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Public version

Airports backward-looking profitability information disclosure amendments – workshop

Summary of views expressed

Date of publication: 7 March 2019

Purpose of this paper

1. This paper provides a summary of views expressed by participants of the airports backward-looking profitability information disclosure amendments workshop.

Background

2. The 2016 input methodologies review resulted in a change to the approach for assessing profitability in our forward-looking information disclosure requirements for airport services.¹
3. On 17 January 2019 we published a process paper that outlined our intention to align our backward-looking profitability information disclosure requirements with our forward-looking profitability information disclosure requirements.²
4. We intend to publish a draft decision in March 2019 and a final decision in May 2019.

Workshop purpose and objectives

5. The purpose of this workshop was to seek stakeholder views on how the backward-looking profitability disclosure requirements might be amended. Workshop participants views will inform our draft decision. Formal views on the draft decision will be sought from stakeholders as part of the submission process.
6. The objectives of the workshop were:
 - 6.1. to provide stakeholders with an overview of the Commission staff's emerging view on how we might assess backward-looking profitability in the future; and
 - 6.2. to give stakeholders an opportunity to present their views on how backward-looking profitability should be assessed.

Workshop format and process

7. The workshop used a round table format to allow an open discussion and exchange of information between workshop participants. The workshop papers can be found on our website.³

¹ Commerce Commission "Airport Services Information Disclosure Amendments Determination 2016, [2016] NZCC 29" (20 December 2016).

² Commerce Commission "Airports backward-looking profitability information disclosure amendments – process paper" (17 January 2019).

³ <https://comcom.govt.nz/regulated-industries/airports/projects/airports-backward-looking-profitability-id-amendments>.

8. Any views expressed by our staff at the workshop were for the purpose of stimulating discussion and were not intended to reflect the views of the Commission. The Commission's position will be provided in the draft decision.

Workshop date and venue

9. The workshop was held on 22 February 2019 at the New Zealand Medical Association conference centre, 26 The Terrace, Wellington.

Outcome of the workshop

10. The workshop was attended by key airport services stakeholders.⁴
11. The workshop generally followed the agenda and the discussions were supported by the workshop papers.⁵
12. Commission staff appreciated the open discussion, and we would like to thank participants for their contribution to the outcome of the workshop.
13. A summary of views expressed at the workshop is included in Attachment C.

⁴ The list of attendees is attached to this document as Attachment A.

⁵ The agenda is attached to this document as Attachment B. The workshop papers can be found on our website at <https://comcom.govt.nz/regulated-industries/airports/projects/airports-backward-looking-profitability-id-amendments>.

Attachment A: Workshop attendees

No.	Representing	Name	Role
1	Auckland International Airport Limited (AIAL)	Adrienne Darling	Head of Economic Regulation and Pricing
2	AIAL	Mathew Ling	Economic Regulation & Pricing Advisor
3	AIAL	Hayden Ng	Corporate Analyst
4	Air New Zealand Limited (Air New Zealand)	Sean Ford	Manager Aeronautical Suppliers
5	Board of Airline Representatives of New Zealand Inc (BARNZ)	Ian Ferguson	Manager, Pricing and Policy
6	Commerce Commission	Elijah Abraham-Beermann	Legal Counsel
7	Commerce Commission	Hamish Groves	Contractor
8	Commerce Commission	James Marshall	Senior Economist
9	Commerce Commission	Laura Davidson	Analyst
10	Christchurch International Airport Limited (CIAL)	Stuart Sutherland	Aeronautical Regulatory Specialist
11	CIAL	Tim May	Chief Financial Officer
12	NZ Airports Association (NZ Airports)	Mike Basher	Director, Kooba Limited
13	NZ Airports	Kevin Ward ⁶	Chief Executive
14	Wellington International Airport Limited (WIAL)	Jenna Raeburn ⁷	Head of Regulatory Affairs

⁶ Kevin Ward was present for slides 43-61 of the workshop papers. Commerce Commission “Airports Profitability Assessments” (22 February 2019).

⁷ Jenna Raeburn was present for slides 1-27 of the workshop papers. Commerce Commission “Airports Profitability Assessments” (22 February 2019).

Attachment B: Workshop agenda

Ref	Start	Session topic and discussion points	Duration
1	9.30	Introduction and welcome	10 min
2	9.40	Agenda and purpose of the workshop	10 min
3	9.50	Regulatory framework	15 min
4	10.05	IRR disclosures	25 min
	10.30	Morning tea	30 min
5	11.00	Forecast annual IRR	25 min
6	11.25	Rolling forward the Carry forward balance	25 min
7	11.50	Cash flow timing assumptions and time use of money	25 min
	12.15	Lunch	60 min
8	1.15	Other amendments	25 min
9	1.40	Airports to set prices as they see fit	25 min
10	2.05	Summary and analysis	25 min
11	2.30	Transiting to the new requirements	20 min
12	2.50	Closing comments	10 min

Attachment C: Summary of views

Introduction

1. This attachment is a summary of the views expressed at the workshop. The summary of views has been grouped as per the topics in the workshop paper. However, due to the interrelationship of the problems identified in this topic, the views as outlined below may have been covered off in an alternative order during the workshop.

Workshop purpose

2. The workshop purpose was discussed as outlined in slide 4 of the workshop papers.⁸ Commission staff noted:
 - 2.1. Participants views will inform the Commission's draft decision;
 - 2.2. Formal views on the draft decision will be sought from stakeholders as part of the draft decision;
 - 2.3. Minutes will be taken outlining points of preliminary agreement between participants; and
 - 2.4. any views expressed in the workshop papers or at the workshop are those of Commission staff only.

Regulatory framework

3. The regulatory framework for possible amendments to the Airport Services Information Disclosure Determination 2010 (**ID**) was discussed as outlined in slides 7-12 of the workshop papers.⁹

Internal rate of return (IRR) disclosures

4. The topic 'IRR Disclosures' was discussed as outlined in slides 14-27 of the workshop papers.¹⁰
 - 4.1. In relation to slides 18-20 of the workshop papers, there was preliminarily agreement that an actual return would need to be compared to a forecast return.

⁸ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

⁹ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

¹⁰ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

- 4.2. In relation to slides 21-24 of the workshop papers, there was preliminary agreement that ID should assess backward-looking profitability both annually and in relation to the pricing period to date. It is noted that NZ Airports questioned the relevance of annual disclosures for all years of the pricing period, noting that period to date may be sufficient.
- 4.3. In relation to slides 25-27 of the workshop papers:
- 4.3.1. BARNZ noted that they did see the value in backward-looking pricing asset base profitability information being made available, but they understood the complexity in airports providing this.
 - 4.3.2. NZ Airports suggested that segmenting of assets by pricing and non-pricing assets would be resource intensive as it would require alternative asset and cost allocations to those already published.
 - 4.3.3. AIAL suggested that backward-looking pricing asset base profitability information would carry high compliance costs and indicated that as it is not currently systematised, AIAL would require new resources to disclose this information.
 - 4.3.4. AIAL also suggested that the current segmented specified airport activity of Aircraft & Freight Activity might provide a good proxy for the non-priced asset outcomes.
 - 4.3.5. NZ Airports suggested that segmenting of assets by pricing and non-pricing assets would require duplicate disclosures in Schedules 9 and 10.
 - 4.3.6. NZ Airports noted that information additional to regulatory asset base profitability could be obtained through other means, such as a notice to airports under s 53ZD of the Commerce Act 1986 (the Act) if it is later required.
 - 4.3.7. NZ Airports also suggested that if pricing asset base profitability information is required, then the Commission should consider the benefit of continuing to require current segmented information.
 - 4.3.8. Parties agreed that detailed lower-level variance information between years may not be necessary.

Forecast annual IRR

5. The topic 'Forecast annual IRR' was discussed as outlined in slides 28-32 of the workshop papers.¹¹
 - 5.1. Commission staff sought views on whether airports have the appropriate information to disclose annual forecast IRRs. Airports preliminarily agreed that they have the appropriate information to disclose annual forecast IRRs.

Rolling forward the Carry forward balance

6. The topic 'Rolling forward the Carry forward balance' was discussed as outlined in slides 33-36 of the workshop papers.¹²
 - 6.1. In relation to slide 36, Commission staff sought views on whether there is anything that should be in the ID carry-forward balance (other than a mechanism which accounts for default revaluation gain/loss adjustment, risk allocation adjustments and return of value through prices). Parties preliminarily agreed that no additional items would need to be included in the carry-forward balance.

Cash flow timing assumptions and time value of money

7. The topic 'Cash flow timing assumptions and time value of money' was discussed as outlined in slides 37-42 of the workshop papers.¹³
 - 7.1. In relation to slide 38, there was preliminary agreement that backward-looking cash flow timing assumptions should be consistent with forecast cash flow timing assumptions.
 - 7.2. In relation to slide 39, Commission staff sought views on having commissioned assets information disclosed monthly. In response:
 - 7.2.1. AIAL suggested that it would need to have an internal discussion on this.
 - 7.2.2. BARNZ and CIAL suggested that materiality is a necessary consideration for this issue.

¹¹ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

¹² Commerce Commission "Airports Profitability Assessments" (22 February 2019).

¹³ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

- 7.2.3. NZ Airports suggested that requiring monthly cash is not necessary because differences between backward-looking and forward-looking will be explained by airports in the explanatory notes. This would include material differences in the actual timing of asset commissioning versus the pricing period.

Other amendments

8. The topic 'other amendments' was discussed as outlined in slides 43-49 of the workshop papers.¹⁴
- 8.1. In relation to slide 46, there was preliminary agreement that the assets held for future use requirements in Schedule 4b(viii) of ID should be aligned with the assets held for future use requirements in Schedule 18(ix) of ID.
- 8.2. In relation to slide 47, there was preliminary agreement that the works under construction requirements in Schedule 4b(v) of ID should be aligned with the works under construction requirements in Schedule 18(viii) of ID. There was also preliminary agreement that 'offsetting revenue' is not relevant for works under construction.
- 8.3. In relation to slide 49, Commission staff asked sought views on whether any other profitability amendments should be made at this time. NZ Airports suggested that non-standard depreciation should not be disclosed annually as it is disclosed as part of airports' price setting disclosures.

Airports set prices as they see fit

9. The topic 'Airports set prices as they see fit' was discussed as outlined in slides 50-53 of the workshop papers.¹⁵
- 9.1. In relation to slide 53, Commission staff sought views on whether default cash flow timing assumptions should be consistent between the forward-looking and backward-looking ID requirements. There was preliminary agreement that these assumptions should be consistent between the forward-looking and backward-looking ID requirements.
- 9.2. Commission staff sought views on whether there are any other amendments required to ensure that airports can set prices as they see fit. No further matters were raised by participants.

¹⁴ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

¹⁵ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

Summary and analysis

10. The topic 'Summary and Analysis' was discussed as outlined in slides 54-56 of the workshop papers.¹⁶
 - 10.1. BARNZ asked whether the Commission would need to have consistent time series data across pricing periods for future backward-looking summary and analysis. Commission staff noted that they were unsure what future summary and analysis of historical performance would look like at this stage, but noted that it might assess one pricing period, rather than multiple pricing periods.
 - 10.2. Commission staff sought views on whether there are any other amendments required for interested persons to assess whether the purpose of Part 4 of the Act is being met. No further matters were raised by participants.

Transitioning to the new requirements

11. The topic 'Transitioning to the new requirements' was discussed as outlined in slides 57-60 of the workshop papers.¹⁷
 - 11.1. In relation to slide 58, Commission staff sought views on staff's indicative final decision timing. BARNZ suggested that the Commission should consider WIAL's price setting process as part of its consultation process.
 - 11.2. In relation to slide 60, Commission staff sought views on whether amending the Commission's backward-looking profitability disclose during the current disclosure year would allow sufficient time for AIAL and CIAL to prepare their 2nd annual disclosures for the current pricing period using new disclosure requirements. In response:
 - 11.2.1. AIAL and CIAL suggested that there would be sufficient time to prepare their 2nd annual disclosures for the current pricing period if the Commission did not amend ID to require backward-looking disclosures of pricing asset base profitability.
 - 11.2.2. CIAL indicated that the Commission should propose transitional requirements in its draft decision for consultation.
 - 11.3. In relation to slide 60, Commission staff sought views on whether there is value in requiring AIAL and CIAL to redisclose their 1st annual disclosure for the current pricing period. BARNZ and Air New Zealand suggested that they

¹⁶ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

¹⁷ Commerce Commission "Airports Profitability Assessments" (22 February 2019).

would have no issue if this information was not redisclosed as long as annual disclosures are on a cumulative basis.

- 11.4. In relation to slide 60, Commission staff sought views on whether the possible amendments should only apply to WIAL under their new pricing period. There was preliminary agreement that any amendments would only apply after WIAL's next price setting event.