

## **Airport Services – s 56G Reports**

**Process and issues in the review of Christchurch International Airport and update on Auckland International Airport review process**

## **Chapter 1: Introduction**

### **Purpose of this paper**

1. This paper sets out our process for reporting to the Ministers on how effectively information disclosure regulation is promoting the purpose of Part 4 of the Commerce Act 1986 (Act) in relation to Christchurch International Airport Limited (Christchurch Airport).
2. It also provides indicative timings for the draft and final report in relation to Auckland International Airport Limited (Auckland Airport).
3. We also seek interested persons' response to questions on Christchurch Airport's disclosures (see Attachment 1).

### **What we have been asked to do**

4. Section 56G(1) of the Act requires the Commission to report to the Ministers of Commerce and Transport as to how effectively information disclosure regulation is promoting the purpose in s 52A(1) of the Act in respect of specified airport services regulated under Part 4. These specified airport services are supplied by Auckland, Wellington and Christchurch Airports (the airports).
5. We are required to carry out our review and report to the Ministers as soon as practicable after any new price for a specified airport service is set in or after 2012.
6. How we are carrying out this review is set out in our paper entitled 'Update on process and scope' 27 July 2012, which can be located on our website at <http://www.comcom.govt.nz/assets/Airports/s56/Airports-s56G-Update-on-Process-and-Scope-27-July-2012.pdf>

### **We seek your views on Christchurch Airport's disclosures**

7. We seek your response to the questions in Attachment 1 on Christchurch Airport's disclosures. However, you are also welcome to comment on our process and to provide any other information that you consider we should have regard to in carrying out the review of Christchurch Airport's disclosed information. We ask that you clearly indicate the source of your information, and why we can and should have regard to that information.
8. Some of the questions in Attachment 1 were also raised in the context of Wellington Airport's and Auckland Airport's disclosures, so submitters who have already responded to those questions may wish to simply cross-refer to their earlier submissions on our website.

**Process for submissions**

9. All submissions must be received by the Commission no later than 5pm on 8 March 2012. Cross submissions are due no later than 5pm on 22 March 2012.
10. To foster an informed and transparent process, we intend to publish all submissions and cross submissions on our website. We therefore request an electronic copy of each submission, and ask that interested persons not provide hard copies of submissions (unless an electronic copy is not available). Electronic copies should be provided in an accessible form (ie. they are 'unlocked' and text can easily be transferred). If the submission contains confidential information, or if the submitter wishes that the published version be 'locked', an additional document labelled "public version" should be provided.
11. We discourage requests for non-disclosure of submissions, as it is desirable to test all information in a fully public way. However, we recognise that there may be cases where parties may wish to provide confidential information to us. If it is necessary to do so, the information should be clearly marked, with reasons why that information is confidential. The responsibility for ensuring that confidential information is not included in the public version of a submission rests entirely with the party making the submission.

## CHAPTER 2: Process and timings

### We will follow the same process for all three airports

12. As set out in our July 2012 update paper (see paragraph 5 above), for each of the airports we will:
  - 12.1 review the information disclosed under Part 4 and the price-setting consultation documentation as it becomes available for each airport;
  - 12.2 review the information disclosed in consultation during this review process and in response to any requests for information under our information-gathering powers under the Act;
  - 12.3 hold a conference prior to preparing draft reports to ensure that we have all the relevant information, and to test the views and ensure we understand any differences of opinion;
  - 12.4 consult with parties on our draft reports. Once we receive submissions on each draft report, we will also consider whether a further conference is necessary before finalising our report to the Ministers; and
  - 12.5 prepare a final report on each of the airports.
13. We will provide indicative timeframes for the steps outlined in paragraph 12.3 to 12.5 for the Christchurch Airport review process once we have considered cross-submissions on the Auckland Airport conference.

### Update on timeframes for completing the Auckland Airport review

14. Our expected timeframes for the draft and final report for Auckland Airport are provided below.

<b>Process for Auckland Airport</b>	<b>Indicative timeframes</b>
Conference paper	19 February 2013
Conference	26 February 2013
Cross-submissions on conference	15 March 2013
Draft report	Late April 2013
Final report to Ministers	Late July 2013

## **ATTACHMENT 1**

### **Questions relating to Christchurch Airport**

15. We are interested in hearing from you on the following questions relating to Christchurch Airport's disclosures and consultation process. These questions are intended to elicit information necessary to understand airport performance and therefore how effectively information disclosure regulation is promoting the purpose of Part 4.
16. We seek your responses to the following overarching questions for all aspects of performance.
  - 16.1 Has information disclosure had any impact on Christchurch Airport's performance and/or in understanding Christchurch Airport performance relative to the first price setting event (PSE1), and why?
  - 16.2 Has information disclosure had any impact on the effectiveness and scope of consultation as part of Christchurch Airport's second price setting event (PSE2) relative to PSE1, and why?
  - 16.3 What aspects of performance and conduct should we focus our efforts on for this review for Christchurch Airport?
17. We are also seeking your responses to more specific questions provided below. Submissions are not limited to the issues raised in these questions, and we ask that you highlight any additional issues in your response, and explain why they are important.

### **Is Christchurch Airport earning an appropriate economic return over time?**

- 17.1 Is Christchurch Airport targeting an appropriate return, and why?
- 17.2 Are there any indicators of superior performance that would justify Christchurch Airport earning higher than normal profits?
- 17.3 What wash-ups, discounts or other discretionary adjustments have been applied to the forecast revenue requirements?
- 17.4 How reasonable is Christchurch Airport's revenue forecast for the second PSE compared to the first PSE forecasts, and why?
- 17.5 To what extent did actual results for the first PSE differ from forecasts, and why?
- 17.6 What is the effect of differences, if any, between cost allocation methodologies and cost categories used for 2011/12 historical reporting under information disclosure and the second PSE price-setting?

- 17.7 How reasonable are Christchurch Airport's asset valuations, and why?
- 17.8 What do parties consider to be the most likely basis of asset valuation used to set prices after 2017?
- 17.9 Has Christchurch Airport appropriately excluded assets held for future use?
- 17.10 Do parties consider that the prices set for PSE2 will result in a permanent under-recovery of \$16 million, as stated in the Executive Summary of the 2012 Pricing Decision on page 7 of Christchurch Airport's Price Setting Disclosure?
- 17.11 Do parties consider the prices set by Christchurch Airport will result in an appropriate recovery of the tax allowance?
- 17.12 Is Christchurch Airport's approach using a pre-tax WACC likely to cause any issues either in the long-term or for this section 56G review?
- 17.13 Are there any issues likely to result from Christchurch Airport's use of a 4.5 year pricing period rather than a full five year period?

**Is Christchurch Airport operating and investing in their assets efficiently?**

- 17.14 Where and when do any capacity constraints occur at Christchurch Airport, and is additional investment necessary to address these constraints?
- 17.15 How reasonable are Christchurch Airport's opex and capex forecasts for the second PSE, and how do these compare to forecast and actual expenditure from the first PSE?
- 17.16 What factors outside Christchurch Airport's control have contributed to the capex and opex forecast for the second PSE and to changes in expenditure since the first PSE?
- 17.17 What role did information disclosure regulation play in consultations concerning Christchurch Airport's expenditure forecasts?
- 17.18 What effect has information disclosure regulation had on the efficiency of Christchurch Airport's investment and operational expenditure?

**Is Christchurch Airport innovating where appropriate?**

- 17.19 How does the level of innovation at Christchurch Airport compare to innovation at other airports both domestic and international?
- 17.20 What innovation activities have been undertaken or are forecast to be undertaken by Christchurch Airport, and why?
- 17.21 How receptive is Christchurch Airport to innovation activity led by airlines?

- 17.22 How does the level of innovation at Christchurch Airport compare now to prior to the introduction of information disclosure regulation?

**Is Christchurch Airport providing services at a quality that reflects consumer demands?**

- 17.23 What changes in quality have occurred since information disclosure regulation was introduced?
- 17.24 What, if any, aspects of quality do you think should or could be improved (or potentially lowered) at Christchurch Airport?
- 17.25 What consultation was undertaken on aspects of service quality during Christchurch Airport's second PSE? How does this differ from consultation on quality at the first PSE?
- 17.26 What role did information disclosure play in consultations concerning service quality during Christchurch Airport's second PSE?

**Is Christchurch Airport sharing the benefits of efficiency gains with consumers, including through lower prices?**

- 17.27 How do the prices set by Christchurch Airport for PSE2 reflect previous efficiency gains? How did the prices set by Christchurch Airport for the first PSE reflect previous efficiency gains?
- 17.28 Does Christchurch Airport have any mechanism to share any efficiency gains with consumers during the pricing period?

**Do the prices set by Christchurch Airport promote efficiency?**

- 17.29 How reasonable is Christchurch Airport's demand forecast for the second PSE compared to the forecast from the first PSE, and why?
- 17.30 To what extent do changes in the pricing structure at Christchurch Airport at the second PSE better reflect efficient pricing principles (for example, are prices subsidy-free, do they have regard to service capacity, do they take account of consumers' price sensitivity) relative to the first PSE?
- 17.31 How appropriate is the allocation of costs between services?
- 17.32 To what extent have airlines and other consumers of Christchurch Airport's services been able to make price-quality trade-offs that best meet their needs for the second PSE? How does this compare with the first PSE?
- 17.33 To what extent do Christchurch Airport's prices promote certainty and stability? How does this compare relative to the first PSE?
- 17.34 How do airlines and other consumers of Christchurch Airport's services expect their demand to change in response to the prices set by Christchurch Airport in the second PSE?

- 17.35 What impact has information disclosure had on the pricing methodology set by Christchurch Airport for the second PSE?

**What are the strengths and weaknesses of the current information disclosure requirements?**

- 17.36 How much of the information disclosed during the recent price setting round would have been publicly disclosed, or disclosed to airlines, in the absence of information disclosure regulation?
- 17.37 What are the benefits to Christchurch Airport, airlines and other consumers of Christchurch Airport's services of using the information disclosed?
- 17.38 What additional information could be added to the current information disclosure requirements that would better help you assess whether the purpose of Part 4 is being met?