **disclosure year**, any prior **disclosure year** after the **disclosure year** 2009;

M

mid-point estimate of WACC means the mid-point estimate of-

- (a) **vanilla WACC**; or
- (b) **post-tax WACC**,

as the case may be, as each is estimated in accordance with clause 5.1;

MVAU has the meaning given in Schedule A;

N

nominated WACC period has the meaning specified in clause 5.5;

non-land asset means an asset other than **land**, and for the avoidance of doubt, includes-

- (a) **easements**;
- (b) **buildings**;
- (c) **real property** to the extent due to **land conversion costs**;

non-standard asset means a **non-land asset** in relation to which an **airport** has applied a **non-standard depreciation methodology**;

non-standard depreciation disclosure means the disclosure of information -in accordance with requirements in an ID determination in relation relating to the airport's use of a non-standard depreciation methodology-in accordance with requirements in an ID determination;

non-standard depreciation methodology means a depreciation methodology other than the methodology used in determining-

Comment [A5]: The Commission's drafting suggests the airport must use the IM in pricing.

The proposed amendment is intended to show that the focus should be on what has been or is required to be disclosed.

- (a) **unallocated depreciation** as specified in clause 3.4(1); and
- (b) **depreciation** as specified in clause 3.4(2);

O

opening RAB value means the value determined in accordance with clause 3.3(3);

operating cost means a cost incurred by the **airport** in question relating to the **supply** of-

- (a) a **regulated activity** alone; or
- (b) a **regulated activity** and the **supply** of one or more **unregulated service**,

and excludes-

- (c) a cost that is treated as a cost of an asset by GAAP;
- (d) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under **GAAP**;
- (e) **pass-through costs**;
- (f) **recoverable costs**; and
- (g) payments associated with a **finance lease**, where the **finance lease** has an **opening RAB value**;

P

person has the same meaning as defined in s 52C of the **Act**;

physical asset life has the meaning specified in clause 3.6(2);

post-tax WACC means the amount determined in accordance with clause 5.1(2);

prescribed investor rate has the same meaning as defined in the Income Tax Act 2007 or any subsequent legislation that supplements or replaces the provisions relating to prescribed investor rate in the Income Tax Act 2007;

price setting event means a fixing or altering of price for a **specified airport service** by an **airport** under s 4A and s 4B of the Airport Authorities Act 1966, which-

- (a) is deemed to occur on the date that the new price comes into effect; and
- (b) excludes instances where the price is-
 - (i) subject to adjustment as a result of a **wash-up**;
 - (ii) reset or adjusted annually, including without further consultation;
 - (iii) subject to separate negotiation for inclusion in the terms of a lease or licence; or
 - (iv) not required to be consulted on by virtue of s 4B(3) of the Airport Authorities Act 1966;

proxy asset allocator means a proportion of a quantifiable measure-

- (a) used to allocate **asset values** for which a **causal relationship** cannot be established; and

- (b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the **disclosure year** in respect of which the asset allocation is carried out;

proxy cost allocator means a proportion of a quantifiable measure-

- (a) used to allocate **operating costs** for which a **causal relationship** cannot be established; and
- (b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the **disclosure year** in respect of which the cost allocation is carried out;

programme means a group of related projects with a common purpose;

project means a temporary endeavour requiring concerted effort, undertaken to create a defined outcome

Comment [A6]: In NZ Airports' view, these definitions have been added with no clear purpose or explanation. We note that "programme" is defined differently in the ID determination (under the definition of "commissioned project"), and project is used differently. At the least, these should be consistent. Removing the clauses altogether is preferred as this would avoid confusion.

Q

qualifying issuer means a New Zealand resident limited liability company -

- (a) that-
 - (i) undertakes the majority of its business activities in Australia and New Zealand; or
 - (ii) is part of a corporate group that undertakes the majority of its business activities in Australia and New Zealand;
- (b) that-
 - (i) does not operate predominantly in the banking or finance industries; or
 - (ii) is part of a corporate group that does not operate predominantly in the banking or finance industries; and
- (c) that issues **vanilla NZ\$ denominated bonds** that are publicly traded;

qualifying rating means-

- (a) a Standard and Poor's long term credit rating of the specified grade; or
- (b) an equivalent long term credit rating of another internationally recognised rating agency;

R

regulated activity means one of the following types of activity:

- (a) **aircraft and freight activities;**
- (b) **airfield activities;** and
- (c) **specified passenger terminal activities;**

regulated goods or services has the same meaning as defined in s 52C of the **Act**;

regulated supplier means a supplier of **regulated goods or services**;

regulatory tax asset value has the meaning specified in clause 4.2;

related party means-

- (a) a **person** that, in accordance with **GAAP**, is related to the **airport** in question;
or
- (b) any part of the **airport** in question that does not **supply specified airport services**;

revaluation means the amount determined in accordance with clause 3.7(2), which, for the avoidance of doubt, may be a negative amount;

revaluation rate has the meaning specified in clause 3.7(7);

S

services has the same meaning as defined in s 2 of the **Act**;

special assumption has the meaning given in Schedule A;

specified airport services has the same meaning as defined in s 56A of the **Act**;

specified passenger terminal activities has the same meaning as defined in s 2 of the Airport Authorities Act 1966;

standard error means estimated standard deviation;

statement of financial position means the statement of financial position referred to in regulation 5(a) of the **airport regulations**;

supply has the same meaning as defined in s 2 of the **Act**, and **supplied** must be construed accordingly;

T

tax rules means the rules applicable to an **airport** for determining income tax payable contained in the Income Tax Act 2007 (as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act);

U

unallocated closing RAB value has the meaning specified in clause 3.3(2);

unallocated depreciation means an allowance to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question with respect to its **unallocated opening RAB value** and the amount of such allowance is determined in accordance with clause 3.4(1);

unallocated initial RAB value means value of an asset in the **initial RAB** determined in accordance with clause 3.2(1);

unallocated opening RAB value has the meaning specified in clause 3.3(1);

unallocated revaluation means the amount determined in accordance with clause 3.7(1);

unregulated service means any good or service **supplied** by the **airport** that is not a **regulated good or service**;

V

valuation and property standards has the meaning given in Schedule A;

value of commissioned asset means the value determined in accordance with clause 3.9;

value of found asset means the value determined in accordance with clause 3.10;

valuer means an individual who-

- (a) is registered as a valuer under the Valuers Act 1948;
- (b) holds a current practising certificate issued by-
 - (i) the Property Institute of New Zealand; or
 - (ii) the New Zealand Institute of Valuers;
- (c) has been engaged to act in his or her professional capacity as a valuer; and
- (d) has no relationship with, nor interest in, the **airport** that is likely to involve the individual in a conflict of interest between his or her duties to the-
 - (i) **airport**; and
 - (ii) **Commission**;

vanilla NZ\$ denominated bonds means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;

vanilla WACC means the amount determined in accordance with clause 5.1(1);

W

WACC means weighted average cost of capital;

wash-up means an annual adjustment to prices reflecting actual use and actual costs incurred;

works under construction means an asset, or a collection of assets that-

- (a) has been or is being constructed by, or on behalf of, an **airport**;
- (b) has not been **commissioned**; and
- (c) the **airport** intends to **commission**.

1.5 Next closest alternative approach

- (1) The **Commission** may determine, on its own initiative or at the request of an airport, and only after subsection 4 has been satisfied, that the next closest alternative approach will be applied to any **input methodology** in this determination if that **input methodology** is unworkable.

Comment [A7]: NZ Airports proposes this amendment to make it clearer that the Commission can only exercise the power under clause 1.5(1) if 1.5(4) is followed - including where the airport makes a proposal.

- (2) An **airport** may propose to the **Commission**, in accordance with subclause (3), that it considers the next closest alternative approach should apply to an **input methodology** where it identifies that the **input methodology** is unworkable.
- (3) If an **airport** proposes a next closest alternative approach, it must-
- (a) identify the unworkable **input methodology** and explain why it considers the **input methodology** is unworkable;
 - (b) describe the next closest alternative approach that would apply instead of the unworkable **input methodology**;
 - (c) describe whether the next closest alternative approach is likely to have an equivalent or non-equivalent effect to that of the unworkable **input methodology**; and
 - (d) certify the information in paragraphs (a)-(c), as may be specified by the **Commission** in a s 52P determination.
- (4) If the **Commission** applies the next closest alternative approach in accordance with subclause (1), it must-
- (a) identify the unworkable **input methodology**;
 - (b) describe the next closest alternative approach that would apply instead of the unworkable **input methodology**;
 - ~~(c)~~ describe whether the next closest alternative approach is likely to have an equivalent or non-equivalent effect to the unworkable **input methodology** and whether a change is required to a s 52P determination to give effect to the next closest alternative approach;
 - ~~(e)~~(d) if the approach is being applied on the Commission's own initiative, undertake ~~any~~ consultation in the manner that the **Commission** considers appropriate; and
 - ~~(f)~~(e) publish its decision, including a description of the next closest alternative approach as specified in paragraph (b).
- (5) For the purposes of subclauses (1)-(4), an **input methodology** may be considered as unworkable if it cannot be reasonably applied as intended.

Comment [A8]: As above

PART 2 COST ALLOCATION

2.1 Cost allocation process

- (1) Any-
 - (a) **asset values**; and
 - (b) **operating costs**,that are **directly attributable** must be allocated to the **regulated activity** to which they are **directly attributable**.
- (2) Any **asset values** and **operating costs** that are not allocated in accordance with subclause (1) must be allocated to **regulated activities** in accordance with the **accounting-based allocation approach**.

2.2 Accounting-based allocation approach

- (1) **Asset allocators** must be used to allocate **asset values** that are not **directly attributable** to-
 - (a) **aircraft and freight activities**;
 - (b) **airfield activities**; and
 - (c) **specified passenger terminal activities**.
- (2) **Cost allocators** must be used to allocate **operating costs** that are not **directly attributable** to-
 - (a) **aircraft and freight activities**;
 - (b) **airfield activities**; and
 - (c) **specified passenger terminal activities**.

Where an **airport** uses a **proxy asset allocator** for the purposes of subclause (1) or a **proxy cost allocator** for the purposes of subclause (2), the **airport** must, in accordance with the requirements in the relevant **ID determination**, explain why a **causal relationship** cannot be established.

Where an **airport** uses a **proxy asset allocator** for the purposes of subclause (1), the **airport** must, in accordance with the requirements in the relevant **ID determination**, explain the rationale for using a selected quantifiable measure for that **proxy asset allocator**.

Where an **airport** uses a **proxy cost allocator** for the purposes of subclause (2), the **airport** must, in accordance with the requirements in the relevant **ID determination**, explain the rationale for using a selected quantifiable measure for that **proxy cost allocator**.

Comment [A9]: We are of the view that these changes are unnecessary. See submission table for further discussion.

PART 3 ASSET VALUATION

3.1 Composition of initial RAB

Initial RAB means the **land** and **non-land assets** included in **2009 disclosed assets**, less-

- (a) **excluded assets**;
- (b) intangible assets, unless they are-
 - (i) **finance leases**; or
 - (ii) **identifiable non-monetary assets**; and
- (c) **works under construction**.

3.2 Initial RAB values for assets

(1) The unallocated initial RAB value of-

- (a) a **non-land asset** is its value as on the last day of the **disclosure year 2009** as disclosed in the **2009 disclosure financial statements** had no allocation of asset value relevant to regulatory disclosures been undertaken; and
- (b) **land**, is its value 'q' determined in accordance with the formula described in subclause (3).

(2) The initial RAB value of an asset is determined by-

- (a) adopting its **unallocated initial RAB value**; and
- (b) applying clause 2.1 to it.

(3) $q = \frac{a + (d - (b + e) - (c + f))}{2} + b + c$

where

a is the estimated value of **land** assets for the 2009 year, as used to provide **specified airport services**;

b is **capital expenditure** on **land** for the **disclosure year 2010**;

c is the value of **disposed assets** on **land** for the **disclosure year 2010** which, for the avoidance of doubt, is a negative amount;

d is the estimated value of **land** assets for the 2011 year, as used to provide **specified airport services**;

e is **capital expenditure** on **land** for the **disclosure year 2011**; and

f is the value of **disposed assets** on **land** for the **disclosure year 2011** which, for the avoidance of doubt, is a negative amount.

3.3 RAB roll forward

(1) Unallocated opening RAB value in respect of an asset in relation to-

- (a) the **disclosure year 2010**, is its **unallocated initial RAB value**; and
- (b) a **disclosure year** thereafter is its **unallocated closing RAB value** in the preceding **disclosure year**.

(2) Unallocated closing RAB value means, in relation to a **disclosure year**, in the case of-

- (a) a **found asset**, its **value of found asset**;
 - (b) a **disposed asset**, nil;
 - (c) a **lost asset**, nil;
 - (d) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-
 - unallocated opening RAB value - unallocated depreciation + unallocated revaluation**; and
 - (e) any other asset having a **commissioning date** in that **disclosure year**, its **value of commissioned asset**.
- (3) Opening RAB value in respect of an asset, is, for-
- (a) the **disclosure year 2010**, its **initial RAB value**; and
 - (b) a **disclosure year** thereafter, its **closing RAB value** in the preceding **disclosure year**.
- (4) Closing RAB value, in respect of an asset is determined by-
- (a) adopting its **unallocated closing RAB value**; and
 - (b) applying clause 2.1 to it.

3.4 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clause 3.5, in accordance with the formula-
- $$[1 \div \textit{remaining asset life}] \times \textit{unallocated opening RAB value}.$$
- (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3) in accordance with the formula-
- $$[1 \div \textit{remaining asset life}] \times \textit{opening RAB value}.$$
- (3) For the purpose of subclauses (1) and (2)-
- (a) unallocated depreciation and depreciation are, in the case of-
 - (i) **land**, nil;
 - (ii) an **easement** other than a **fixed life easement**, nil;
 - (iii) a **non-standard asset**, the amount calculated, subject to subclause (5), by applying the **non-standard depreciation methodology**;
 - (b) in the case of a **decommissioned asset**-
 - (i) unallocated depreciation is its **unallocated opening RAB value**; and
 - (ii) depreciation is its **opening RAB value**; and
 - (c) in all other cases, where an asset's **physical asset life** at the end of the **disclosure year** is nil-
 - (i) unallocated depreciation is its **unallocated opening RAB value**; and

- (ii) depreciation is its **opening RAB value**.
- (4) In this clause 'remaining asset life' means the term remaining of an asset's **asset life** at the commencement of the **disclosure year** in question.
- (5) a **non-standard depreciation methodology** may be applied in non-standard depreciation disclosures where:~~at the time of a price setting event if-~~
 - (a) the results of using the **non-standard depreciation methodology**, disclosed in accordance with the **non-standard depreciation disclosure**, are consistent with the time profile of capital recovery produced by the **airport's** methodology for calculating its revenue and its indexation approach used in **revaluation** of its assets;
 - (b) the **airport** includes an explanation in its non-standard depreciation disclosure of ~~can appropriately justify~~ why it considers the resulting time profile of capital recovery, applied in its methodology for calculating its revenue, is appropriate in the circumstances that exist at the time of the **price setting event**; and
 - (c) it is applied by the **airport** in, and disclosed in, all **non-standard depreciation disclosures** in the period to which the fixed or altered price under the **price setting event** applies.

Comment [A10]: As discussed in the submission table, we have proposed these amendments to make it clearer that the IM does not seek to dictate the approach to be followed in pricing.

3.5 Unallocated depreciation constraint

For the purpose of clause 3.4, the sum of **unallocated depreciation** of an asset calculated over its **asset life** may not exceed the sum of-

- (a) all unallocated **revaluations** applying to that asset in all **disclosure years**;
and
- (b) in the case of an asset-
 - (i) in the **initial RAB**, its **unallocated initial RAB value**; or
 - (ii) not in the **initial RAB**, its **value of commissioned asset** or **value of found asset**.

3.6 Asset life

- (1) Asset life means a finite period relating to an asset, being, in the case of-
 - (a) a **non-standard asset**, the asset life specified for that asset in the **non-standard depreciation disclosure**; and
 - (b) in all other cases, the **physical asset life** of the asset.
- (2) Physical asset life means, in the case of-
 - (a) a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
 - (b) property to the extent due to the incursion of **land conversion costs**-
 - (i) in the **initial RAB**, its remaining physical service life potential determined by an **airport** as on the first day of the **disclosure year 2010**;
and

- (ii) not in the **initial RAB**, its physical service life potential determined as of its **commissioning date** by an **airport**;
- (c) a **found asset**-
 - (i) for which an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age), the asset life applying to the similar asset; and
 - (ii) otherwise, its remaining physical service life potential determined by an **airport** as on the last day of the **disclosure year** in which the **airport** first determined it to be a **found asset**; and
- (d) any other type of asset-
 - (i) in the **initial RAB**, its remaining service life potential as on the last day of the **disclosure year** 2009 as determined in accordance with the **airport's 2009 disclosure financial statements**; and
 - (ii) not in the **initial RAB**, its remaining service life potential determined as of its **commissioning date** by an **airport**.

3.7 Revaluation

- (1) 'Unallocated revaluation' for an **asset category** means, for indexed revaluations and non-indexed revaluations, the amount calculated, subject to subclauses (3) and (4), in accordance with the formula-

unallocated opening RAB value × revaluation rate.

- (2) 'Revaluation' means the amount determined, subject to subclauses (6) and (7), in accordance with the formula-

opening RAB value × revaluation rate.

- (3) For the purpose of subclause (1), where an **airport** revalues, in accordance with Schedule A, as of the same date, all-

- (a) **land** having an **unallocated opening RAB value**; and
- (b) **land commissioned** by that date,

unallocated revaluation for **land** so revalued is the revalued amount for that **land** less, where the **land**-

- (c) has an **unallocated opening RAB value**, its **unallocated opening RAB value**; and
- (d) does not have an **unallocated opening RAB value**, its **value of commissioned asset**.

- (4) For the purposes of subclauses (1)-and (2), where-

- (a) the asset's **physical asset life** at the end of the **disclosure year** is nil; or

Comment [A11]: We understand that the Commission intends to allow different revaluation approaches within asset categories.

- (b) the asset is a-
 - (i) **disposed asset**; or
 - (ii) **lost asset**; or
- (c) the asset is **land** and the **disclosure year** in question is the **disclosure year** 2010,

unallocated revaluation and revaluation are nil.

- (5) For the purpose of subclause (2), where an **airport** revalues **land** in accordance with subclause (3), revaluation for **land** so revalued is determined by-
 - (a) applying clause 2.1 to its revalued amount to obtain the amount allocated to the **supply of specified airport services**; and
 - (b) subtracting from the product of paragraph (a), where the **land**-
 - (i) has an **opening RAB value**, its **opening RAB value**; and
 - (ii) does not have an **opening RAB value**, the value determined by applying clause 2.1 to its **value of commissioned asset** or **value of found asset**.

- (6) When applying the **input methodologies** to calculate **revaluation** for an **asset**, an **airport** must-
 - (a) use an indexed or non-indexed approach for that asset **category**; and
 - (b) when complying with the requirements of the ID determination, use the same approach for that asset **category that was used** when setting prices and for complying with the requirements of the ID determination.

Comment [A12]: Amendments to allow indexing to assets and not only asset categories, and to be clear that the IM does not dictate the approach to be used in pricing.

- (7) 'Revaluation rate' for an **asset category** means-

- (a) for indexed revaluations, the indexed revaluation rate calculated in accordance with the formula-

$$(CPI_4 \div CPI_4^{-4}) - 1,$$

where-

CPI_4 means **CPI** for the quarter which coincides with the end of the **disclosure year**; and

CPI_4^{-4} means **CPI** for the quarter which coincides with the end of the preceding **disclosure year**; or

- (b) for non-indexed revaluations, nil.

Comment [A13]: This is also included in ID determination under the definition of "indexed revaluation rate".

- (8) For the avoidance of doubt, for the purpose of subclauses (3) and (5), where a revaluation in accordance with Schedule A is undertaken more than once in a **disclosure year**, 'revalued amount' is determined in respect of the last revaluation undertaken in that **disclosure year**.

3.8 Revaluation treated as income

Revaluation, for the purpose of determining or assessing profitability using disclosures made pursuant to an **ID determination**, must be treated as income.

3.9 Value of commissioned asset

(1) Value of commissioned asset, in relation to an asset (including an asset in respect of which **capital contributions** were received or a vested asset), means the cost of the asset to an **airport** determined by applying **GAAP** to the asset as on its **commissioning date**, except that, subject to subclause (3), the cost of-

- (a) an intangible asset, unless it is-
 - (i) a **finance lease**; or
 - (ii) an **identifiable non-monetary asset**,is nil;
- (b) an easement, is limited to its market value as on its **commissioning date** as determined by a **valuer**;
- (c) **easement land**, is nil;
- (d) an asset-
 - (i) acquired by an **airport** from another **regulated supplier**; and
 - (ii) used by that other **regulated supplier** in the **supply of regulated goods or services**,

is limited to the unallocated closing RAB value of the **asset** for the **regulated supplier** had the asset not been acquired, on the closing day of the period when the asset was transferred (as 'unallocated closing RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by the **regulated supplier**);

- (e) an asset acquired by an **airport** from a related party other than an asset to which paragraph (d) applies is-
 - (i) its depreciated historic cost in respect of the **related party** determined by applying **GAAP** as on the day before the acquisition by the **airport**; or
 - (ii) where sufficient records do not exist to establish this cost, its market value as of its **commissioning date** as determined by a **valuer**, subject to subclause (4);
- (f) an asset meeting paragraph (a) of the definition of excluded asset, prior to becoming a **works under construction**, is determined, to the extent relevant in applying **GAAP**, in accordance with clause 3.11;
- (g) an asset that is-
 - (i) **land**; or
 - (ii) real property due to the incursion of **land conversion costs**,

that is **works under construction** on the last day of the **disclosure year** 2009 is determined, to the extent relevant in applying **GAAP**, in accordance with clause 3.12; and

- (h) an asset in respect of which **capital contributions** were received, where such contributions do not reduce the cost of the asset when applying **GAAP**, is the cost of the asset by applying **GAAP** reduced by the amount of the **capital contributions**; and
 - (i) a vested asset in respect of which its fair value is treated as its cost under **GAAP**, must exclude any amount of the fair value of the asset determined under **GAAP** that exceeds the amount of consideration provided by the **airport**.
- (2) For the purpose of subclause (1), 'vested asset' means an asset, associated with the **supply of specified airport services**, received by an **airport**-
- (a) without provision of consideration; or
 - (b) with provision of nominal consideration.
- (3) When applying **GAAP** for the purpose of subclause (1), the cost of financing is-
- (a) applicable only in respect of the period commencing on the date the asset becomes a **works under construction** and terminating on its **commissioning date**; and
 - (b) calculated using a rate no greater than the **airport's estimate of its post tax cost of capital, weighted average of borrowing costs in accordance with subclause (6)**.
- (4) For the purpose of subclause (1)(e), the market value of-
- (a) **land**, must be determined in accordance with Schedule A; and
 - (b) a **non-land asset** is limited to its depreciated replacement cost.
- (5) For the avoidance of doubt-
- (a) **net** revenue derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**; and
 - (b) where expenditure on an asset which forms part of the cost of that asset under **GAAP** is incurred by an **airport** after the asset was **commissioned**, such expenditure is treated as relating to a separate asset.

Comment [A14]: Reverted to original IM wording consistent with the Report on the IM Review and our understanding that the Commission did not intend to make the change to borrowing costs for airports.

Comment [A15]: Amended because in our view this should be post tax revenue

- (6) — For the purpose of subclause (3)(b), the 'weighted average of borrowing costs' is calculated for a **disclosure year** using principles set out in **GAAP**, where:
- (7) — the cost of financing rate is the weighted average of the costs applicable to borrowings in respect of **capex** that are outstanding during the **disclosure year**;

Comment [A16]: Amended clause to remove references to borrowing costs but retained Commission additions related to capital contributions as these are consistent with other changes in the IM.

~~(8) the total costs applicable to borrowings outstanding, as used in calculating the weighted average, must include costs of borrowings made specifically for the purpose of any particular—~~

~~(9) capex projects; or~~

~~(10) capex programmes; and~~

~~(11)(6) the amount of borrowing costs capitalised during the disclosure year must not exceed the amount of borrowing costs incurred during the disclosure year;~~

- (a) if a **capital contribution** is received by an **airport**, the relevant asset becomes **works under construction** for the purposes of calculating the cost of financing;
- (b) subject to subclause (fi), a **capital contribution** will reduce the cost of **works under construction** for the purpose of the calculation of the finance cost, even if the resulting value of **works under construction** is negative;
- (c) subject to subclause (dg), if the value of **works under construction** is negative in accordance with subclause (be), the cost of financing for the period ending on the **commissioning date** will be negative;
- (d) if the cost of financing an asset which is **works under construction** is negative under subclause (cf), it will reduce the value of the relevant asset by that negative amount where such a reduction is not otherwise made to the value of the asset under **GAAP**;
- (e) for the purpose of subclause (ad), **works under construction** includes assets that are forecast to be enhanced or acquired;
- (f) if the cost of financing is derived as income in relation to **works under construction** and is both-
 - (i) negative; and
 - (ii) included in regulatory income under an **ID determination**,

Comment [A17]: Please refer to comments in the covering submission.

it will not reduce the value of the relevant asset or assets where such reduction is not otherwise made under **GAAP**.

3.10 Value of found asset

(1) **Found asset** means an asset-

- (a) other than **esement land**;
- (b) other than an intangible asset, unless it is-
 - (i) a **finance lease**; or
 - (ii) an **identifiable non-monetary asset**;
- (c) not having a **commissioning date** in the **disclosure year** in question;

- (d) the value of which is neither included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior **disclosure year** pursuant to clause 3.3(1); and
 - (e) first determined by the **airport** in the **disclosure year** in question to have a **commissioning date**, where the **disclosure year** is-
 - (i) the **disclosure year** 2012 or earlier, in any prior **disclosure year**; or
 - (ii) any other **disclosure year**, any prior **disclosure year** after the **disclosure year** 2009.
- (2) The value of found asset for a **found asset** is-
- (a) its cost calculated in accordance with **GAAP**; or
 - (b) where sufficient records do not exist to establish its cost for the purposes of **GAAP**, where-
 - (i) an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age) to the **found asset**, the **unallocated opening RAB value** of the similar asset;
 - (ii) it is a **non-land asset** to which sub-paragraph (i) does not apply, its market value as determined by a **valuer** as at the date that the asset was first determined by the **airport** to have been **commissioned** in a prior **disclosure year**; and
 - (iii) it is a **land asset** to which sub-paragraph (i) does not apply, its value determined in accordance with Schedule A as at the date that the asset was first determined by the **airport** to have been **commissioned** in a prior **disclosure year**.

3.11 Cost of excluded asset

- (1) This clause applies to an asset-
 - (a) meeting paragraph (a) of the definition of **excluded asset**; and
 - (b) that is not a **works under construction** on the last day of the **disclosure year** 2009.
- (2) Subject to subclauses (3) and (4), the cost of an **excluded asset** to which this clause applies for a **disclosure year** is determined in accordance with the formula-

$$\text{base value} + \text{holding costs} - \text{net } \del{\text{after-tax}} \text{ revenue} - \text{tracking revaluations}.$$
- (3) For the purpose of subclause (2), where **land** is revalued in accordance with clause 3.7(3), all **land** to which this clause applies that is not **works under construction** must be revalued in accordance with Schedule A as at the same date in respect of which that revaluation was carried out.
- (4) For the purpose of subclause (2), holding costs and net revenue exclude amounts incurred or derived-
 - (a) before the first day of the **disclosure year** 2010; and
 - (b) on and from the date referred to in subclause (5).

Comment [A18]: We note the definition of "net revenue" at clause 3.11(6)(c) now makes it clear that this is after tax revenue. As such, simply "net revenue" is sufficient here.

- (5) An **excluded asset** becomes a **works under construction** on and from the date at which construction using the **excluded asset** commences, and the cost of the **excluded asset** at that date is determined in accordance with subclause (2), provided that-
- (a) the base value is treated as expenditure relating to the cost of **land**; and
 - (b) the holding costs less net revenue and tracking revaluations are treated as the cost of property due to the incursion of **land conversion costs**.
- (6) For the purpose of this clause-
- (a) 'base value' is the sum of tracking revaluations in respect of all prior **disclosure years** plus, in the case of-
 - (i) **land** held on the last day of the **disclosure year** 2009, the value for that **land** determined in accordance with Schedule A as on that day;
 - (ii) an asset other than **land** held on the last day of the **disclosure year** 2009, the value for that asset disclosed in the **2009 disclosure financial statements**; and
 - (iii) an asset not held on the last day of the **disclosure year** 2009, its cost as of its date of acquisition determined in accordance with **GAAP**, but excluding any costs of financing;
 - (b) 'holding costs' means the sum of an **airport's** notional costs of holding the **excluded asset** for all **disclosure years**, where the notional cost of holding an excluded asset for the **disclosure year** in question is determined by applying the **airport's** estimate of its post-tax **WACC** to the cost determined in accordance with subclause (2) in respect of the preceding **disclosure year**;
 - (c) 'net revenue' means the sum of amounts, other than those included in total regulatory income under an **ID determination** or preceding regulatory information disclosure requirements, for all **disclosure years** derived from holding, or associated with, the **excluded asset**, where the amount derived from holding the **excluded asset** in the **disclosure year** in question is determined in accordance with the formula-
 - (i) $\frac{1}{2}(\text{revenue derived from the excluded asset (other than tracking revaluations)} - \text{operating costs incurred in relation to the excluded asset}) * (1 - \text{corporate tax rate})$; and
 - (d) 'tracking revaluations' means the sum of all amounts obtained by-
 - (i) multiplying the **revaluation rate** for each complete **disclosure year** in which the **excluded asset** is not revalued in accordance with Schedule A between the **disclosure year** in which its base value is established and the **disclosure year** in which the asset becomes a **works under construction**, by the base value for that **disclosure year**; and

Comment [A19]: Opening bracket required to make formula work.

- (ii) subtracting the base value from the revalued amount in respect of each **disclosure year** in which the **excluded asset** is revalued in accordance with Schedule A.
- (7) For the avoidance of doubt, for the purpose of subclause (6)(d)(ii), where a revaluation in accordance with Schedule A is undertaken more than once in a **disclosure year**, 'revalued amount' is determined in respect of the last revaluation undertaken in that **disclosure year**.

3.12 Works under construction

- (1) This clause applies to-
 - (a) **land**; and
 - (b) real property due to the incursion of **land conversion costs**,
 that are **works under construction** on the last day of the **disclosure year 2009**.
- (2) The cost of **land** to which this clause applies at the date referred to in subclause (1) is the value for that **land** determined in accordance with Schedule A as on that day.
- (3) The cost of real property described in subclause (1)(b) at the date referred to in subclause (1) is nil, save that Auckland International Airport Limited's cost of constructing the Northern Runway must not exceed \$22.3 million.

3.13 Alternative methodologies with equivalent effect

- (1) When completing the RAB roll forward and forecast total revenue requirements of an **ID determination**, an **airport** may apply an alternative methodology to that specified for asset valuation in clauses 3.3-3.5, 3.7, 3.9 and 3.10.
- (2) An alternative methodology applied ~~by an airport~~ in accordance with this clause must-
 - (a) ~~be likely to~~ produce an equivalent ~~effect on the price setting event~~ to the methodology that would otherwise apply under this determination; and
 - (b) be consistent with the purpose of Part 4 of the **Act**.
- (3) Notwithstanding clauses 3.3-3.5, 3.7, 3.9 and 3.10, when applying an alternative methodology under subclause (1), an **airport** may treat the RAB values of all or some of the relevant assets in aggregate rather than separately.

Comment [A20]: As per our submission, it is unlikely to be possible to strictly verify that the alternative methodology will have an equivalent effect.

Comment [A21]: The IM does not apply to the price setting event.

Comment [A22]: We do not oppose this requirement, but note that the equivalent effect criteria probably makes it redundant.

3.14 Demonstration that alternative methodologies have equivalent effect

Where an **airport** applies alternative methodologies in accordance with clause 3.13, it must do so in accordance with the requirements of the **ID determination**.

PART 4 TREATMENT OF TAXATION

4.1 Regulatory tax allowance

- (1) Regulatory tax allowance is determined by applying the **tax rules** and the **corporate tax rate** to regulatory profit / (loss) before tax.
- (2) For the purpose of subclause (1), 'regulatory profit / (loss) before tax' means the amount of 'regulatory profit / (loss) before tax' as determined in accordance with an **ID determination**.
- (3) For the purpose of subclause (1), in applying the **tax rules** in respect of particular items of income and expenses included in 'regulatory profit / (loss) before tax'-
 - (a) a tax deduction for interest incurred in relation to debt must be substituted with a tax deduction for notional deductible interest;
 - (b) any tax deduction for depreciation in respect of an asset must be calculated by applying the **tax rules** to the **regulatory tax asset value**;
 - (c) any **revaluation** included in 'regulatory profit / (loss) before tax' must be excluded and ignored; and
 - (d) the effect of any-
 - (i) tax losses (other than those produced from the **supply of specified airport services**); and
 - (ii) subvention payment,made by an **airport** must be ignored.
- (4) For the purpose of subclause (3)(a), 'notional deductible interest' means the product of multiplying the sum of all **opening RAB values** by both **leverage** and the **cost of debt**.

4.2 Regulatory tax asset value

- (1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-
tax asset value × result of asset allocation ratio.
- (2) For the purpose of subclause (1), 'tax asset value' means, in respect of-
 - (a) an asset-
 - (i) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or
 - (ii) acquired or transferred from a **related party**,the value of the asset determined by applying the tax depreciation rules to its notional tax asset value; and
 - (b) any other asset, its adjusted tax value.
- (3) In this clause-

- (a) 'adjusted tax value' has the same meaning as in the tax depreciation rules; and
 - (b) 'tax depreciation rules' means the **tax rules** that relate to the determination of depreciation allowances for tax purposes.
- (4) 'Notional tax asset value' means, for the purpose of-
- (a) subclause (2)(a)(i), value after applying the tax depreciation rules to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and
 - (b) subclause (2)(a)(ii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-
 - (i) consistent with the **tax rules**; and
 - (ii) limited to its **value of commissioned asset** or, if relevant **capital contributions** are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the **value of commissioned asset** plus any **capital contributions** applicable to the asset.
- (5) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-
- (a) has a matching asset or group of assets maintained for the purpose of Part 3, the value obtained in accordance with the formula-

opening RAB value or *sum of opening RAB values, as the case may be*

÷

unallocated opening RAB value or *sum of unallocated opening RAB values, as the case may be,*

applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Part 3 that has a matching asset or group of assets maintained under the **tax rules**; and
 - (b) does not have a matching asset or group of assets maintained for the purpose of Part 3, the value of the asset allocated to the **supply of specified airport services** were clause 2.1 to apply to the asset or group of assets.

4.3 Alternative methodologies with equivalent effect

An **airport** may apply an alternative RAB roll forward methodology with equivalent effect to that specified for taxation in clauses 4.1-4.2 if the alternative methodology is consistent with the alternative methodology for RAB roll forward used in accordance with clause 3.13.

PART 5 COST OF CAPITAL

5.1 Commission to determine and publish estimates of the weighted average cost of capital and standard error

- (1) The **Commission** will determine and publish its mid-point estimate of vanilla **WACC** and the **standard error** for the each **disclosure year**-
- (a) for each **airport**;
 - (b) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
 - (c) within 1 month of the start of the **disclosure year** in question; and
 - (d) in accordance with the formula-

$$r_d L + r_e(1 - L).$$

- (2) The **Commission** will calculate and publish its mid-point estimate of post-tax **WACC** and the **standard error** for each **disclosure year**-
- (a) for each **airport**;
 - (b) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
 - (c) within 1 month of the start of the **disclosure year** in question; and
 - (d) in accordance with the formula-

$$r_d(1 - T_c)L + r_e(1 - L).$$

- (3) For the purposes of subclauses (1) and (2), the **standard error** of the **mid-point estimate of WACC** is 0.0144.
- (4) In this clause-

L is **leverage**;

r_d is the cost of debt and is estimated in accordance with the formula:

$$r_f + p + d;$$

r_e is the cost of equity and is estimated in accordance with the formula:

$$r_f(1 - T_i) + \beta_e TAMRP;$$

T_c is the average corporate tax rate;

r_f is the risk-free rate;

p is the **debt premium**;

d is the debt issuance costs;

T_i is the average investor tax rate;

β_e is the equity beta; and

TAMRP is the tax-adjusted market risk premium.

- (5) For the purpose of this clause-
- (a) the fixed WACC parameters comprising leverage, average investor tax rate, the average corporate tax rate, the equity beta, the debt issuance costs, and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 5.2;
 - (b) the risk-free rate must be estimated in accordance with clause 5.3

5.2 Fixed WACC parameters

- (1) 'Leverage' is 19%.
- (2) 'Average investor tax rate' is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the 5 year period commencing on the first day of the **disclosure year** in question.
- (3) For the purpose of subclause (2), 'investor tax rate' is, for each **disclosure year**, the maximum **prescribed investor rate** applicable at the start of that **disclosure year** to an individual who is-
 - (a) resident in New Zealand; and
 - (b) an investor in a multi-rate PIE, (as 'multi-rate PIE' is defined in s YA 1 of the Income Tax Act 2007).
- (4) 'Average corporate tax rate' is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the 5 year period commencing on the first day of the **disclosure year** in question.
- (5) 'Equity beta' is 0.72.
- (6) 'Debt issuance costs' are 0.2%.
- (7) 'Tax-adjusted market risk premium' is, for the 5 year period commencing on the first day of each **disclosure year**, 7.0%.

5.3 Methodology for estimating risk-free rate

The **Commission** will estimate a risk-free rate in respect of each **airport-**

- (a) for each **disclosure year**; and
 - (b) within 1 month of the start of the **disclosure year** in question,
- by-
- (c) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to 5 years on each **business day** in the 3 months preceding the start of the **airport's disclosure year**;
 - (d) calculating the annualised interpolated bid yield to maturity for each **business day**; and
 - (e) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

5.4 Methodology for estimating debt premium

- (1) 'Debt premium' means the spread between-
 - (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
 - (i) are issued by an **airport**;
 - (ii) are publicly traded;
 - (iii) have a **qualifying rating** of grade A-; and
 - (iv) have a remaining term to maturity of 5 years; and
 - (b) the contemporaneous interpolated bid yield to maturity of benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (2) The **Commission** will, in accordance with subclause (3), determine an estimate of an amount for the debt premium-
 - (a) in respect of each **airport**; and
 - (b) for each **disclosure year**;
within 1 month of the start of each **disclosure year**.
- (3) For the purposes of subclause (2), the amount of the debt premium will be estimated by-
 - (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-
 - (i) **investment grade credit rated**; and
 - (ii) of a type described in the paragraphs of subclause (4);
 - (b) in respect of each bond identified in accordance with paragraph (a)-
 - (i) obtaining its annualised wholesale market bid yield to maturity;
 - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
 - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),
for each **business day** in the 3 month period preceding the start of the **disclosure year**;
 - (c) calculating, for each bond identified in accordance with paragraph (a), the un-weighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and

- (d) subject to subclause (4), estimating, by taking account of the average spreads identified in accordance with paragraph (c), and having regard to the debt premium estimated from applying the **Nelson-Siegel-Svensson approach** in accordance with subclause (6), the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bond** that-
 - (i) is issued by an **airport**;
 - (ii) is publicly traded;
 - (iii) has a **qualifying rating** of grade A-; and
 - (iv) has a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:
 - (a) those that-
 - (i) have a **qualifying rating** of grade A-; and
 - (ii) are issued by an **airport**;
 - (b) those that-
 - (i) have a **qualifying rating** of grade A-; and
 - (ii) are issued by an entity other than an **airport**;
 - (c) those that-
 - (i) have a **qualifying rating** of a grade different to A-; and
 - (ii) are issued by an **airport**; and
 - (d) those that-
 - (i) have a **qualifying rating** of a grade different to A-; and
 - (ii) are issued by an entity, other than an **airport**.
- (5) For the purpose of subclause (4)-
 - (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types in accordance with the order in which the bond types are described in subclause (4);
 - (b) the spread on any bond of the type described in subclause (4) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and
 - (c) the **Commission** will adjust spreads observed on bonds described under subclauses (4)(b) to (4)(d) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (4)(a).

- (6) For the purposes of subclause (3)(d), the ‘Nelson-Siegel-Svensson approach’ means a method for modelling yield curves and term structures of interest rates which establishes a relationship between term to maturity and the debt premium, and where a curve is generated by changing the parameters of a yield curve functional form to minimise the squared deviation between estimated and observed values.

5.5 Estimating the WACC and standard error after a price setting event or when requested by an airport

- (1) An **airport** may propose in writing that the **Commission** determines a **mid-point estimate of WACC** and a **standard error** for a nominated period commencing at the start of any quarter in a **disclosure year** (the ‘nominated WACC period’).
- (2) The **Commission** will determine a **mid-point estimate of WACC** and a **standard error** for a price-setting period or the **nominated WACC period**-
- (a) in order to carry out its function under the **Act**; or
- (b) in response to an **airport’s** proposal in accordance with subclause (1).
- (3) A **mid-point estimate of WACC** or a **standard error** under subclause (2) will be determined in accordance with clauses 5.1 to 5.4, where the reference to **disclosure years** in those clauses is modified as required to mean the price setting period or the **nominated WACC period**.

5.6 Publication of WACC estimates and standard error

- (1) The **Commission** will publish all determinations and estimates that it is required to make by this Part on its website no later than 1 month after having made them.

(2) The determinations published in accordance with subclause (1) will reference the **disclosure year** or other period to which they apply.

~~(2)~~(3) The **Commission** will not use a determination published in accordance with subclause (1) for the purpose of summary and analysis of a **price setting event** under section 53B(2) of the Act if it was the nominated WACC period commenced after that **price setting event**.

Comment [A23]: This is to make clear what we understand to be the accepted position regarding the use of the WACC IM for assessing price setting events.

SCHEDULE A AIRPORT LAND VALUATION METHODOLOGY

A1 Interpretation

- (1) This schedule sets out the mandatory requirements for a **valuer** to apply when undertaking a valuation of **land** held by an **airport** for the purposes of this determination.
- (2) In this schedule, words or phrases in bold type that are not otherwise defined in clause 1.4(2) of this determination bear the following meanings:

highest and best alternative use means the most probable use of **land**, which use-

- (a) is not the **supply of specified airport services**;
- (b) is not a use to the extent that it is influenced by the **supply of specified airport services**;
- (c) is physically possible;
- (d) is appropriately justified;
- (e) is legally permissible;
- (f) is financially feasible; and
- (g) results in the highest estimated value of the **land** in question;

land has the meaning given in clause 1.4(2);

MVAU means the market value of **land** in its **highest and best alternative use** or uses determined in accordance with this schedule;

special assumption has the same meaning as defined in IVS 102 – Implementation;

valuation and property standards means the following material which is hereby incorporated by reference, subject to any amendments to, or replacement of, the material in accordance with Schedule 5 of the **Act**:

IVS 101 – Scope of Work;

IVS 102 – Implementation;

IVS 103 – Reporting;

ANZVGN 1 – Valuation Procedures Real Property;

valuer has the meaning given in clause 1.4(2).

A2 Professional valuation framework

- (1) An **MVAU** valuation must be undertaken by a **valuer**.
- (2) The **valuer** must undertake an **MVAU** valuation in accordance with the **valuation and property standards**, subject to any modifications, additions, or variations to those standards specified in this Schedule.
- (3) **Valuation and property standards** with 'mandatory practice' status must be adhered to by the **valuer**.
- (4) **Valuation and property standards** with 'best/good practice' status must be adhered to by the **valuer** when reasonably practicable.
- (5) The **valuer** must -
 - (a) base the estimate of value on data and circumstances appropriate to the valuation;
 - (b) use appropriate methods and techniques for the estimate of value;
 - (c) develop the **MVAU** valuation with sufficient information to fully support the analysis and conclusions; and
 - (d) obtain the advice of a suitably qualified independent expert on any material assumption of the **MVAU** valuation, including any **special assumption**, on which the **valuer** is not suitably experienced or qualified to provide an expert opinion.

A3 Valuation requirements

- (1) In undertaking an **MVAU** valuation, the **valuer** must make the **special assumptions** set out in clause A4.
- (2) The **valuer** must include in the **MVAU** valuation the likelihood, timing, and costs (both direct and indirect if any) of moving from the **special assumption** for **land** zoning to the zoning required for the development of the **land** in its **highest and best alternative use**.
- (3) The **valuer** must disclose in the valuation report how they determined the **special assumption** for **land** zoning and the likelihood, timing, and costs (both direct and indirect if any) of moving from the **special assumption** for **land** zoning to the zoning required for the development of the **land** in its **highest and best alternative use**.
- (4) The **valuer** may rely on evidence of sales of **land** as comparable market-based data only to the extent the sales were unaffected by the supply of **specified airport services**.

- (5) The **valuer** may rely on evidence of sales of **land** to, or by, the **airport** only to the extent the transactions in question:
 - (a) occurred on an arm's-length basis; and
 - (b) the price and other terms of the sales were unaffected by the supply of **specified airport services**.
- (6) The **valuer** must assume an orderly sale of the aggregated **land** (in economically manageable parcels) over such time as would likely be needed to achieve the **highest and best alternative use** of the **land**.
- (7) The **valuer** must give consideration to the physical characteristics of the **land** (including contiguity), existing title and easement arrangements, zoning, any other restrictions or impediments, and adjoining **land** uses, when determining the **highest and best alternative use**, so as to maximise the value in the **land's** alternate use and market value.
- (8) The **valuer** must disclose all material assumptions and **special assumptions** made in undertaking the **MVAU** valuation in the valuation report.
- (9) The **valuer** must include or attach to the valuation report any expert opinion obtained by the **valuer** in accordance with subclause A2(5)(d).

A4 Special assumptions

- (1) The **land** must be valued as an aggregated parcel (which may be made up of multiple titles) of a size equal to that attributed to the **supply of specified airport services**.
- (2) The **land** must be assumed to be notionally vacant and clear of **airport**-related improvements.
- (3) The **land** zoning must be assumed to be the zoning that is most likely to apply if the **airport** did not exist.
- (4) The **land** zoning most likely to apply if the **airport** did not exist must be determined by having regard to:
 - (a) the current zoning (other than zoning for aeronautical services or zoning influenced by the presence of the **airport**);
 - (b) the existing zoning of the **land** surrounding the **airport**;
 - (c) the zoning that applied prior to the land being zoned for aeronautical services; and
 - (d) any other relevant matters including:
 - (i) the physical features of the **land**;
 - (ii) local authority planning objectives and policies, including consistency with regional policy directions;

- (iii) likely permissibility under the Resource Management Act 1991 and any other statutory or regulatory requirements or considerations.
- (5) Relevant development costs, including construction costs, holding costs, and the developer's or investor's profit and risk, must be included in the **MVAU** valuation.
- (6) The costs of converting the land to an **airport** must be excluded from the **MVAU** valuation, including:
 - (a) costs of resource consents for **airport** development;
 - (b) holding costs during **airport** development;
 - (c) costs of earthworks necessary for the formation of the level **airport** platform;
 - (d) costs of any **land** reclamation or dredging;
 - (e) costs of sea-wall or other coastal protection systems;
 - (f) cost of **airport**-specific drainage systems, including retention ponds;
 - (g) professional fees, including those for surveyors, engineers, and planners, with respect to the above-mentioned activities; and
 - (h) any other costs incurred in the conversion of **land** to provide aeronautical services.
- (7) Costs for remediation or demolition expenditure must be excluded from the **MVAU** valuation, including the costs of-
 - (a) demolition, crushing and removal of concreted and sealed surfaces including runways, taxiways, aprons, roading, kerbs, and channels;
 - (b) demolition and debris removal of **airport**-specific buildings and structures including terminals, hangars, fire rescue buildings, control towers, and fuel depots;
 - (c) removing above- and below-ground utilities, including pipelines and cabling required for **airport**-specific activities like fuel pipelines, tanks, runway drainage and lighting, and approach lighting; and
 - (d) clean-up of potential site contamination, including contamination occurring through aircraft and maintenance operations by spills of aircraft and vehicle fuels, paints/solvents, firefighting foams, underground and above ground storage tanks, radioactive materials, asbestos, PCBs, pesticides and herbicides or battery acids, or through the operation of waste disposal facilities, vehicle storage, dredging operations, building construction and underground and above ground utility lines/pipes.

A5 MVAU valuation steps

In undertaking an **MVAU** valuation the **valuer** must-

- (a) establish and compile a schedule of the **land** parcels that are to be included in the **MVAU** valuation;
- (b) confirm ownership, tenure and aggregated **land** area;
- (c) determine the **special assumption** for **land** zoning;
- (d) consider and determine the **highest and best alternative use**;
- (e) determine the zoning of the **land** for the **highest and best alternative use**, and the likelihood, timing, and cost (both direct and indirect, if any) of moving from the **special assumption** for **land** zoning to the zoning required for the development of the **land** in its **highest and best alternative use**;
- (f) consider resource management (including reserve contribution) requirements, amenities in the area, and access to services;
- (g) for notional subdivision / residual value approaches-
 - (i) prepare a **land** development plan (in conjunction with a planner, where considered necessary by the **valuer**), which must demonstrate the **valuer's** view of the likely **highest and best alternative use** development of the **land**, and provide evidence for the assessment of inputs into the notional subdivision / residual value approaches;
 - (ii) determine market demand for the proposed development and the time period for the sale or realisation of the developed **land** in a notional subdivision or development, including, where material to the valuation, economic analysis to support the market demand and the time period for the sale or realisation of the developed **land**;
 - (iii) determine the direct costs of developing the **land**; and
 - (iv) determine any indirect costs of developing the **land**, including the developer's holding costs or **local authority** rates;
- (h) undertake market research and obtain comparable sales information to support the alternate **land** uses selected including both block sales and developed **land** sales if both a direct sales comparison and notional subdivision / residual value approaches are to be used;
- (i) apply suitable adjusted market evidence to **airport land** as required, and taking account of whether a direct sales comparison or notional subdivision / residual value approaches are to be used;

- (j) reconcile the results of the valuation approaches used and determine a final value for the **highest and best alternative use**; and
- (k) prepare a valuation report, incorporating all disclosures required by the relevant **valuation standards** and this Schedule.

Appendix Two - ID determination in track changes

[DRAFT] Amendment to the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010 -

Amendments to the body of the determination and Schedule 23 are marked as tracked changes

Schedules 2, 4, 18, 19, 20 and 24 have been either amended or created by us. These schedules will be provided as separate documents, and published alongside this draft amendment

The Commerce Commission:

Dr M Berry

S Begg

Dr S Gale

Dr J Walker

THIS DRAFT DETERMINATION IS FOR CONSULTATION PURPOSES ONLY

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

22 June 2016

Determination version history		
Determination date	Decision number	Determination name
22 December 2010	714	Commerce Act (Specified Airport Services Information Disclosure) Determination 2010
27 February 2012	NZCC 5	Amendment to Commerce Act (Specified Airport Services Information Disclosure) Determination 2010
[DATE]	NZCC [X]	Amendment to Commerce Act (Specified Airport Services Information Disclosure) Determination 2010



[DRAFT] AMENDMENT TO THE COMMERCE ACT (SPECIFIED AIRPORT SERVICES INFORMATION DISCLOSURE) DETERMINATION 2010

PART 1	General provisions.....	5	Field Code Changed
1.1	Determination amended.....	5	Field Code Changed
1.2	Commencement Date.....	5	Field Code Changed
1.3	Application.....	5	Field Code Changed
1.4	Interpretation.....	5	Field Code Changed
PART 2	Disclosure Requirements.....	4644	Field Code Changed
2.1	Information Disclosure.....	4644	Field Code Changed
2.2	Applicable Input Methodologies.....	4644	Field Code Changed
2.3	Annual Disclosure Relating to Financial Information.....	4644	Field Code Changed
2.4	Annual Disclosure of Quality and Statistics.....	4745	Field Code Changed
2.5	Disclosure Following Price Setting Event.....	4846	Field Code Changed
2.6	Auditor's Reports.....	5350	Field Code Changed
2.7	Certificates.....	5451	Field Code Changed
2.8	Retention and Continuing Disclosure.....	5451	Field Code Changed
2.9	Exemptions.....	5452	Field Code Changed
2.10	Transitional Provisions.....	5452	Field Code Changed

Pursuant to Part 4 of the Commerce Act 1986, the Commerce Commission makes the following determination:

PART 1 GENERAL PROVISIONS

1.1 Determination amended

This amendment amends the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010.

1.2 Commencement Date

This amendment comes into force on the date on which notice of it is given in the New Zealand Gazette under section 52Q of the Commerce Act 1986.

1.3 Application

This determination applies to **airport companies** as suppliers of regulated goods and services under Part 4 of the **Act**.

1.4 Interpretation

(1) In this determination, unless the context otherwise requires—

- (a) terms in bold type have the meaning given to those terms in this clause 1.4;
- (b) terms used in this determination that are defined in the **Act**, but not in this determination, have the same meanings in this determination as in the **Act**;
- (c) a word which denotes the singular also denotes the plural and vice versa;
- (d) any obligation to do something is deemed to include an obligation to cause that thing to be done;
- (e) financial items must be measured and disclosed in accordance with **GAAP**, unless otherwise provided in the IM Determination; and
- (f) non-financial items must be measured and disclosed in accordance with standard industry practice.

Comment [RMMB1]: It appears to us that not all of the Commission's reporting requirements are consistent with GAAP

- (2) If there is any inconsistency between the main body of this determination and any schedule to this determination, the main body of this determination prevails.
- (3) In this determination, including in the schedule, the words or phrases in bold type bear the following meanings:

% variance means the value of q calculated using the following formula:

$$q = \frac{a-b}{b} \times 100$$

where:

a = **actual for current disclosure year**; and

b = **forecast for current disclosure year**;

2009 disclosed assets has the meaning set out in the **IM determination**;

2009 disclosure financial statements has the meaning set out in the **IM determination**;

A

Act means the Commerce Act 1986;

actual for current disclosure year means actual **capital expenditure** or actual **operational expenditure**, as the case may be, in the current **disclosure year**;

actual for period to date means the accumulated actual **capital expenditure** or actual **operational expenditure**, as the case may be, from the beginning of the current **pricing period**, and including the **actual for current disclosure year**;

adjusted regulatory profit means the **regulatory profit / (loss)** less the **notional interest tax shield**;

adjustment for merger, acquisition or sale activity means the value of regulatory assets that are added to, or removed from, the **RAB** by way of merger, acquisition or sale by an **airport** to another **airport**, multiplied by the proportion of the **disclosure year** the assets are available to the **airport** making the disclosure, where added assets have a positive value and removed assets have a negative value;

adjustment resulting from cost allocation means

- (a) in relation to the **RAB**, the value of q calculated using the following formula:

$$q = a - (b - c + d + e - f + g)$$

where:

a = the **RAB value** for the current **disclosure year**;

b = the **RAB value** for the previous **disclosure year**;

c = **regulatory depreciation**;

d = **total revaluations**;

e = **assets commissioned**;

f = **asset disposals**;

g = **lost and found assets adjustment**;

The formula must be calculated using component values that relate to the **RAB**. These inputs are the values that result from the application of the cost allocation requirements of the **IM determination**;

- (b) in relation to **works under construction**, the adjustment to the value of allocated works under construction to account for changes in allocation of capital expenditure in **works under construction**;

~~**adjustment to reinstate unallocated 2009 asset values** means the value of the **2009 disclosed assets** which was not allocated to **specified airport services** in the **2009 disclosure financial statements**;~~

affected line item means the row reference in the Consolidation Statement set out in clause 8a of Schedule 8;

air passenger service means an air operation operated by an air operator for the carriage of **passengers**;

aircraft and freight activities has the meaning set out in s 2 of the Airport Authorities Act 1966;

Comment [RMMB2]: It is not clear to us that this definition is still required. It was used in the former transitional Schedule 23 when the current ID reporting regime was introduced. The Commission now proposes to delete schedule 23.

aircraft movement means an aircraft take-off or landing at an **airport**, so that one arrival and one departure in respect of the same aircraft is treated as two movements. An aircraft movement is deemed to occur at the runway arrival time or the runway departure time as the case may be;

airfield activities has the meaning set out in s 2 of the Airport Authorities Act 1966;

airport or **airport business** means the parts of an **airport company** that provide **specified airport services**;

airport activity charge means revenue earned by an **airport** in relation to a specific charge or group of charges, other than **lease, rental and concession income**. In determining how charges are disclosed, consideration must be given to the charging structure outlined in the pricing methodology disclosed in accordance with clause 2.5(1);

airport business—GAAP means the financial performance of the **airport business**, disclosed in accordance with **GAAP**;

airport company means a company described in s 56A(2) of the **Act**;

airport company—GAAP means the financial performance of the **airport company**, which includes both regulated and unregulated services, disclosed in accordance with **GAAP**;

airside circulation inbound—floor space means the overall functional floor space, measured in square metres, of areas providing general circulation for:

- (a) **inbound passengers**;
- (b) travellers; and
- (c) concourse areas that provide access for:
 - (i) **inbound passengers** to and/or from security screening and **inbound** passport control where provided;
 - (ii) airbridge and terminal doorways (where **inbound passengers** depart or arrive into corridors); and
 - (iii) airside retail/concessions areas, but excluding retail and concession areas and floor curtilage spaces of one metre in width at entries and/or exits to retail/concessions and adjacent to shop-front window displays for retail/concessions;

airside circulation outbound—floor space means the overall functional floor space, measured in square metres, of:

- (a) areas providing general circulation for **outbound passengers**;
- (b) travellers; and
- (c) concourse areas that provide access for:
 - (i) **outbound passengers** to and/or from security screening and **outbound** passport control;
 - (ii) departure lounges;
 - (iii) airbridge and terminal doorways (where **outbound passengers** depart or arrive into corridors); and

- (iv) airside retail/concessions, but excluding retail and concession areas and floor curtilage spaces of one metre in width at entries and/or exits to retail/concessions and adjacent to shop-front window displays for retail/concessions;

allocated non-current assets - year ended 2009 means the allocated value of the **2009 disclosed assets** as disclosed in the **2009 disclosure financial statements**;

allocator means the quantifiable metric (such as employee numbers or floor space) used as the numerator and denominator in determining a **cost allocator** or **asset allocator**;

allocator type means the basis for the attribution or allocation of an **operating cost** or **asset value** to a **regulated activity**, being “directly attributable”, “causal” or “proxy”;

allowance for long term credit spread means:

- (a) ~~if at the end of the disclosure year the weighted average original tenor of the airport's qualifying debt and non-qualifying debt is less than five years, nil;~~
- (b) ~~in all other instances, the value of q calculated using the following formula:~~

$$q = \frac{(a + b + c) \times d}{100}$$

~~where:~~

- ~~a – the sum of the term credit spread difference for each qualifying debt;~~
- ~~b – the sum of the execution cost of an interest rate swap when this cost is incurred for each qualifying debt;~~
- ~~c – the sum of the notional debt issue cost readjustment for each qualifying debt;~~
- ~~d – attribution rate;~~

alternative methodology with equivalent effect means a methodology applied by an **airport** in accordance with clause 3.13 of the **IM Determination**;

arrivals concourse—floor space means the overall functional floor space, measured in square metres, of areas occupied by the landside public meeting areas, including seating and waiting areas, but excluding retail and concession areas and floor curtilage area of one metre in width at entries and/or exits to retail/concessions and adjacent to shop-front window displays for retail/concessions;

asset allocator has the meaning set out in the **IM determination**;

asset category means one of the following asset types:

- (a) land;
- (b) sealed surfaces;
- (c) infrastructure and buildings; and
- (d) vehicles, plant and equipment;

asset disposals means q calculated using the following formula:

Comment [RMMB3]: All Term Credit Spread related definitions can be deleted given the Commission proposes to remove the term credit spread differentials from the information disclosure requirements.

Comment [RMMB4]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage on this issue in technical consultation.

- (a) in relation to allocated asset disposals:

$$q = a + b + c$$

where:

- a = **asset disposals (other)** ;
 b = **assets disposed of to a regulated supplier**;
 c = **assets disposed of to a related party**;

- (b) in relation to unallocated asset disposals:

$$q = a + b + c$$

where:

- a = **asset disposals (other)**;
 b = **assets disposed of to a regulated supplier**;
 c = **assets disposed of to a related party**;

- (c) in relation to forecast information, the regulatory carrying value of those assets which are forecast to be disposed of;

asset disposals (other) means the value of an asset disposal which is disposed of to a party other than a **regulated supplier** or a **related party**, and which is determined as follows:

- (a) in relation to the **unallocated RAB**, the unallocated opening **RAB** value less **regulatory depreciation** as determined in accordance with the input methodologies identified as applicable to that asset in the **IM determination**;
- (b) in relation to the **RAB**, the value of the assets (as determined in accordance with paragraph (a)) which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

asset life means the useful life of an asset as on the last day of the **disclosure year 2009** as determined in accordance with the **2009 disclosure financial statements** has the meaning given in clause 3.6 of the **IM Determination**;

asset maintenance means **operational expenditure** that is incurred with the intention of maintaining the life of an existing asset and includes emergency maintenance;

asset management and airport operations means **operational expenditure**, but excludes **asset maintenance** and **corporate overheads operational expenditure**;

asset replacement and renewal means **capital expenditure** predominantly associated with the progressive physical deterioration of assets or their immediate surrounds, or **capital expenditure** arising as a result of the obsolescence of assets and excludes **capacity growth capital expenditure**;

asset value has the meaning set out in the **IM determination**;

assets acquired from a regulated supplier means:

Comment [RMMB5]: This is to allow subsequent assets to be included. The previous definition was too narrow.

- (a) in relation to the **unallocated RAB**, the value of assets acquired from another **regulated supplier** as determined in accordance with clause 3.9 of the **IM determination**;
- (b) in relation to the **RAB**, the value of the assets (as determined in accordance with paragraph (a)) which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

assets acquired from a related party means:

- (a) in relation to the **unallocated RAB** the value of assets acquired from a **related party** as determined in accordance with clause 3.9(1)(e) of the **IM determination**;
- (b) in relation to the **RAB**, means the value of the assets (as determined in accordance with paragraph (a)) which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

assets commissioned means:

- (a) in relation to the **unallocated RAB** or **works under construction**, the value of **commissioned** assets as determined in accordance with clause 3.9 of the **IM determination**;
- (b) in relation to the **RAB**, the value of the assets (as determined in accordance with paragraph (a)) which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;
- (c) in relation to forecast information, a forecast of the value of the assets (as determined in accordance with paragraph (b)) for a future **disclosure year**;

Comment [RMMB6]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage on this issue in technical consultation.

assets disposed of to a regulated supplier means:

- (a) in relation to **unallocated RAB**, the unallocated opening **RAB** value less **regulatory depreciation** immediately preceding the disposal to a **regulated supplier**, as determined in accordance with the **IM determination**;
- (b) in relation to the **RAB**, the value of the assets (as determined in accordance with paragraph (a)) which was allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

assets disposed of to a related party means:

- (a) in relation to the **unallocated RAB**, the unallocated opening **RAB** value less **regulatory depreciation** immediately preceding the disposal to a **related party**, as determined in accordance with the input methodologies identified as applicable to that asset in the **IM determination**;
- (b) in relation to the **RAB**, the value of the assets (as determined in accordance with paragraph (a)) which was allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

assets with nil physical asset life means:

- (a) in relation to the **unallocated RAB**, the sum of **unallocated RAB** values from the previous **disclosure year** of assets that will have a nil physical life at the end of this **disclosure year**;

- (b) in relation to the **RAB**, the sum of **RAB** values from the previous **disclosure year** of assets that will have a nil physical life at the end of this **disclosure year**;

assets held for future use means the value of assets as determined in accordance with clause 3.11 of the **IM determination** where the asset meets paragraph (a) of the definition of 'excluded asset' in the **IM determination**;

assets held for future use additions means any change in **assets held for future use** as determined in accordance with clause 3.11 of the **IM determination**;

assets held for future use charge means a charge associated with **assets held for future use** that forms part of an **airport activity charge**;

assets held for future use disposals means **assets held for future use** that are disposed of. For the avoidance of doubt this excludes **transfers to works under construction**;

assets held for future use forecast closing cost means the value of q calculated using the following formula:

$$q = a + b - c + d + e - f - g - h$$

where:

a = **assets held for future use opening cost**;

b = forecast **holding costs**;

c = forecast **assets held for future use revenue**;

d = forecast **assets held for future use operating costs**;

e = forecast **assets held for future use tax**;

f = forecast **assets held for future use additions**;

g = forecast **transfers to works under construction**;

h = forecast **assets held for future use disposals**;

Comment [RMMB7]: See submission table for further comments.

Comment [RMMB8]: See submission table for further comments.

assets held for future use opening cost means the cost of **assets held for future use** on the first day of the **pricing period** as determined in accordance with clause 3.11(2) of the **IM Determination**;

assets held for future use operating cost means a cost incurred by an airport relating to assets held for future use, **and includes tax**;

Comment [RMMB9]: See submission table for further comments.

assets held for future use revenue means the revenue derived from, or associated with, **assets held for future use**, and includes an **assets held for future use charge**;

assets not directly attributable means the **asset values** that are not **directly attributable** to a **regulated activity** or the **unregulated component**;

attribution rate means in respect of the **allowance for long term credit spread**, the value of q calculated using the following formula:

$$q = \frac{a \times b}{c}$$

where:

~~a = the **RAB value** for the previous **disclosure year**;~~

~~b = a leverage rate of 17%;~~

~~c = the sum of the **book value** of each **qualifying debt** and each **non-qualifying debt** as of the end of the **disclosure year**;~~

Comment [RMMB10]: See above: All term credit spread related definitions can be deleted.

audited disclosure information means information disclosed pursuant to any of clauses 2.3(1) or 2.4(1) of this determination;

average charge from airfield activities and specified passenger terminal activities means the value of q calculated using the following formula:

$$q = \frac{a}{b}$$

where:

a = the sum of:

- (i) **net operating charges** from **airfield activities** relating to **domestic** flights of 3 tonnes or more but less than 30 tonnes **MCTOW**;
- (ii) **net operating charges** from **airfield activities** relating to **domestic** flights of aircraft 30 tonnes **MCTOW** or more; and
- (iii) **net operating charges** from **specified passenger terminal activities** relating to **domestic passengers**;

or

the sum of:

- (iv) **net operating charges** from **airfield activities** relating to **international** flights; and
- (v) **net operating charges** from **specified passenger terminal activities** relating to **domestic** flights,

as the case may be;

and

b = the sum of:

- (vi) **number of domestic passengers** on flights of 3 tonnes or more but less than 30 tonnes **MCTOW**; and
- (vii) **number of domestic passengers** on flights of aircraft with a **MCTOW** rating of 30 tonnes **MCTOW** or more;

or

- (viii) **total number of international passengers**,

as the case may be;

average charge from airfield activities relating to domestic flights of 3 tonnes or more but less than 30 tonnes MCTOW means the value of q calculated using the following formula:

$$q = \frac{a}{b}$$

where:

a = **net operating charges from airfield activities** relating to **domestic flights** of 3 tonnes or more but less than 30 tonnes **MCTOW**;

and

b = number of **domestic passengers** on flights of 3 tonnes or more but less than 30 tonnes **MCTOW**;

or

total MCTOW of **domestic flights** of 3 tonnes or more but less than 30 tonnes **MCTOW**,

as the case may be;

average charge from airfield activities relating to domestic flights 30 tonnes MCTOW or more means the value of q calculated using the following formula:

$$q = \frac{a}{b}$$

where:

a = **net operating charges from airfield activities** relating to **domestic flights** of 30 tonnes **MCTOW** or more;

and

b = **number of domestic passengers** on flights of 30 tonnes **MCTOW** or more;

or

total MCTOW of **domestic flights** of 30 tonnes **MCTOW** or more,

as the case may be;

average charge from airfield activities relating to international flights means the value of q calculated using the following formula:

$$q = \frac{a}{b}$$

where:

a = **net operating charges from airfield activities** relating to **international flights**;

and

b = **number of international passengers**;

or

total MCTOW of **international flights**,

as the case may be;

average charge from specified passenger terminal activities means the value of q calculated using the following formula:

$$q = \frac{a}{b}$$

where:

a = **net operating charges** from **specified passenger terminal activities** relating to **domestic passengers**;

or

net operating charges from **specified passenger terminal activities** relating to **international passengers**,

as the case may be;

and

b = **number of domestic passengers**;

or

number of international passengers,

as the case may be;

average unit price means the average price paid for each unit acquired or sold in a transaction between the **airport** and a **related party**;

Aviation Security Service means the aviation security service established under s 72B(2)(ca) of the Civil Aviation Act 1990;

B

baggage outbound—make-up area floor space means the overall functional floor space, measured in square metres, of areas occupied by:

- (a) baggage make-up conveyors;
- (b) loops and laterals;
- (c) dolly circulation and staging;
- (d) staff sorting and loading space; and
- (e) hold baggage screening equipment;

baggage outbound—notional capacity means the practical capacity of an **airport's outbound** baggage sortation system(s), expressed in bags per hour, based on its configuration, conveyor speeds and continuous (x-ray or similar) inspection capacities where applicable;

baggage outbound—throughput of bags means:

- (a) in respect of manual sortation/make-up systems, an estimation of the number of bags being processed by the system during the relevant hour, based on the throughput of **passengers** in that hour and an assumed number of bags per **passenger**; and
- (b) in respect of automated baggage sortation/make-up systems, the actual number of bags processed through the system during the relevant hour;

baggage reclaim—floor space means the overall functional floor space, measured in square metres, of areas occupied by:

- (a) baggage reclaim belts;
- (b) waiting areas;
- (c) trolley storage areas;
- (d) baggage service counters; and
- (e) areas occupied by airline staff directly interfacing with **passengers**,

but excluding areas in the baggage room such as the drop-off belt;

baggage reclaim—notional capacity means the capacity of baggage reclaim facilities expressed in bags per hour, assessed using accepted industry practice taking account of the numbers, types and sizes of aircraft expected to usually arrive in the **passenger busy hour** applicable to the baggage reclaim **functional component**;

baggage reclaim—throughput of bags means an estimation of the number of bags being delivered through the system during the relevant hour, based on the throughput of **passengers** in that hour and an assumed number of bags per **passenger**;

base value has the meaning given in clause 3.11(6)(a) of the **IM determination**;

bio-security screening and inspection and Customs secondary inspection—floor space means the overall functional floor space, measured in square metres, of areas providing:

- (a) biosecurity screening and inspection for **inbound passengers**, including the areas occupied by booths, benches, screening equipment, and the **MPI** staff operating the screening and inspection areas;
- (b) **Customs** secondary inspection for **inbound passengers**, including the areas occupied by booths, benches, screening equipment, and **Customs** staff operating the screening and inspection areas;
- (c) queuing zones; and
- (d) an area up to two metres after the screening equipment or booths and benches on the landside of the screening and inspection points,

but excluding **MPI** and **Customs** offices and search rooms;

bio-security screening and inspection and Customs secondary inspection—notional capacity means throughput capacity expressed in **passengers** per hour based on the number of **MPI** screening stations and advice from **MPI** on the sustainable processing rate;

~~**book value** is the book value in New Zealand dollars of a **qualifying debt** or **non-qualifying debt** as at either the end of the **disclosure year** or on the **issue date** as the context requires;~~

business day has the meaning set out in the **IM determination**;

C

capacity growth means **capital expenditure** incurred predominantly to provide for increased capacity;

capital expenditure means:

- (a) subject to paragraph (c), for the purpose of unallocated **works under construction**, costs:

Comment [RMMB11]: See above: All term credit spread related definitions can be deleted.

- (i) incurred in the acquisition or development of an asset during the **disclosure year** that is, or is intended to be, **commissioned**; and
 - (ii) that are included or are intended to be included in the value of assets **commissioned** relating to the **unallocated RAB**;
- (b) subject to paragraph (c), in all other instances, costs:
 - (i) incurred or forecast to be incurred in the acquisition or development of an asset during the **disclosure year** that is, or is intended to be, **commissioned**; and
 - (ii) that are included or are intended to be included in the value of **assets commissioned** relating to the **RAB**;
- (c) costs incurred or forecast to be incurred in the acquisition of an asset as determined in accordance with clause 3.11 of the **IM determination** are deemed to have been incurred or forecast to be incurred in the year in which they are included in the value of **transfer to works under construction**;

change in asset allocator means changes in any one of the following from the previous **disclosure year**:

- (a) the list of assets, the value of which has been allocated using an **asset allocator**;
- (b) the type of quantifiable measure used to allocate any asset value; or
- (c) the type of quantifiable measure used to allocate asset values, or the list of assets, included in a particular **asset category**;

change in cost allocator means changes in any one of the following from the previous **disclosure year**:

- (a) the list of **operating costs**, the value of which has been allocated using a **cost allocator**;
- (b) the type of quantifiable measure used to allocate any operating costs; or
- (c) the type of quantifiable measure used to allocate **operating costs**, or the list of **operating costs**, included in a particular **operating cost category**;

change in forecast asset life means a change to the **forecast asset life** from the previous disclosure under clause 2.3;

charged services means a category or group of **specified airport services** in respect of which a standard charge applies;

check-in—floor space means the overall floor space, measured in square metres, of areas utilised by **passengers**, and check-in staff when in direct contact with **passengers**, including:

- (a) check in counters;
- (b) kiosks;
- (c) help desks;
- (d) service desks;
- (e) ticketing counters;
- (f) baggage scales

- (g) baggage injector feeds;
- (h) takeaway baggage conveyors;
- (i) bag drop belts;
- (j) queuing zones;
- (k) seating and waiting areas associated with the check-in area; and
- (l) circulation areas directly associated with any of the above functions,

but excludes:

- (m) airline and airport offices, unless used directly by **passengers** as part of normal processing and services; and

retail concession areas and floor curtilage area of one metre in width at entries and/or exits to retail/concessions and adjacent to shop-front window displays for retail/concessions;

closing base value means the value of q calculated using the following formula:

$$q = a + b$$

where:

a = **opening base value**;

b = **forecast assets held for future use revaluations**;

commencement date means the date specified in clause 1.2;

Commission has the meaning set out in s 2 of the **Act**;

commissioned has the meaning set out in the **IM determination**;

commissioned project means a project or programme of **capital expenditure** that involves total expenditure of more than \$5 million over the life of the project or programme and that is first **commissioned** in the current **disclosure year**. For the purpose of this definition a programme is a group of projects that together contribute to one output (or a set of broadly overlapping outputs). Each project that the programme comprises must be separately disclosed;

consumer has the meaning set out in s 52C of the **Act**;

corporate overheads means **operational expenditure** that is incurred predominantly with respect to administration functions, but is not directly incurred in the operation and maintenance of assets necessary for the provision of **specified airport services**, including expenditure on:

- (a) corporate governance and management;
- (b) human resources;
- (c) information technology systems;
- (d) accounting services;
- (e) procurement; and
- (f) legal and risk management;

corporate tax rate has the meaning set out in the **IM determination**;

cost allocator has the meaning set out in the **IM determination**;

cost of debt assumption means the sum of the risk free rate and debt premium estimates as published by the **Commission** in accordance with Part 5 of the **IM determination**;

cost of financing works under construction means the cost of finance included in **capital expenditure** in relation to **works under construction**;

costs not directly attributable means the value of **operating costs** that are not **directly attributable** costs for each **operating cost category**, determined in accordance with Part 2 of the **IM determination**;

~~**coupon rate** is the nominal coupon rate of interest of a **qualifying debt** on the **issue date**;~~

Comment [RMMB12]: See above: All term credit spread related definitions can be deleted.

CPI has the meaning set out in the **IM determination**;

CPI reference date means the date relating to the relevant **CPI** value as in accordance with clause 3.7 of the **IM determination**;

current year tax losses means **net taxable income** where the value of **net taxable income** is negative;

Customs means the New Zealand Customs Service;

CY means current year;

D

default cash flow timing assumption means an assumption under which cash flows occur 182 days before the end of the **disclosure year**;

departure lounges—floor space means the overall functional floor space, measured in square metres, of areas occupied by:

- (a) departure gate lounges, including seating waiting areas;
- (b) airline boarding control counters; and
- (c) areas occupied by airline staff controlling boarding,

but excluding:

- (d) retail and concession areas and floor curtilage area one metre in width at entries and/or exits to retail/concessions and adjacent to shop-front window displays for retail/concessions; and
- (e) airport lounges, pay-per-use lounges and facilities such as showers;

departure lounges—number of seats means the number of **passengers** that could reasonably be seated on the seating facilities provided for **passenger** use within the departure lounges floor space;

depreciation means:

- (a) in respect of **airport business—GAAP** or **airport company** financial results, depreciation as determined in accordance with **GAAP**; and
- (b) in respect of **airport business, regulatory depreciation**;

depreciation methodology means either:

- (a) **standard depreciation** methodology; or

(b) **non-standard depreciation methodology;**

description of land means the parcels of land identified in a valuation report prepared for the purposes of clause 3.7 of the **IM determination**;

description of regulatory / GAAP adjustment means a brief description of the different approach used in preparing the **airport** performance compared to preparing **GAAP** compliant financial statements;

description of transaction means a brief description of the transaction with a **related party**, including the goods or services provided to or by the **related party** as part of that transaction;

~~**description of use (land)** means a description of how each parcel of land is used to provide **specified airport services** sufficiently detailed to allow interested persons to assess the usefulness of the asset in providing **specified airport services**;~~

~~**description of use (significant assets)** means a description of how **significant assets** are used to provide **specified airport services** that is sufficiently detailed to allow interested persons to assess the usefulness of the asset in providing **specified airport services**;~~

directly attributable has the meaning given to that term in Part 2 of the **IM determination**;

Director means a person occupying the position of director of a company by whatever name called;

disclosure year means the 12 month period ending on, in the case of—

- (a) Wellington International Airport Limited, 31 March, and
- (b) all other **airport companies**, 30 June;

domestic means aircraft operations between **airports** within New Zealand;

E

effect of change means the difference between the value allocated to the **airport** using the **original allocator or components** and the value allocated to the **airport** using the **new allocator or components**;

entity name means the legal name of a **related party**;

excluded intangible assets means, in respect of assets as at the year ended 2009, an intangible asset that is excluded in accordance with clause 3.1(b) of the **IM determination**;

excluded services has the meaning given in the **IM Determination**;

~~**execution cost for an interest rate swap**, in respect of **qualifying debt**, means half the wholesale bid offer spread of a vanilla interest rate swap (of which the term is equal to the original tenor of the qualifying debt where the bid and offer spread is calculated as at the **pricing date** or the **issue date**) multiplied by the book value in New Zealand dollars of the **qualifying debt** at its **issue date**;~~

F

Comment [RMMB13]: Bullet point changed from (c) to (b).

Comment [RMMB14]: These definitions were used in the former transitional Schedule 23 when the current ID requirements were introduced. It is now no longer required.

Comment [RMMB15]: See above: All term credit spread related definitions can be deleted.

forecast asset base means the forecast asset base **for regulated activities** rolled forward by an **airport**;

Comment [RMMB16]: We have proposed the inclusion of this drafting to distinguish this concept from the pricing asset base and the RAB.

forecast assets held for future use revaluations means the sum of amounts determined in accordance with clause 3.11(6)(d)(i) and 3.11(6)(d)(ii) of the **IM Determination** for each **disclosure year** of the **pricing period**;

Comment [RMMB17]: We think it is incorrect to require forecast assets held for future use revaluations to be defined by reference to the IM methodology - which applies to actuals on an annual basis. Consistent with many of the requirements in 18(ix), we do not think a definition is required - airports will disclose their pricing forecasts.

forecast asset life has the meaning of 'asset life' given in clause 3.6 of the **IM Determination**;

forecast closing asset base means the **forecast asset base** as at the last day of the relevant **pricing period** **as determined by an airport**;

Comment [RMMB18]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

forecast closing carry forward adjustment means an amount forecast by an **airport** as part of a **price setting event** that an **airport** intends to offset in a future **price setting event**, **subject to any views expressed during pricing consultation**;

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

forecast closing investment value means the value of q calculated using the following formula:

$$q = a - b$$

where:

a = **forecast closing asset base**; and

b = **forecast closing carry forward adjustment**;

Comment [RMMB19]: See comment above.

Comment [RMMB20]: See comment above.

forecast cost of capital means the cost of capital used by an **airport** in determining the **forecast total revenue requirement** incorporating the values used for the purposes of consultation undertaken as part of a **price setting event**;

forecast depreciation means the forecast depreciation used by an **airport** in determining the **forecast total revenue requirement** incorporating the values used for the purposes of consultation undertaken as part of a **price setting event**;

Comment [RMMB21]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

forecast for current disclosure year means the most recent disclosure of forecast **capital expenditure** and **forecast operational expenditure** pertaining to the current **disclosure year** made in accordance with clause 2.5;

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

forecast for period to date means the most recent disclosure of the accumulated forecast **capital expenditure** and **forecast operational expenditure** pertaining to the years from the beginning of the **pricing period** to the current **disclosure year** made in accordance with clause 2.5;

forecast IM CPI has the meaning set out in the **IM determination**;

forecast net cash flows means the value of q calculated using the following formula:

$$q = a - b \mp c - d - e$$

where:

a = **forecast total revenue requirement**;

b = **forecast assets commissioned**;

c = **forecast asset disposals**;

d = **forecast operational expenditure**; and

Comment [RMMB22]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

This formula does not work for Schedule 19, as forecast total revenue requirement is not in Schedule 19.

e = **forecast unlevered tax**;

forecast operational expenditure means the forecast operational expenditure for a pricing period used by an **airport** in determining the **forecast total revenue requirement** incorporating the values used for the purposes of consultation undertaken as part of a **price setting event**;

forecast other incentives means the value of any arrangements:

- (a) where an airport agrees with a customer to provide goods or services, whether to the customer or a third party, in consideration for the customer taking specified airport services; and
- (b) used by an airport in determining the forecast total revenue requirement, and the forecast revenue for services applicable to the price setting event incorporating the values used for the purposes of consultation undertaken as part of a price setting event;

For the avoidance of doubt other incentives excludes forecast pricing incentives;

forecast other operating revenue income means the forecast other income for a pricing period used by an **airport** in determining the **forecast total revenue requirement** incorporating the values used for the purposes of consultation undertaken as part of a **price setting event**;

forecast pricing asset base means the pricing asset base rolled forward by an **airport**;

forecast pricing CPI means the CPI value used by an **airport** in setting prices as part of a **price setting event**;

forecast pricing incentives means:

- (a) the value of incentives provided to customers by an airport that have the effect of lowering the price paid for specified airport services including discounts, rebates, credits, route incentives or reimbursements; and

used by an airport in determining the forecast total revenue requirement incorporating the values used for the purposes of consultation undertaken as part of a price setting event.

forecast revaluations means the forecast revaluations for a pricing period used by an **airport** in determining the **forecast total revenue requirement** incorporating the values used for the purposes of consultation undertaken as part of a **price setting event**;

forecast revenue for services applicable to the price setting event means the revenue an **airport** is expecting to earn from **charged services** consulted on as part of the **price setting event** for that **disclosure year**;

forecast total financial incentives means the sum of **forecast pricing incentives** and **forecast other incentives**.

forecast unlevered tax means forecast tax on an unlevered basis for a pricing period used by an **airport** in determining the **forecast total revenue requirement** incorporating the values used for the purposes of consultation undertaken as part of a **price setting event**;

Comment [RMMB23]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

Comment [RMMB24]: NZ Airports has proposed this additional definition as we consider it is necessary in order to distinguish the concept from pricing incentives.

Comment [RMMB25]: Introduced to achieve consistency with the definitions of asset base in schedule 18.

Comment [RMMB26]: NZ Airports has proposed this additional definition as it is a necessary addition in order to distinguish from the definition of *ex post* pricing incentives.

Comment [RMMB27]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

Comment [RMMB28]: The Commission will need to consider how this definition will need to be amended if it confirms its proposal to add Schedule 19. The same definition cannot be used in both schedules. See our cover submission.

Comment [RMMB29]: NZ Airports has proposed this additional definition as it is a necessary addition in order to distinguish from the definition of *ex post* incentives.

Comment [RMMB30]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

forecast total revenue requirement means the revenue an **airport** has forecast to require for all **specified airport services** supplied by the **airport** for that **disclosure year** excluding forecast assets held for future use revenue;

Comment [RMMB31]: This proposed amendment is aimed at achieving consistency with Schedule 18.

full-time equivalent employees means the average number of **airport** employees that are employed during a **disclosure year** in the provision of **specified airport services**;

functional components means:

in respect of an **airport**:

- (a) airfield;
- (b) apron; and
- (c) the functional components of the passenger terminal, and

in respect of a passenger terminal:

- (d) landside circulation outbound;
- (e) check-in;
- (f) passport control outbound;
- (g) security screening;
- (h) airside circulation outbound;
- (i) departure lounges;
- (j) airside circulation inbound;
- (k) passport control inbound;
- (l) landside circulation inbound;
- (m) baggage reclaim;
- (n) bio-security screening and inspection and **Customs** secondary inspection;
- (o) arrivals concourse;
- (p) outbound baggage sortation system; and
- (q) total terminal functional areas providing passenger facilities and services;

G

GAAP means generally accepted accounting practice in New Zealand;

gains / (losses) on asset sales means, in respect of:

- (a) **assets disposed of to a related party**, zero;
- (b) **assets disposed of to a regulated supplier**, zero;
- (c) **asset disposals (other)**, the values determined in accordance with:

sale price of an asset - **assets disposals (other)**

where each component has the value as allocated to **regulated activities** in accordance with Part 2 of the **IM determination**; and

- (d) the **calculation of regulatory profit / (loss)**, means the unallocated **gains / (losses) on asset sales** which are allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

GST means any tax required to be paid by an **airport** in accordance with the Goods and Services Tax Act 1985, as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act;

H

highest rate of finance applied means the highest rate of finance used to determine the **cost of financing works under construction**;

holding costs has the meaning set out in clause 3.11(6)(b) of the **IM determination**, where references to 'excluded asset' should be read as references to **assets held for future use**;

human resource costs means the remuneration, including the value of benefits, that is payable to employees;

I

IM determination means the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010;

inbound means an aircraft or a **passenger** onboard an aircraft arriving at an **airport**;

independent auditor means a person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993 or, where the **airport** is a public entity (as defined in s 4 of the Public Audit Act 2001), is the Auditor-General;
- (b) has no relationship with, or interest in, the **airport** that is likely to involve a conflict of interest;
- (c) has not assisted with the compilation of the information or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in compiling the information; and
- (d) is not associated with nor directed by any person who has provided any such assistance, advice, or opinion;

indexed revaluation means:

- (a) in relation to the **unallocated RAB**, the values determined in accordance with clause 3.7(1) of the **IM determination**; and
- (b) in relation to the **RAB**, the values determined in accordance with clause 3.7(2) of the **IM determination**;

indexed revaluation rate means the value of q calculated using the following formula:

$$q = \frac{a}{b} - 1$$

where:

a = **CPI** for the quarter which coincides with the end of the **disclosure year**;
and

b = **CPI** for the quarter which coincides with the end of the preceding **disclosure year**;

initial base value has the meaning given in clause 3.11(6)(a) of the **IM determination**, but does not include "the sum of tracking revaluations in respect of all prior disclosure years" as set out in that clause;

Comment [RMMB32]: We note a similar formula is included in the IM determination at 3.7 (7)(a)

initial disclosure year means the **disclosure year** ending in 2011;

initial RAB has the meaning set out in the **IM determination**;

initial RAB value has the meaning set out in the **IM determination**;

international means aircraft operations at an **airport** that began outside New Zealand, or began in New Zealand and is to continue outside New Zealand;

interruption means, in relation to any **specified airport service** provided by an **airport**, the withdrawal by the **airport** of that service for 15 minutes or longer, at a time when the service was required by a **scheduled** aircraft (or to process the **passengers** on a **scheduled** aircraft), but does not include:

- (a) **planned withdrawals**; or
- (b) the withdrawal of runway services necessitated by weather conditions; or
- (c) withdrawals of any services operated and managed by a third party and that are not being provided on behalf of, or under contract with, the **airport**;

interruption to baggage reclaim belts means an **interruption** to the baggage reclaim unit, where no equivalent alternative service is provided;

interruption to baggage sortation system on departures means an **interruption** to the baggage sortation system for departing bags such that the sortation system is materially unworkable, irrespective of where the breakdown occurs within the system;

interruption to contact stands means an **interruption** to a contact stand/airbridge, where no equivalent alternative service is provided;

interruption to fixed electrical ground power (FEGP) units means the percentage of time that all fixed electrical ground power service is unavailable during a **disclosure year** due to **interruptions**, calculated as the sum of the duration of each **interruption** during the **disclosure year** divided by the sum of the planned durations of FEGP supply to each aircraft during the **disclosure year**;

interruption to remote stands and means of embarkation/disembarkation means an **interruption** to a remote stand with concomitant bussing operations, or a remote stand where **passengers** walk to or from the terminal, and where no equivalent or better service is provided;

interruption to runway services means an **interruption** to a runway such that it is unusable by a **scheduled** aircraft and where no reasonable alternative service is provided;

interruption to taxiway services means an **interruption** to a taxiway such that a **scheduled** aircraft cannot land or depart and where no reasonable alternative service is provided;

issue date means the day on which a **qualifying debt** or **non-qualifying debt** is issued;

justification for change in depreciation methodology means an explanation which provides sufficient detail so that interested persons can assess how the introduction of, or change to the application of, a **non-standard depreciation methodology** meets the purpose of Part 4 of the **Act**;

Comment [RMMB33]: See above: All term credit spread related definitions can be deleted.

K

key capital expenditure project means a current or future project or programme of **capital expenditure** that involves total expenditure of more than \$5 million over the life of the project or programme. For the avoidance of doubt, any amount of forecast capital expenditure that is planned to be incurred in a **disclosure year**, must be disclosed in the **disclosure year** it is incurred. For the purpose of this definition, a programme is a group of projects that together contribute to one output (or a set of broadly overlapping outputs). In making disclosures regarding programmes, **airports** must provide details of each individual project that the programme comprises;

L

landside circulation inbound—floor space means 50% of the overall functional floor space, measured in square metres, of areas providing general circulation to provide common access for both **inbound** and **outbound passengers** to and from check-in, security and landside retail/concessions, but excluding retail and concession areas and floor curtilage area of one metre in width at entries and/or exits to retail/concessions and adjacent to shop-front window displays for retail/concessions;

landside circulation outbound—floor space means the overall functional floor space, measured in square metres, of areas providing general circulation to provide segregated access for outbound passengers to and from check-in, security and landside retail/concessions, and 50% of the overall functional floor space, measured in square metres, of areas providing general circulation to provide common access for inbound and outbound passengers to and from check-in, security and landside retail/concessions, but excluding retail and concession areas and floor curtilage area of one metre in width at entries and/or exits to retail/concessions and adjacent to shop-front window displays for retail/concessions;

lease, rental and concession income means any income received from leases, rentals or concessions;

line item means the list of all **assets values** or **operating costs** included within the **asset category** or **operating cost category** for which the same **asset allocator** or **cost allocator** is used to allocate their **asset values** or **operating costs** between **airport activities**;

lost and found assets adjustment means:

- (a) in relation to the **unallocated RAB**, the value of found assets as determined in accordance with the **IM determination**, less the value of **lost assets**. The value of a **lost asset** is its unallocated opening **RAB** value less its **regulatory depreciation**;
- (b) in relation to the **RAB**, the value of the asset (as determined in accordance with paragraph (a)) which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

lost asset has the meaning set out in the **IM Determination**;

lost asset adjustment means:

- (a) in relation to the **unallocated RAB**, the unallocated opening **RAB** value of **lost assets**;
- (b) in relation to the **RAB**, the value of the asset (as determined in accordance with paragraph (a)) which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

Comment [RMMB34]: Bold to reflect defined term.

M

market value of asset disposals to related parties means the value of assets disposed of to a related party as determined by a valuer. The valuer must meet the definition of valuer as defined in the **IM Determination**;

MCTOW means maximum certificated take-off weight measured in tonnes as contained in the aircraft's Certificate of Registration;

merger and acquisition expenses means expenditure related to merger and acquisition activities irrespective of the outcome of the merger or acquisition, but proportionate to the extent the benefits of the merger or acquisition would relate to the **airport**;

month means calendar month;

MPI means Ministry for Primary Industries;

~~**MVAU valuation adjustment** means the increase or decrease in the **unallocated initial RAB value** or **works under construction** as of the year ended 2009, where an increase is recorded as a positive value and a decrease is recorded as a negative value, as result of complying with Part 3 of the **IM determination**;~~

Comment [RMMB35]: These definitions were used in the former transitional Schedule 23 when the new ID reporting was introduced. It seems that it is now no longer required.

N

net income means the revenue of the **airport**, including **gains and/or losses on assets sales** and other income. For the avoidance of doubt, the net income for the **airport business** is the **total regulatory income**;

net operating charges from airfield activities means the total, in relation to **airfield activities**, of **airport activity charges**, **other operating revenue** and **lease, rental and concession income** where the **lease, rental or concession income** is paid by an air transport operator and is essential for that (or other) air transport operator to be able to operate air transport services relating to:

- (a) **domestic** flights 3 tonnes or more but less than 30 tonnes **MCTOW**;
- (b) **domestic** flights of 30 tonnes **MCTOW** or more; or
- (c) **international** flights,

as the case may be;

but does not include assets held for future use revenue.

net operating charges from specified passenger terminal activities means the total, in relation to **specified passenger terminal activities**, of **airport activity charges**, **other operating revenue** and **lease, rental and concession income** where the **lease, rental or concession income** is one which is paid by an air transport operator and is essential for

that (or other) air transport operator to be able to operate air transport services relating to:

- (a) **domestic passengers;**
- (b) **international passengers,**

as the case may be;

but does not include assets held for future use revenue.

Comment [RMMB36]: For avoidance of doubt.

net operating revenue means

- (a) in all instances other than **related party** transactions, the total of **airport activity charges, other operating revenue, and lease rental and concession income;**

(b) in relation to **related party** transactions, net operating revenue (as determined in accordance with paragraph (a)) from **related parties;**

but does not include assets held for future use revenue.

Comment [RMMB37]: For avoidance of doubt.

net revenue has the meaning set out in clause 3.11(6)(c) of the **IM Determination;**

net taxable income means:

- (a) if **regulatory taxable income / (loss)** is positive, **regulatory taxable income / (loss) less tax losses used;** or
- (b) if **regulatory taxable income / (loss)** is negative, nil;

new allocator or components means:

- (a) if a change in the **allocator type** or cost **allocator** used, the **asset allocator** or **cost allocator** used; or
- (b) if a change in **line item**, the **line item** included in the **asset allocator** or **cost allocator** used;

non taxable means not included in 'income subject to tax' for income tax purposes in accordance with the Income Tax Act 2007 as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act;

non-current assets – year ended 2009 means the value of the **2009 disclosed assets**, where the value of:

- (a) non-land assets are determined in accordance with clause 3.2(1)(a) of the **IM determination;** and
- (b) land is the value of the assets disclosed in the **2009 disclosure financial statements;**

non-indexed revaluations:

- (a) in relation to the unallocated RAB, has the meaning set out in clause 3.7(1) of the **IM Determination**, applying the revaluation rate specified in clause 3.7(7)(b) of the **IM Determination;** and
- (b) in relation to the RAB, has the meaning set out in clause 3.7(2) of the **IM Determination**, applying the revaluation rate specified in clause 3.7(7)(b) of the **IM Determination;**

non-indexed revaluation rate has the meaning set out in clause 3.7(7)(b) of the **IM Determination**;

~~**non-qualifying debt** means a line of debt, other than trade debt, issued by an airport company that is not a **qualifying debt**;~~

Comment [RMMB38]: See above: All term credit spread related definitions can be deleted.

non-standard depreciation means:

- (a) in relation to the **unallocated RAB**, the value of **regulatory depreciation** relating to non-standard assets determined in accordance with Part 3 of the **IM determination**;
- (b) in relation to the **RAB**, the value of **regulatory depreciation** (as determined in accordance with paragraph (a)) which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

non-standard depreciation disclosure means information about the introduction of or change to **non-standard depreciation methodology**. This includes a **summary of change**; a **justification for change in depreciation methodology**; and the extent of customer disagreement and supplier response;

non-standard depreciation methodology means a methodology used to determine depreciation that differs from the methodology used to determine **standard depreciation**;

~~**notional debt issue cost readjustment** means in respect of a **qualifying debt**, the value of q calculated using the following formula:~~

$$q = \left(\frac{1.75\%}{a} - 0.35\% \right) \times b$$

~~where:~~

~~a = **original tenor** of the **qualifying debt**;~~

~~b = **book value** of the **qualifying debt** at **issue date**;~~

~~For the avoidance of doubt, q will be a negative number.~~

Comment [RMMB39]: See above: All term credit spread related definitions can be deleted.

notional deductible interest has the meaning given to that term in clause 4.1(4) of the **IM determination**;

notional interest tax shield means the product of **notional deductible interest** and the **corporate tax rate** applicable to the current **disclosure year**;

number of domestic passengers means the sum of:

- (a) the number of **inbound domestic passengers**; and
- (b) the number of **outbound domestic passengers**,

on:

- (c) flights of 3 tonnes or more but less than 30 tonnes **MCTOW**; or
- (d) flights of 30 tonnes **MCTOW** or more,

as the case may be;

number of international passengers means the sum of:

- (a) the number of **inbound international passengers**; and

- (b) the number of **outbound international passengers**,
less the estimated number of **international transit and transfer passengers**;

O

offsetting revenue means

- (a) in relation to the unallocated **RAB**, revenue derived in relation to works under construction as described in clause 3.9(5)(a) of the **IM Determination**;
- (b) in relation to the **RAB**, the value of revenue (as determined in accordance with paragraph (a)) allocated to the regulated business using the same allocation that the value of the asset to which the revenue relates is allocated to the regulated business in accordance with Part 2 of the **IM determination**;

on time departure delay means that the **terminal departure time** of a **scheduled service** has been delayed by more than 15 minutes primarily as a result of **interruptions** to one or more **specified airport services**;

opening base value means:

- (a) for the first **disclosure year** of a **pricing period**,
 $q = a + b$
where:
 $a =$ **initial base value**;
 $b =$ **opening tracking revaluations**;
- (b) for subsequent **disclosure years** of a **pricing period**, the **closing base value** for the previous **disclosure year**;

opening carry forward adjustment means the sum of:

- (a) a **forecast closing carry forward adjustment** from the previous **pricing period**;
- (b) an **unforecast revaluation gain/loss**;
- (c) a **risk allocation adjustment**; and
- (d) **any** other carry forward adjustments that are intended to reflect the remaining capital to be recovered as at the start of the **pricing period**;

opening investment value means the value of q calculated using the following formula:

$$q = a - b$$

where:

- $a =$ **opening RAB**; and
- $b =$ **opening carry forward adjustment**;

opening RAB means the **RAB value** disclosed under clause 2.3 for the **disclosure year** preceding a **price setting event**;

Comment [RMMB40]: Changed bullet point from (c) to (a).

Comment [RMMB41]: Changed bullet point from (d) to (b).

Comment [RMMB42]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

Comment [RMMB43]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

This formula does not work for Schedule 19, as opening RAB is not included in Schedule 19.

Comment [RMMB44]: The definition requires the RAB for the annual disclosure prior to the actual price setting event. The RAB for the year preceding a price setting event would not ordinarily be finalised and published until after commencement of a new pricing period. A topic for the technical consultation should be to confirm that all of the definitions and requirements that require a value to be disclosed as at the first day of a pricing period are workable in practice.

opening tracking revaluations means **tracking revaluations** as at the first day of the **pricing period**;

operating cost category means one of the categories in the following list which comprises, for the purpose of a proposal, a classification of the types of **operating costs** that **airports** make when providing **airport activities** to **consumers** and **operating cost categories** means all of the following categories:

- (a) **corporate overheads**;
- (b) **asset management and airport operations**; and
- (c) **asset maintenance**;

operating cost has the meaning set out in the **IM determination**, and excludes costs incurred in providing **excluded services**;

operating surplus / (deficit) means **total regulatory income** less **operational expenditure**;

operating surplus / (deficit) before interest depreciation, revaluations and tax means **net income** less **operational expenditure**. For the avoidance of doubt, the **operating surplus / (deficit) before interest depreciation, revaluations and tax** for the **airport business** is the **operating surplus / (deficit)**;

operational expenditure means:

- (a) in all instances other than **related party** transactions, **operating costs** after applying Part 2 of the **IM determination**;
- (b) in relation to **related party** transactions, operational expenditure (as determined in accordance with paragraph (a)) transacted with **related parties**;

operational improvement processes means processes implemented by the **airport** whereby airlines and **airports** meet regularly to:

- (a) identify any measures available either to:
 - (i) reduce the likelihood of service losses which have caused loss of material services or on time departure delays from reoccurring; or
 - (ii) better manage such losses of service or on time departure delays so as to reduce the impact; and
- (b) review quarterly passenger satisfaction surveys to identify where remedial action is required by the **airport**, airline or border agencies;

operational surplus / (deficit) before interest means the value of q calculated using the following formula:

$$q = a - b - c - d$$

where:

a = **operational surplus / (deficit) before interest, depreciation, revaluations and tax**;

b = **depreciation**;

c = **total revaluations**; and

d = **tax expense**;

For the avoidance of doubt, operational surplus / (deficit) before interest for the **airport business** is **regulatory profit / (loss)**;

original allocator or components means:

- (a) in respect of a change in the **cost allocator** or **allocator type** used, the **cost allocator** or **asset allocator** used directly prior to the change in allocator; or
- (b) in respect of a change in **line item**, the **line item** included in the **cost allocator** or **asset allocator** directly prior to the change in components;

original tenor means:

- ~~(a) where the **qualifying debt** or **non-qualifying debt** is not issued to a **related party**, the term of a **qualifying debt** or **non-qualifying debt** at the **issue date**;~~
- ~~(b) where the **qualifying debt** or **non-qualifying debt** is issued to a **related party**, the shorter of the
 - ~~(i) the tenor of the **qualifying debt**; or~~
 - ~~(ii) the period from the **qualifying debt's issue date** to the earliest date on which its repayment is or may be **required**.~~~~

Comment [RMMB45]: See above: All term credit spread related definitions can be deleted.

other adjustments to the RAB tax value means any adjustment to the **RAB (tax value)** made in accordance with Part 4 of the **IM determination** other than:

- (a) **regulatory tax asset value of additions**;
- (b) **regulatory tax asset value of disposals**;
- (c) **regulatory tax asset value of assets transferred from / (to) unregulated asset base**; and
- (d) **tax depreciation**;

~~**other assets** means assets included in the **initial RAB** that are not **significant assets**;~~

Comment [RMMB46]: These definitions were used in the former transitional Schedule 23 when the new ID reporting was introduced. It is now no longer required.

other assets commissioned means **assets commissioned** that have not been separately disclosed as **commissioned projects**;

other capital expenditure means aggregate **capital expenditure** for the **disclosure year** that has not been separately disclosed as **key capital expenditure projects**;

other excluded assets means assets as at the year ended 2009 that are excluded from the **initial RAB** in accordance with clause 3.1(1)(a) of the **IM determination** and which are not **assets held for future use**;

other factors means the value of any factor used to determine the **forecast total revenue requirement** as required by clause 2.5(1) other than:

- (a) **forecast asset base**;
- (b) **forecast operational expenditure**;
- (c) **forecast depreciation**;
- (d) **forecast unlevered tax**;
- (e) **forecast revaluations**; and
- (f) **forecast other income**;

other incentives means the value of any arrangements where an **airport** agrees with a customer to provide goods or services, whether to the customer or a third party, in consideration for the customer taking **specified airport services**. For the avoidance of doubt other incentives excludes **pricing incentives**;

other income means any income received from the provision of **specified airport services** that is not captured by **total operating revenue** or **gains / (losses) on asset sales**;

other operating revenue means revenue earned by an **airport business** in relation to specific charges relating to a **regulated activity**, which has not been separately disclosed as an **airport activity charge** or **lease, rental and concession income**, and does not include assets held for future use revenues. Other operating revenue must not exceed 10% of **net operating revenue**;

other permanent differences —non deductible means the non deductible non-reversing differences between **regulatory profit / (loss) before tax** and **regulatory taxable income / (loss)** calculated for income tax purposes in respect of the **airport**;

other permanent differences—non taxable means the **non taxable** non-reversing differences between **regulatory profit / (loss) before tax** and **regulatory taxable income / (loss)** calculated for income tax purposes in respect of the **airport**;

other related party transactions means the value of any **related party** transactions that are not disclosed as:

- (a) **related party net operating revenue, operational expenditure or capital expenditure**; or
- (b) the value of transactions that are included in the **market value of asset disposals to related parties**;

other temporary adjustments—current period means adjustments for temporary differences, as determined in accordance with **GAAP** which arise in respect of the current **disclosure year**, excluding **depreciation**;

other temporary adjustments—prior period means adjustments for temporary differences, as determined in accordance with **GAAP**, which arise from previous **disclosure years**, including **depreciation**;

outbound means an aircraft or a **passenger** onboard an aircraft departing from an **airport**;

P

passenger means a person transported by an operator of an **air passenger service**, including airline staff on duty travel and passengering crew, excluding crew operating the service and excluding persons that do not pass through the passenger terminal while disembarking or embarking;

passenger aircraft landing charge means any price charged to an operator of a passenger aircraft by an **airport** for landing that aircraft at that **airport**;

passenger busy hour, in respect of a functional component of a passenger terminal, means the clock hour with the 30th highest ranked number of **passengers** in the **disclosure year** for that **airport** in the **passenger category** that best reflects the

passenger usage of the functional component and whose **terminal arrival time** or **terminal departure time** fell within the clock hour. For the avoidance of doubt, although the passenger busy hours must be calculated without reference to the number of transit and transfer **passengers** onboard, disclosed figures for **passenger throughput** at functional components of the terminal during the busy hour will be adjusted where relevant for the estimated number of transit and transfer **passengers** arriving or departing during the busy hour;

passenger category means one of the following:

- (a) **passengers** on **outbound international** aircraft;
- (b) **passengers** on **inbound international** aircraft;
- (c) **passengers** on **outbound domestic** aircraft;
- (d) **passengers** on **outbound domestic** aircraft that require security screening of **passengers**;
- (e) **passengers** on **inbound domestic** aircraft;
- (f) **passengers** on **outbound** aircraft (applies only to **airports** with a functional component that is used as a combined facility by **passengers** on **international** and **domestic outbound** aircraft); or
- (g) **passengers** on **inbound** aircraft (applies only to **airports** with a functional component that is used as a combined facility by **passengers** on **international** and **domestic inbound** aircraft);

~~**passenger service income** means income derived from any charge payable to an **airport** for provision of services by that **airport** related to use of a terminal or terminal facilities. For the avoidance of doubt passenger service income includes income derived from any departure fee charged to a **passenger**;~~

Comment [RMMB47]: This definition does not appear to be used anywhere.

passenger survey means a passenger survey carried out under clause 2.4(2);

passenger throughput, in respect of a functional component of a passenger terminal, means the estimated number of **passengers** passing through the functional component during the relevant busy hour; and is equal to the number of **passengers** in the **passenger category** that best reflects the **passenger** usage of the functional component during the **passenger busy hour** for that functional component, and (if **transit and transfer passengers** normally bypass the functional component or if the functional component is used to process only **transit and transfer passengers**) adjusted using an estimate of the number of **transit and transfer passengers** contained in the **passenger category**;

passport control (inbound)—floor space means the overall functional floor space, measured in square metres, of areas providing passport control for inbound passengers, including the areas occupied by booths and kiosks, and the **Customs** staff operating the control point screening, queuing zones and an area up to two metres after the booths and kiosks on the airside of the control point, but excludes **Customs** and Immigration offices;

passport control (outbound)—floor space means the overall functional floor space, measured in square metres, of areas providing passport control for outbound passengers, including the areas occupied by booths and kiosks, and the **Customs** staff operating the control point screening, queuing zones and an area up to two metres

after the booths and kiosks on the airside of the control point, but excluding **Customs** and Immigration offices;

passport control inbound—notional capacity means the throughput capacity expressed in passengers per hour based on the number of **Customs** booths and automated border processing system kiosks and **Customs** advice regarding the sustainable processing rates for **Customs** booth and kiosk processing, unless a separate agreement has been reached between the **airport** and **Customs**, in which case the agreed maximum rate applies;

passport control outbound—notional capacity means the throughput capacity expressed in passengers per hour, based on the number of **Customs** booths and automated border processing system kiosks and **Customs** advice regarding the sustainable processing rates for **Customs** booth and kiosk processing, unless a separate agreement has been reached between the **airport** and **Customs**, in which case the agreed maximum rate applies;

periodic land revaluation means the value of q calculated using the following formula:

$$q = a - b$$

where:

a = the value of a revaluation resulting from the application of Schedule A of the **IM Determination**; and

b = **indexed revaluation** for the year in which the revaluation resulting from the application of Schedule A of the **IM Determination** occurs;

planned withdrawal means in relation to a **specified airport service** a withdrawal of that service of which the airlines affected by the withdrawal had 24 hours or more notice;

post-tax IRR means the post-tax internal rate of return disclosed in the Report on the Forecast Total Asset Base Revenue Requirements set out in Schedule 18 and the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19 for a **pricing period**, which is calculated based on the **opening investment value**, the **forecast closing investment value** and **forecast net cash flows**;

post-tax WACC has the meaning set out in the **IM determination**;

previous year means the **disclosure year** immediately prior to the current **disclosure year**, and **previous years** has an associated meaning;

price setting event has the meaning set out in the **IM determination**;

pricing asset base means the asset base used by an **airport** to set prices at a **price setting event**;

~~**pricing date** is the day on which a **qualifying debt** is priced;~~

pricing incentives means the value of incentives provided to customers by an **airport** that have the effect of lowering the price paid for **specified airport services** including discounts, rebates, credits, route incentives or reimbursements;

Comment [RMMB48]: See above: All term credit spread related definitions can be deleted.

pricing methodology means the methodology or methodologies used by an **airport** to set **standard prices**, including all material assumptions, pricing principles, models, estimates, calculations and processes used as part of a **price setting event**;

pricing period means:

- (a) the **disclosure years** between two consecutive **price setting events**, inclusive of the years in which the **price setting events** occur; or
- (b) where a **price setting event** is not followed by another **price setting event**, a period of 5 consecutive years starting with a **pricing period starting year**;

pricing period starting year means the first **disclosure year** of a **pricing period**;

property plant and equipment (excluding works under construction) means:

- (a) in respect of an **airport**, the **RAB value**;
- (b) in respect of **airport business—GAAP**, the **RAB value** determined in accordance with **GAAP** but excluding **works under construction**; and
- (c) for **airport company—GAAP**, the value of property plant and equipment of the **airport company** determined in accordance with **GAAP**, but excluding **works under construction**;

proportion of year available means the percentage of the **disclosure year** the **commissioned project** had been **commissioned**;

proportionate regulatory value means the **assets commissioned-RAB value** multiplied by the **proportion of year available**;

proposed risk allocation adjustment means an an **commitment intent** by an **airport** as part of a **price setting event** to adjust the **opening investment value** in a subsequent **price setting event**, subject to views expressed during consultation, for a difference between:

- (a) any component in the Report on the Forecast Total Asset Base Revenue Requirements set out in Schedule 18, or the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19, or the Report on Demand Forecasts set out in Schedule 20; and
- (b) the equivalent component disclosed in accordance with clause 2.3.

publicly disclose, in relation to any information, means to:

- (a) disclose the information to the public on the Internet at the **airport's** usual publicly accessible website;
- (b) make copies of the information available for inspection by any person during ordinary office hours, at the principal office of the **airport** making the public disclosure;
- (c) give notice in the *Gazette* of:
 - (i) that disclosure; and
 - (ii) the uniform resource locator of the Internet site where the information disclosed can be found; and
 - (iii) where hard copies of the information disclosed may be inspected or obtained; and

Comment [RMMB49]: To reflect that airports cannot commit to future pricing outcomes.

- (d) within 10 **working days** of being requested to do so by any person, provide that person with a copy of the information, either by post or for collection (during ordinary office hours) from that principal office, whichever the person prefers; and
- (e) within 5 **working days** after the information is disclosed to the public, provide a copy of the information to the **Commission** in the form that it is disclosed to the public and in an electronic format that is compatible with Microsoft Excel or Microsoft Word (as the case may be),

and **public disclosure** and **publicly disclosing** have corresponding meanings;



qualifying debt means a line of debt, issued by an **airport company** with an **original tenor** greater than five years;

Comment [RMMB50]: See above: All term credit spread related definitions can be deleted.

R

RAB means regulatory asset base;

RAB (tax value) means the value of q calculated using the following formula:

$$q = a + b - c \pm d - e \pm f$$

where:

a = **RAB (tax value)** for the **previous disclosure year**;

b = **regulatory tax asset value of additions**;

c = **regulatory tax asset value of disposals**;

d = **regulatory tax asset value of assets transferred from / (to) unregulated asset base**;

e = **tax depreciation**; and

f = **other adjustments to the RAB tax value**,

in the **initial disclosure year** the **RAB (tax value)** for the **previous disclosure year** will be the tax value of assets included in the RAB as at the beginning of the **initial disclosure year**, to the extent the asset is allocated to the RAB under Part 2 of the **IM determination**;

RAB investment means the value of q calculated using the following formula:

$$q = a + b + c - d$$

where:

a = **commissioned projects**;

b = **other assets commissioned**;

c = **adjustment for merger, acquisition or sale activity**;

d = **asset disposals**;

RAB proportionate investment means the value of q calculated using the following formula:

$$q = a + b + c - d$$

where:

a = the sum of the **proportionate regulatory value of commissioned projects**;

b = the **proportionate regulatory value of other assets commissioned**;

c = the **proportionate regulatory value of adjustments for merger, acquisitions or sale activity**; and

d = the **proportionate regulatory value of asset disposals**;

RAB value means:

- (a) in relation to the **unallocated RAB**, the value of q calculated using the following formula:

$$q = a + b + c - d - e + f + g$$

where:

a = **RAB value** for the previous **disclosure year**;

b = **asset commissioned**;

c = **revaluations**;

d = **regulatory depreciation**;

e = **asset disposals**;

f = **lost and found assets adjustments**

g = **cost allocation adjustments**

;

- (b) in relation to the **RAB**, the **unallocated RAB value** which is allocated to the **regulated activity** in accordance with Part 2 of the **IM determination**;

rates and levy costs means:

- (a) rates on assets used in the provision of **specified airport services** paid or payable by an **airport** to a territorial local authority under the:

(i) Ratings Powers Act 1988; or

(ii) Local Government (Rating) Act 2002; and

- (b) levies payable under s 53ZE of the **Act**;

rationale means a description of the criteria applied and/or the fundamental reasons used for selecting and/or determining each **asset allocator** and associated asset **allocator** and for selecting and/or determining each **cost allocator** and associated cost **allocator** as determined in accordance with Part 2 of the **IM determination**;

record has the meaning set out in s 4 of the Public Records Act 2005;

regulated activity has the meaning set out in the **IM determination**;

regulated supplier has the meaning set out in the **IM determination**;

regulatory / GAAP adjustments means the difference between the financial performance of the **airport business** and the **airport business—GAAP**;

regulatory depreciation means:

- (a) in relation to the **unallocated RAB**, unallocated depreciation as determined in accordance with Part 3 of the **IM determination**;
- (b) in relation to the **RAB**, depreciation as determined in accordance with Part 3 of the **IM determination**;

regulatory investment value or **RIV** means the sum of the **RAB value** for the previous **disclosure year** and the **RAB proportionate investment**;

regulatory profit / (loss) means the **regulatory profit / (loss) before tax** less the **regulatory tax allowance**;

~~**regulatory profit / (loss) before tax** means the **regulatory profit / (loss) before tax & allowance for long term credit spread** less the **allowance for long term credit spread**;~~

Comment [RMMB51]: See above: All term credit spread related definitions can be deleted.

regulatory profit / (loss) before tax & allowance for long term credit spread means the value of q calculated using the following formula:

$$q = a - b + c$$

where:

a = **operating surplus / (deficit)**;

b = **regulatory depreciation**; and

c = **revaluations**;

regulatory tax allowance means the product of the **corporate tax rate** and **net taxable income**, where **net taxable income** is greater than zero;

regulatory tax asset value of additions means the sum of the regulatory tax asset values of asset additions as determined in accordance with clause 4.2 of the **IM determination**;

regulatory tax asset value of disposals means the sum of the regulatory tax asset values of asset disposals immediately prior to the disposal as determined in accordance with clause 4.2 of the **IM determination**;

regulatory tax asset value of assets transferred from/(to) unregulated asset base means the sum of the regulatory tax asset values of assets transferred from/(to) the unregulated asset base immediately prior to the transfer as determined in accordance with clause 4.2 of the **IM determination**, where:

- (a) a transfer to the **airport business** is positive; and
- (b) a transfer from the **airport business** is negative;

regulatory taxable income / (loss) means the value of q calculated using the following formula:

$$q = a + b + c + d - e - f - g - h - i$$

where:

- a* = **regulatory profit / (loss) before tax**;
- b* = **regulatory depreciation**;
- c* = **other permanent differences—not deductible**;
- d* = **other temporary adjustments—current period**;
- e* = **revaluations**;
- f* = **tax depreciation**;
- g* = **notional deductible interest**;
- h* = **other permanent differences—non taxable**; and
- i* = **other temporary adjustments—prior period**;

related party has the meaning set out in the **IM determination**;

related party relationship means a brief description of the relationship between a related party and an **airport**;

revaluation:

- (a) in relation to the **unallocated RAB** has the same meaning as ‘unallocated revaluation’ as set out in the **IM determination**.
- (b) in relation to the **RAB** and the calculation of **regulatory profit / (loss)** has the same meaning as ‘revaluation’ as set out in the **IM determination**;

revalued land means:

- (a) in relation to the **unallocated RAB**, the sum of **unallocated RAB** values from the preceding **disclosure year** of land that has been revalued in accordance with clause 3.7(2) of the **IM Determination** in this **disclosure year**;
- (b) in relation to the **RAB**, the sum of **RAB** values from the previous **disclosure year** of land that has been revalued in accordance with clause 3.7(4) of the **IM Determination** in this **disclosure year**;

Comment [RMMB52]: Formatting remaining from previous determination.

revenue requirement not applicable to price setting event means **forecast total revenue requirement** that is forecast to be earned through **specified airport services** other than those **charged services** to which the **price setting event** relates;

~~**revenue smoothing adjustment** means an adjustment to **forecast total revenue requirement** for a **disclosure year** intended to achieve smoothing of revenue across all **disclosure years** of the **price setting event** (and which should be NPV neutral);~~

Comment [RMMB53]: This has now been removed from Schedule 18

risk allocation adjustment means an adjustment to the **opening investment value** made by an **airport** to reflect a **proposed risk allocation adjustment** from a previous **pricing period**;

Comment [RMMB54]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

ROI—comparable to a post-tax WACC means the value of *q* calculated using the following formula:

$$q = \frac{a}{b} \times 100$$

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

where:

a = **adjusted regulatory profit**; and

b = **regulatory investment value**;

ROI—comparable to a vanilla WACC means the value of q calculated using the following formula:

$$q = \frac{a}{b} \times 100$$

where:

a = **regulatory profit / (loss)**; and

b = **regulatory investment value**;

runway arrival time means the time recorded by air traffic controllers when an arriving aircraft touches down on the runway;

runway busy day, in respect of an **airport**, means the calendar day during the **disclosure year** with the 18th highest number of daily **aircraft movements** for that **airport**;

runway busy hour, in respect of an **airport**, means the clock hour during the **disclosure year** with the 30th highest number of hourly **aircraft movements** for that **airport**;

runway departure time means the time recorded by air traffic controllers when a departing aircraft lifts off the runway;

S

scheduled means:

- (a) in relation to an **interruption**, an aircraft movement to or from an **airport** which is either published in an airline schedule or advised to the **airport** more than seven days in advance, where that aircraft arrived or departed within 15 minutes of that scheduled time, or would have done had it not been for an **interruption** to a **specified airport service**; and
- (b) in all other cases, an aircraft movement to or from an **airport** which is either published in an airline schedule or advised to the **airport** more than seven days in advance;

security screening—floor space means the overall functional floor space, measured in square metres, of areas providing security screening services for **passengers**, including the areas occupied by screening equipment and benches, and the staff operating the screening, queuing zones and an area up to two metres after the benches on the airside of the screening zone, but excludes aviation security offices;

security screening—notional capacity means realistic hourly throughput capacity expressed in **passengers** per hour, based on the number of screening stations and the sustainable processing rate advised by the **Aviation Security Service**, and determined in respect of both:

- (a) security screening facilities other than those that cater for international transit and transfer **passengers**; and

- (b) security screening facilities that cater for international transit and transfer passengers;

~~significant asset means an airport's asset which has an initial RAB value greater than \$5 million;~~

specified airport services has the meaning set out in s 56A of the Act;

specified passenger terminal activities has the meaning set out in s 2 of the Airport Authority Act 1966;

standard depreciation means:

- (a) in relation to the **unallocated RAB**, unallocated depreciation calculated in accordance with clause 3.4(1) of the **IM determination**;
- (b) in relation to the **RAB**, depreciation calculated in accordance with clause 3.4(2) of the **IM determination**;

standard price means the headline price set by an **airport** for the provision of one or more **specified airport services** to airline customers or **passengers**, including where applicable as the result of a **price setting event**;

summary of change means a summary of the change in depreciation approach including:

- (a) in respect of a change in **asset life**, the previous asset life and the current **asset life**; and
- (b) in respect of a change in methodology, the previous methodology and the current methodology;

T

tax depreciation means depreciation determined in accordance with clause 4.1(3)(b) of the **IM determination**;

tax expense means:

- (a) in respect of **airport business—GAAP** or **airport company** financial results, tax as determined in accordance with **GAAP**;
- (b) in respect of an **airport business**, the **regulatory tax allowance**;

tax losses (regulated business) means the value of q calculated using the following formula:

$$q = a + b - c$$

where:

- a = **tax losses (regulated business)** for the previous **disclosure year**;
- b = **current year tax losses**; and
- c = **tax losses used**,

and where in the **initial disclosure year**, **tax losses (regulated business)** for the previous **disclosure year** is zero;

Comment [RMMB55]: This definition was used in the former transitional Schedule 23 when the new ID reporting was introduced. It is now no longer required.

tax losses used means the lesser of **tax losses (regulated business)** for the previous **disclosure year** and the **regulatory taxable income**;

term credit spread difference means, in respect of a **qualifying debt**, the value of q calculated using the following formula:

$$q = a \times b$$

where:

a = the amount determined in accordance with the formula

$$(c - d) - (e - f);$$

except that where that amount is—

less than 0.0015, a is 0.0015; and

more than 0.006, a is 0.006; and

b = the book value in New Zealand dollars of the **qualifying debt** at its **issue date**;

c = the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor equal to, or closest to, the **original tenor** of the **qualifying debt**;

d = the New Zealand swap rate quoted by Bloomberg for a tenor equal to the **original tenor** of the **qualifying debt**;

e = the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor of 5 years;

f = the New Zealand swap rate quoted by Bloomberg for a tenor of 5 years; and

c , d , e and f are determined as at the same time on the same **pricing date** of the **qualifying debt**.

terminal arrival time means the 'on-blocks' time recorded by the airline when an aircraft arrives and stops at its allocated aircraft parking stand;

terminal departure time means the 'off-blocks' time recorded by the airline when an aircraft starts to move off its allocated aircraft parking stand for departure, provided that if an aircraft has to return to a parking stand for any reason, then the terminal departure time is the time the aircraft finally leaves the parking stand;

total directly attributable means the sum of all **directly attributable operating costs** or **directly attributable asset values**;

total financial incentives means the sum of **pricing incentives** and **other incentives**;

total MCTOW means the combined **MCTOW** of:

- (a) **domestic** flights of 3 tonnes or more but less than 30 tonnes **MCTOW**;
- (b) **domestic** flights of 30 tonnes **MCTOW** or more; or
- (c) **international flights**,

as the case may be;

Comment [RMMB56]: See above: All term credit spread related definitions can be deleted.

total not directly attributable means the sum of all **operating costs** not **directly attributable** or **asset values** not **directly attributable**. For the avoidance of doubt, the sum of **total directly attributable** is the total **operating costs** or **asset values** (which ever is applicable);

total passenger terminal functional areas providing passenger facilities and service—floor space means the aggregate of:

- (a) **landside circulation outbound—floor space;**
- (b) **check-in—floor space;**
- (c) **passport control outbound—floor space;**
- (d) **security screening—floor space;**
- (e) **airside circulation outbound—floor space;**
- (f) **departure lounges—floor space;**
- (g) **airside circulation inbound—floor space;**
- (h) **passport control inbound—floor space;**
- (i) **landside circulation inbound—floor space;**
- (j) **baggage reclaim—floor space;**
- (k) **bio-security screening and inspection and Customs secondary inspection—floor space;**
- (l) **arrivals concourse—floor space;** and
- (m) the floor space, measured in square metres, of areas providing general facilities for passengers, including:
 - (i) toilets;
 - (ii) help desks;
 - (iii) information desks;
 - (iv) telephone and internet facilities,but excluding plant/service areas and cleaners' rooms.

For the avoidance of doubt, **total passenger terminal functional areas providing passenger facilities and service—floor space** does not include the floor space of the outbound baggage sortation system;

total regulatory income means the sum of:

- (a) **net operating revenue;**
- (b) **gains / (losses) on asset sales;** and
- (c) **other income;**

but does not include **assets held for future use revenue;**

total revaluations means the sum of **indexed revaluations** and **periodic land revaluations;**

tracking revaluations has the meaning set out in clause 3.11(6)(d) of the **IM determination**, where references to 'excluded asset' should be read as references to **assets held for future use;**

transfer to works under construction means the value of **assets held for future use** transferred to **works under construction** as determined in accordance with clause 3.11 of the **IM determination;**

transit and transfer passenger means:

- (a) in respect of **domestic passengers**, a **passenger** departing on a **domestic** flight, who arrived at the **airport** on a **domestic** flight and was through-checked onto an outward **domestic** flight such that he or she was not required to reclaim any baggage or check in again at the **airport**; and
- (b) in respect of **international passengers**, a **passenger** departing on an international flight, who arrived at the **airport** on an international flight and was not required to pass through passport control outbound;

U

unallocated RAB means the sum of the unallocated opening **RAB** values; or the sum of the unallocated closing **RAB** values; or the sum of any roll forward components (as the case may be), as determined in accordance with the **IM determination**;

unallocated initial RAB value has the meaning set out in the **IM determination**;

unforecast revaluation gain/loss means:

- (a) for **indexed revaluations, periodic land revaluations** from ~~the~~ previous pricing periods **since the last day of disclosure year 2010**;
- (b) for **non-indexed revaluations**, the sum of **periodic land revaluations and indexed revaluations** from ~~the~~ previous pricing periods **since the last day of disclosure year 2010**;

unregulated activities—GAAP means the difference between the **airport company—GAAP** and the **airport business—GAAP**;

unregulated component means the component of **operating costs** or the **unallocated RAB** value of assets not allocated to **regulated activities** in accordance with Part 2 the **IM determination**;

V

value means the recorded value of similar **related party** transactions in respect of each **related party** during a **disclosure year**. For the avoidance of doubt, **capital expenditure** and **asset disposal** transactions require the separate disclosure of the value of each transaction;

vanilla WACC has the meaning set out in the **IM determination**;

W

WACC percentile equivalent means an equivalent to the disclosed estimate that is calculated as the cumulative area under the standard normal distribution for Z where:

- (a) 'Z' is the Z score that corresponds with the inverse of the standard normal cumulative distribution for the percentile of the disclosed estimate, which is calculated as: $Z = \frac{\text{disclosed estimate} - \text{midpoint estimate of WACC}}{\text{standard error of midpoint estimate of WACC}}$
- (b) 'the mid-point estimate of WACC' is the 50th percentile, as published by the Commission in accordance with clause 5.5(2) of the **IM Determination**;
- (c) 'standard error of mid-point estimate of WACC' is 0.0144; and
- (d) 'disclosed estimate' means:

Comment [RMMB57]: The definition is common to both the full Schedule 18 forecast and the pricing asset base forecast (Schedule 19).

The definitions need to be different for different disclosures. The Commission should engage with this issue in technical consultation.

Comment [RMMB58]: Please refer to submission table for comments on this definition.

The amendments proposed here are consistent with our understanding that the Commission does not intend to limit unforecast revaluations to the immediately prior pricing period.

Comment [RMMB59]: As explained in our submission, we disagree with the approach to require airports to apply the WACC percentile equivalent.

- (i) the disclosed estimate for the **forecast cost of capital**; and
- (ii) the disclosed estimate for the **post-tax IRR**;

Example: if the disclosed estimate was 6.00% and the mid-point estimate of WACC was 5.00%, Z would be 0.69. The cumulative area under the standard normal distribution, obtained from a standard normal distribution table, for a Z-score of 0.69 is 0.7549, so in this example the disclosed estimate would be approximately equivalent to the 75th percentile of the Commission's WACC distribution

wash-up means an annual adjustment to prices reflecting actual use and actual costs incurred;

working day has the meaning given to that term in s 2 of the **Act**;

works under construction means:

- (a) subject to paragraphs (c) and (d), in relation to unallocated works under construction, the value of q calculated using the following formula:

$$q = a + b - c$$

where:

a = **works under construction** for the **previous disclosure year**;

b = **capital expenditure**; and

c = **assets commissioned**;

The formula is to be calculated using **unallocated RAB** values.

- (b) subject to paragraphs (c) and (d), in relation to allocated works under construction, the value of the unallocated works under construction (as determined in accordance with paragraph (a)), which is allocated to the **regulated activity** in a manner consistent with either the principles of Part 2 of the **IM determination** or the assumptions used in determining the forecast of **key capital expenditure projects**;
- (c) in relation to works under construction – year ended 2009, the value of those assets or collections of assets as disclosed in the **2009 disclosure financial statements** and which are defined as works under construction in accordance with Part 3 of the **IM determination**;
- (d) in relation to works under construction adjusted – year ended 2009, means works under construction as of the year ended 2009 plus the value of the **MVAU valuation adjustment** for those assets included in works under construction – year ended 2009 (as determined in accordance with paragraph (c)).

PART 2 DISCLOSURE REQUIREMENTS

2.1 Information Disclosure

- (1) Subject to clauses 2.9 and 2.10, from the **commencement date**, every **airport** must comply with the information disclosure requirements set out in this determination and, in particular, must comply with:
 - (a) the requirements to disclose financial and other information in clause 2.3;
 - (b) the requirements to disclose quality information in clause 2.4;
 - (c) the requirements to disclose forecast total revenue requirements and pricing information in clause 2.5;
 - (d) the audit, certification and verification requirements in clauses 2.6 and 2.7; and
 - (e) the retention and continuous disclosure requirements in clause 2.8.

2.2 Applicable Input Methodologies

- (1) Every **airport** must apply the following parts of the **IM determination**, when complying with this determination:
 - (a) Part 2 – Cost Allocation;
 - (b) Part 3 – Asset Valuation; and
 - (c) Part 4 – Treatment of Taxation.

2.3 Annual Disclosure Relating to Financial Information

- (1) ~~Subject to clause 2.10, within~~ **Within** five months after the end of each **disclosure year**, every **airport** must disclose information relating to its financial position by:
 - (a) completing each of the following reports by inserting all information relating to the **specified airport services** supplied by the **airport** for that **disclosure year**:
 - (i) the Report on Return on Investment set out in Schedule 1;
 - (ii) the Report on Regulatory Profit set out in Schedule 2;
 - (iii) the Report on Regulatory Tax Allowance set out in Schedule 3;
 - (iv) the Report on Regulatory Asset Base Roll Forward set out in Schedule 4;
 - (v) the Report on Related Party Transactions set out in Schedule 5;
 - (vi) the Report on Actual to Forecast Expenditure set out in Schedule 6;
 - (vii) the Report on Segmented Information set out in Schedule 7;
 - (viii) the Consolidation Statement set out in Schedule 8;
 - (ix) the Report on Asset Allocations set out in Schedule 9;
 - (x) the Report on Cost Allocations set out in Schedule 10; and
 - (b) **publicly disclosing** each of those reports.
- (2) For the purpose of clause 2.3(1)(a)(vi), the forecast figures that are entered in the Report on Actual to Forecast Expenditure in Schedule 6 must be the same as those that are entered in the most recent Report on the Forecast Total **Asset Base Revenue** Requirements disclosed in accordance with clause 2.5.

Comment [RMMB60]: This clause is not relevant for the publication of annual disclosures.

Comment [RMMB61]: Reflecting the title of Schedule 18.

- (3) For the purpose of clause 2.3(1)(a)(iv), the **depreciation methodology** disclosed in the Report on Regulatory Asset Base Roll Forward set out in Schedule 4 must be the same as the **depreciation methodology** in the **forecast depreciation** component of the latest Report on the Forecast Total Revenue Requirements set out in Schedule 18 that was disclosed in accordance with clause 2.5(1).
- (4) Within five **months** after the end of each **disclosure year**, every **airport** must **publicly disclose** each land valuation report prepared for the purpose of revaluing land in accordance with Schedule A of the **IM determination** and included in the Report on Regulatory Asset Base Roll Forward set out in Schedule 4.

2.4 Annual Disclosure of Quality and Statistics

- (1) Within five **months** after the end of each **disclosure year**, every **airport** must disclose information relating to the quality of its **specified airport services** by:
 - (a) subject to clause 2.4(2), completing each of the following reports by inserting all information relating to the **specified airport services** supplied by the **airport** for that **disclosure year**:
 - (i) the Report on Reliability Measures set out in Schedule 11;
 - (ii) the Report on Capacity Utilisation Indicators for Aircraft and Freight Activities and Airfield Activities set out in Schedule 12;
 - (iii) the Report on Capacity Utilisation Indicators for Specified Passenger Terminal Activities set out in Schedule 13;
 - (iv) the Report on Passenger Satisfaction Indicators set out in Schedule 14;
 - (v) the Report on Operational Improvement Processes set out in Schedule 15;
 - (vi) the Report on Associated Statistics set out in Schedule 16; and
 - (vii) the Report on Pricing Statistics set out in Schedule 17; and
 - (b) **publicly disclosing** each of those reports.
- (2) Every three **months**, for the purpose of completing and **publicly disclosing** the Report on Passenger Satisfaction Indicators set out in Schedule 14, every **airport** must complete a **passenger** satisfaction survey by questionnaire for each of the following **passenger** types, in accordance with clauses 2.4(3) and 2.4(4):
 - (a) **passengers** about to board a domestic flight; and
 - (b) **passengers** about to board an international flight.
- (3) Each passenger survey must conform to the following requirements:
 - (a) each respondent must be a **passenger** about to board a flight;
 - (b) each survey questionnaire must be completed by one respondent only;
 - (c) the margin of error of the surveyed responses to each question for the combined quarterly surveys completed in each disclosure year must be no greater than 5% with a 95% confidence level;
 - (d) the survey design must account for any selection bias arising out of the respondent's choice of destination, airline and date of travel to the extent that such selection bias does not materially affect the accuracy of the results;

- (e) the process for undertaking fieldwork in a manner that avoids bias must be documented, and that documented process must be made available to all individuals undertaking fieldwork;
- (f) survey questionnaires must invite the respondent to assess the quality of each of the service aspects on a five point rating scale, where:
 - 1 = “very dissatisfied” or “poor”;
 - 2 = “somewhat dissatisfied” or “fair”;
 - 3 = “neither satisfied or dissatisfied” or “good”;
 - 4 = “satisfied” or “very good”; and
 - 5 = “very satisfied” or “excellent”; and
- (g) the quarterly score S disclosed for each question in the passenger survey is a weighted average calculated using the following formula:

$$S = \frac{\sum_{I=1}^5 (I \times R(I))}{\sum_{I=1}^5 R(I)}$$

where:

- (i) each of the five possible responses are sequentially labelled with an integer value I , ranging from 1 to 5 in accordance with clause 2.4(3)(f) above; and
 - (ii) $R(I)$ is the number of respondents that returned, in answer to the question, the response labelled I .
- (4) If the design of the passenger survey, including fieldwork and result compilation procedures, changes to the extent that it may materially affect the comparability of results from one disclosed quarter to the next, the nature of the change and the effect of that change on the comparability of the survey must be noted in the survey comments box contained in the Report on Passenger Satisfaction Indicators set out in Schedule 14.
 - (5) The fieldwork documentation required pursuant to clause 2.4(3)(e) above must be made publicly available at the same time as the Report on Passenger Satisfaction Indicators set out in Schedule 14 is **publicly disclosed**. The Internet address of the site containing this documentation must be noted in the survey comments box contained in the Report on Passenger Satisfaction Indicators set out in Schedule 14.

2.5 Disclosure Following Price Setting Event

- (1) Within 40 **working days** following a decision by an **airport** to fix or alter a price that will cause a **price setting event**, or within five consecutive years of the previous disclosure under this clause, an **airport** must disclose information relating to its forecast total revenue requirement by:

- (a) completing each of the following reports by inserting all information relating to the **specified airport services** supplied by the **airport** for that **disclosure year**:
- (i) the Report on Forecast Total Asset Base Revenue Requirements set out in Schedule 18;
 - (ii) the Report on the Pricing Asset Base Revenue Requirements in Schedule 19 in respect of the **pricing asset base**;
 - (iii) the Report on Demand Forecasts set out in Schedule 20; and
- (b) **publicly disclosing** each of those reports; and
- (c) in respect of each of the following components of the Report on the Forecast Total Asset Base Revenue Requirements set out in Schedule 18 and the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19:
- (i) **forecast asset base**;
 - (ii) **forecast cost of capital**;
 - (iii) **forecast operational expenditure**;
 - (iv) **forecast depreciation**;
 - (v) **forecast unlevered tax**;
 - (vi) **forecast revaluations**; and
 - (vii) **other factors**,
- publicly disclosing** a description of how each of these components has been determined, including an explanation of:
- (viii) the rationale for the basis of preparing these components, and any related assumptions;
 - (ix) the extent to which each component is used to determine the forecast total revenue requirement; and
 - (x) Subject to clause 2.10, the differences (if any) between the preparation of each component and the most recent corresponding historical financial information disclosed in accordance with clause 2.3.
- (d) where an **airport** has included a **forecast closing carry forward adjustment** or an **opening carry forward adjustment** in the Report on the Forecast Total Asset Base Revenue Requirements set out in Schedule 18 or the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19, **publicly disclosing**:
- (i) a description of the **opening carry forward adjustment** or **forecast closing carry forward adjustment** and an explanation of how it has been calculated;
 - (ii) a ~~description summary~~ of the **airport's** understanding of customers' ~~views on degree of acceptance of~~ the **pricing approaches reflected in the opening carry forward adjustment** or **forecast closing carry forward adjustment** from the consultation undertaken as part of a **price setting event**;

Comment [RMMB62]: As per our submission, we think this disclosure is unnecessary (we have not repeated this comment for every clause where schedule 19 is mentioned).

Comment [RMMB63]: See the table submission and our submission on the draft decisions for our views on this clause and rationale for proposed amendments.

- (e) where an **airport** has included a **forecast closing carry forward adjustment, publicly disclosing** an explanation of how the **closing investment value** accurately reflects the remaining capital that is currently intended, subject to future consultation, to be recovered by the **airport** over the relevant **pricing period**;
- (f) where an **airport** has not applied the **default cash flow timing assumption** in the calculation of the **post-tax IRR, publicly disclosing** an explanation of and evidence of how forecast cash flow timing is different from the **default cash flow timing assumption**;
- (g) **publicly disclosing** an explanation of any differences between the **post-tax IRR** in:
 - (i) the Report on Forecast Total Asset Base Revenue Requirements set out in Schedule 18; and
 - (ii) the Report on the Pricing Asset Base Revenue Requirements in Schedule 19;
- (h) publicly disclosing the **post-tax WACC** and **WACC percentile equivalent** in:
 - (i) the Report on Forecast Total Asset Base Revenue Requirements set out in Schedule 18; and
 - (ii) the Report on the Pricing Asset Base Revenue Requirements in Schedule 19;
- (i) where the **forecast asset base** is based on a value other than that used for the purposes of the latest disclosure under clause 2.3, **publicly disclosing** the valuation report on which the value of the **forecast asset base** is based;
- (j) where an **airport** has included an **assets held for future use charge, publicly disclosing** information relating to the **airport's forecast assets held for future use** as set out in Schedule 18 and the assumptions and justifications of the **airport's forecast assets held for future use revenue**;
- (k) **publicly disclosing** the **airport's forecast capital expenditure** by category and the aims and objectives of **key capital expenditure projects** as disclosed in accordance with Schedule 18;
- (l) **publicly disclosing**, for the period of five consecutive years immediately following the **price setting event**, a description of each **key capital expenditure project** as disclosed in accordance with Schedule 18, including an explanation of:
 - (i) the process by which the need for the **key capital expenditure project** was determined, including any assessment criteria;
 - (ii) any **consumer** engagement undertaken as part of the process referred to in clause 2.5(1)(l), including a description of how **consumer** demands have been assessed;
 - (iii) any alternative expenditure projects considered, and the rationale for excluding those alternative projects;
 - (iv) the extent to which the **key capital expenditure project** is reflected in pricing; and
 - (v) any constraints or other factors on which successful completion of each **key capital expenditure project** is contingent; and

Comment [RMMB64]: To acknowledge that airports cannot irrevocably commit to future approaches.

Comment [RMMB65]: As per our submission, the airports should not be required to disclose a WACC percentile equivalent.

- (m) **publicly disclosing** any assumptions or justifications of the **airport's forecast operational expenditure** by category as disclosed in accordance with Schedule 18.
- (n) **publicly disclosing** information relating to the **airport's forecast total financial incentives** in accordance with Schedule 18;
- (o) where an **airport** uses a **non-standard depreciation methodology** for the **forecast depreciation** component of the Forecast Total Asset Base Revenue Requirements set out in Schedule 18 or the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19, **publicly disclosing**:
 - (i) a description of the **non-standard depreciation methodology**,
 - (ii) an explanation of how the **non-standard depreciation methodology** is NPV neutral;
 - (iii) an explanation of and evidence of how the **non-standard depreciation methodology** reflects the expected value or utilisation of the **RAB**;
 - (iv) for the first **price setting event** in which the **non-standard depreciation methodology** is applied, the **forecast depreciation** component of the Report on the Forecast Total Asset Base Revenue Requirements set out in Schedule 18 or the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19 that would result from the application of **standard depreciation**;
- ~~(p) where an airport uses **standard depreciation** for the **forecast depreciation** component of the Forecast Total Asset Base Revenue Requirements set out in Schedule 18 or the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19, **publicly disclosing**:~~
 - ~~(i) an explanation of and evidence of how the **standard depreciation methodology** reflects the expected value or utilisation of the **RAB**;~~
 - ~~any **change in forecast asset life**; and~~
 - ~~an explanation of any **change in forecast asset life**;~~
- ~~(q)(p)~~ **publicly disclosing** the **forecast revaluations** of the Forecast Total Asset Base Revenue Requirements set out in Schedule 18 and the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19 using a revaluation approach for each **asset category** that is consistent with the revaluation approach chosen:
 - (i) at a **price setting event**; and
 - (ii) pursuant to clause 3.7 of the **IM Determination**;
- ~~(r) publicly disclosing the **forecast IM CPI** value and **forecast pricing CPI** value used as part of any **indexed revaluation** approach that makes up the **forecast revaluations** component of:~~
 - ~~(i) the Forecast Total Asset Base Revenue Requirements set out in Schedule 18; and~~
 - ~~(ii)(iii) the Report on the Forecast Pricing Asset Base Revenue Requirements set out in Schedule 19;~~

Comment [RMMB66]: If airports are using the standard IM approach to depreciation, an additional explanation is unnecessary.

Comment [RMMB67]: Please refer to cover submission at page 7.

~~(s)(q)~~ where an **alternative methodology with equivalent effect** is used as part of the Report on the Forecast Total Asset Base Revenue Requirements set out in Schedule 18, **publicly disclosing**:

- (i) a description of the **alternative methodology with equivalent effect**;
- (ii) the component of the Report on the Forecast Total Revenue Requirements set out in Schedule 18 to which the **alternative methodology with equivalent effect** has been applied;
- (iii) an explanation of the reasons for the application of the **alternative methodology with equivalent effect**; and

~~(+)(r)~~ **publicly disclosing** for each service that is included in **revenue requirement not applicable to price setting event** as disclosed in accordance with Schedule 18:

- (i) a description of the service;
- (ii) the forecast total revenue requirement that is forecast to be earned from the service for each **disclosure year** of the **price setting event**;
- (iii) the revenue earned from the service during the most recent **disclosure year**; and
- (iv) reference to any price setting event that the service has been applicable;

(2) Within 40 **working days** following a decision by an **airport** to fix or alter a price that will cause a **price setting event**, the **airport** must **publicly disclose** an overview of the **airport's pricing methodology** used to set prices as part of the **price setting event**, including:

- (a) a summary of the **airport's pricing methodology**; and
- (b) to the extent related to the **price setting event**, a description of:
 - (i) **charged services**; and
 - (ii) the relationship between the quality of service provided and the cost for each **charged service**; and
 - (iii) the methodology used to allocate costs to particular **charged services**; and
 - (iv) significant changes to prices for **charged services**, including any rebalancing of prices, compared with equivalent services provided during the previous **pricing period**; and
 - (v) the methodology for determining the proposed prices for **charged services**, and how those prices are reconciled with the forecast total revenue requirement; and
 - (vi) any terminal access charges (even if these are bundled into other charges) and the methodology for determining any differentiation in terminal access charges on the basis of the means of access to the terminal (such as airbridge access, transfer bus access or walking access); and
- (c) an explanation of the extent to which the **airport** considers that the application of the **pricing methodology** will lead to efficient prices, including whether there are any cross-subsidies.

- (3) Within 40 **working days** following a decision by an **airport** to fix or alter a price that will cause a **price setting event**, and within 5 **months** following the end of each **disclosure year**, an **airport** must **publicly disclose** a list of the **airport's standard prices** for all **specified airport services**, including whether the **standard prices** are inclusive or exclusive of **GST**.

2.6 Auditor's Reports

- (1) Where an **airport** is required to **publicly disclose** any **audited disclosure information**, the **airport** must:
- (a) procure a report by an **independent auditor** in respect of that **audited disclosure information** that is addressed to directors and signed by the **independent auditor** (either in his or her own name or that of his or her firm), stating:
- (i) a duty of care to the Commission;
 - (ii) the work done by the **independent auditor**; and
 - (iii) the scope and limitations of the audit; and
 - (iv) the existence of any relationship (other than that of auditor) which the **independent auditor** has with, or any interests which the **independent auditor** has in, the **airport** or any of its subsidiaries; and
 - (v) whether the **independent auditor** has obtained all information and explanations that he or she required and, if not, the information and explanations not obtained; and
 - (vi) subject to clause 2.6(3), whether, in the **independent auditor's** opinion, as far as appears from an examination of them, proper **records** to enable the complete and accurate compilation of required information have been kept by the **airport**; and
 - (vii) subject to clause 2.6(2), whether (and, if not, the respects in which it does not), in the **independent auditor's** opinion, the **audited disclosure information** complies with this determination; and
- (b) **publicly disclose** the **independent auditor's** report prepared in accordance with clause 2.6(1)(a) at the same time as the **airport publicly discloses** the **audited disclosure information**.
- (2) For the purpose of clause 2.6(1)(a)(vii), complies with this determination means:
- (i) in respect of historical financial information **publicly disclosed** pursuant to clause 2.3(1), whether (and, if not, the respects in which it does not), in the **independent auditor's** opinion, that information has been prepared in all material respects in accordance with this determination; and
 - (ii) subject to clause 2.6(3), in respect of historical non-financial information **publicly disclosed** pursuant to clause 2.4(1), whether (and, if not, the respects in which it does not), in the **independent auditor's** opinion, the **airport** has complied in all material respects with the requirements, including guidance (if any) issued pursuant to this determination, and the information is based on the **records** examined under clause 2.6(1)(vi).

- (3) In respect of non-financial information, **independent auditors** may rely on **records** that are sourced from a third party.

2.7 Certificates

- (1) Where an **airport** is required to **publicly disclose** any information pursuant to either of clauses 2.3(1) or 2.4(1), the **airport** must at that time **publicly disclose** a certificate in the form set out in Schedule 21 in respect of that information, duly signed by two **directors** of the **airport**.
- (2) Where an **airport** is required to **publicly disclose** any information pursuant to clause 2.5 (except pursuant to clause 2.5(1)(q)), the **airport** must at that time **publicly disclose** a certificate in the form set out in Schedule 22 in respect of that information, duly signed by two **directors** of the **airport**.
- (3) ~~Where an **airport** is required to **publicly disclose** any information pursuant to clause 2.5(1)(s), the **airport** must at that time **publicly disclose** a certificate in the form set out in Schedule 23 in respect of that information, duly signed by one **senior manager** of the **airport**.~~

Comment [RM68]: NZ Airports is of the view that there are sufficient safeguards around the alternative methodology with equivalent effect without the need for certification (as outlined in our cross submission at page 9).

2.8 Retention and Continuing Disclosure

- (1) An **airport** that is required by this determination to **publicly disclose** any information must retain, and continuously **publicly disclose**, that information for at least seven years from the date that information is first required to be **publicly disclosed**.

2.9 Exemptions

- (1) The **Commission** may at any time, by written notice to an **airport**:
 - (a) exempt the **airport** from any or all of the requirements of this determination, for a period and on such terms and conditions as the **Commission** specifies in the notice; and
 - (b) amend or revoke any such exemption.

2.10 Transitional Provisions

- (1) When complying with clause 2.5(1) for the first **price setting event** after 31 December 2016, Auckland International Airport Limited and Christchurch International Airport Limited (or their subsidiaries and successors) must complete the Transitional Report on Regulatory Asset Base Value in Schedule 24 by:
 - (a) inserting all information relating to the **specified airport services** supplied by the **airport** for the **disclosure year** ending on 30 June 2016, to the extent that the information required to be disclosed in Schedule 24 differs to the most recent corresponding historical financial information disclosed in accordance with clause 2.3;
 - (b) **publicly disclosing** an explanation of the differences (if any) between the preparation of each component of the first Report on the Forecast Total Revenue Requirements set out in Schedule 18 prepared after 31 December 2016 and:

- (i) the corresponding historical financial information prepared and disclosed in accordance with clause 2.10(1)(a); and
- (ii) for the financial information that was not disclosed under clause 2.10(1)(a), the most recent corresponding historical financial information disclosed in accordance with clause 2.3.

Dr Mark Berry, *Chair*

Sue Begg, *Deputy Chair*

Dr Stephen Gale

Dr Jill Walker

Dated at Wellington this 22nd day of [xx] 2016.

COMMERCE COMMISSION

Draft Amendment to the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010

Appendix Three - Pricing Disclosure Schedules marked-up

Attached separately to email

Appendix Four - Annual Disclosure Schedules marked-up

Attached separately to email