



Airport Services – s 56G Reports

Process update

**and opportunity to submit on the review of Auckland
International Airport**

Chapter 1: Introduction

Purpose of this paper

1. This paper sets out our process and indicative timings 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 Auckland International Airport Limited (AIAL).
2. It also provides revised timings for the draft and final report in relation to Wellington International Airport Limited (WIAL), and signals that we will provide our proposed timings in relation to Christchurch International Airport (CIAL) once CIAL has set its new prices.
3. We also seek interested persons' response to questions on AIAL's disclosures (refer 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 (ID) regulation is promoting the purpose in s 52A(1)¹ of the Act in respect of specified airport services² regulated under Part 4. These specified airport services are supplied by AIAL, WIAL and Christchurch International Airport Limited (CIAL) (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 2012.³
6. How we are carrying out this review is set out in our paper entitled 'Update on process and scope', which can be located on our website at <http://www.comcom.govt.nz/section-56g-reports/>

We seek your views on AIAL's disclosures

7. We seek your response to questions on AIAL's disclosures, however you are also welcome to comment on our process and to provide any other information that you

¹ The purpose of Part 4 is to promote the long-term benefit of consumers in markets where there is little or no competition and little or no likelihood of a substantial increase in competition. How this is to be done is by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services—(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and (c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and (d) are limited in their ability to extract excessive profits.

² Refer s 56A.

³ Refer s 56G(1).

consider we should have regard to in carrying out the review of AIAL'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 WIAL'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 19 October 2012. Cross submissions are due no later than 5pm on 2 November 2012.
10. To foster an informed and transparent process, we intend to publish all submissions and cross submissions on our website. Accordingly, we 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

12. As set out in our update paper (refer paragraph 5 above), 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.

Wellington International Airport

13. We have completed the first of these three stages in relation to WIAL's disclosures. We anticipate that our draft report will be released for consultation in the week of 15 October and the final report in the week of 17 December.

Christchurch International Airport

14. The timing of the CIAL report depends on the timing of their price setting decisions. We will confirm timeframes and seek information specific to CIAL once they set new prices.

Auckland International Airport

15. The process and timeframes for AIAL are provided in the table below.
16. The following table sets out our proposed process and timings for reporting to the Ministers in relation to AIAL.

Process	Indicative timeframes
Process and Issues paper	7 September 2012
Submissions	Due 19 October 2012
Cross-submissions	Due 2 November 2012
Conference paper	27 November 2012

Conference	5 December 2012
Cross-submissions on conference	Due 21 December 2012
Draft report	February 2013
Submissions and cross-submissions	March 2013
Final report to Ministers	April/May 2013

17. We will update the timeframes for the AIAL draft report when we have considered cross-submissions on the conference.

ATTACHMENT 1

Questions relating to AIAL

We are interested in hearing from you on the following questions relating to AIAL's disclosures and consultation process. These questions are intended to elicit information necessary to understand airport performance and therefore how effectively ID regulation is promoting the purpose of Part 4.

1. We seek your responses to the following overarching questions for all aspects of performance.
 - 1.1 Has information disclosure had any impact on AIAL's performance and in understanding AIAL performance relative to the first price setting event (PSE), and why?
 - 1.2 Has information disclosure had any impact on the effectiveness and scope of consultation as part of AIAL's second PSE relative to the first PSE, and why?
 - 1.3 What aspects of performance and conduct should we focus our efforts on for this review for AIAL?
2. 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.
3. Is AIAL earning an appropriate economic return over time?
 - 3.1 What is an appropriate level of target return for AIAL, and why is the level appropriate?
 - 3.2 What is an appropriate level to reflect normal performance, and why?
 - 3.3 What is an appropriate level to reflect superior performance, and why?
 - 3.4 Have there been any wash-ups, discounts or other discretionary adjustments to the forecast revenue requirements. If so, how should these be dealt with for assessing profitability?
 - 3.5 How reasonable is AIAL's revenue forecast for the second PSE compared to the first PSE forecasts, and why?
 - 3.6 To what extent did actual results for the first PSE differ from forecasts, and why?
 - 3.7 To what extent is the difference between forecast revenue and actual revenue disclosed under ID for 2011 and 2012 different due to changes in

demand and what is the dollar value difference in each year due to the changes in demand?

- 3.8 How do the asset values used for the second PSE pricing purposes reconcile to the asset values disclosed under ID ?
 - 3.9 What differences (including dollar value effects) are there between cost allocation methodologies and cost categories used for ID disclosure and the second PSE price-setting?
 - 3.10 How reasonable are AIAL's asset valuations, and why?
 - 3.11 What is the appropriate treatment for pricing purposes of assets held for future use?
4. Is AIAL operating and investing in their assets efficiently?
- 4.1 Where and when do any capacity constraints occur at AIAL, and is additional investment necessary to address these constraints?
 - 4.2 What factors outside AIAL's control have contributed to the capex and opex forecast for the second PSE and to changes in expenditure since the first PSE?
 - 4.3 How reasonable are AIAL's opex and capex forecasts for the second PSE, and how do these compare to forecast and actual expenditure from the first PSE?
 - 4.4 To what extent does the demand forecast presented by AIAL as part of the second PSE accurately reflect expectations of future demand, and why?
 - 4.5 How reasonable is AIAL's demand forecast for the second PSE compared to the forecast from the first PSE?
 - 4.6 What role did information disclosure regulation play in negotiations concerning AIAL's expenditure forecasts?
 - 4.7 What impact has information disclosure regulation had on the efficiency of AIAL's investment and operational expenditure?
5. Is AIAL innovating where appropriate?
- 5.1 How does the level of innovation at AIAL compare to innovation at other airports both domestic and international?
 - 5.2 What research and development (R&D) or innovation activities have been undertaken or are forecast to be undertaken by AIAL and what was the outcome these activities (if they have been undertaken), or the expected outcome?
 - 5.3 How receptive is AIAL to innovation activity led by airlines?

- 5.4 How does the level of R&D and innovation activities compare now to activities prior to the introduction of information disclosure regulation?
- 5.5 What innovation has occurred in other airports in New Zealand or overseas in recent years?
6. Is AIAL providing services at a quality that reflects consumer demands?
 - 6.1 What changes in quality have occurred since ID regulation was introduced?
 - 6.2 What, if any, aspects of quality do you think should or could be improved (or potentially lowered) at AIAL?
 - 6.3 What consultation was undertaken on aspects of service quality during AIAL's second PSE? How does this differ from consultation on quality at the first PSE?
 - 6.4 What role did information disclosure play in negotiations concerning service quality during AIAL's second PSE?
 - 6.5 Do the current ID requirements capture the right measures of quality?
7. Is AIAL sharing the benefits of efficiency gains with consumers, including through lower prices? Do the prices set by AIAL promote efficiency?
 - 7.1 How do the prices set by AIAL reflect previous efficiency gains? How did the prices set by AIAL for the first PSE reflect previous efficiency gains?
 - 7.2 To what extent do changes in the pricing structure at AIAL 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?
 - 7.3 To what extent have airlines and other consumers of AIAL'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?
 - 7.4 To what extent to AIAL's prices promote certainty and stability? How does this compare relative to the first PSE?
 - 7.5 How do airlines and other consumers of AIAL's services expect their demand to change in response to the prices set by AIAL in the second PSE?
 - 7.6 What impact has information disclosure had on the pricing methodology set by AIAL for the second PSE?
8. Comparator airports
 - 8.1 What airports provide a useful benchmark for assessing the performance of AIAL, and why?

9. What are the strengths and weaknesses of the current ID requirements?
 - 9.1 What are the additional costs to AIAL of complying with information disclosure?
 - 9.2 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?
 - 9.3 What are the benefits to AIAL, airlines and other consumers of AIAL's services of using the information disclosed?
 - 9.4 What additional information (not captured in responses to the questions above) could be added to the current ID requirements that would better help you assess whether the purpose of Part 4 is being met?