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Cross-Submission on Auckland Airport Section 56G Review Submissions

The Commission is currently undertaking a review, as required by section 56G of the Commerce Act, following Auckland Airport's second Price Setting Event and related disclosures. Submissions on the Commission's Process and Issues Paper for Auckland Airport were due on 19 October and were subsequently made available on the Commission's website.

In addition to the submission from Air New Zealand (Air NZ) the Commission received submissions from the following parties:

- Auckland International Airport Limited (AIAL)
- Christchurch International Airport Limited (CIAL)
- Wellington International Airport Limited (WIAL)
- New Zealand Airports Association (NZAA)
- Auckland Council Investments Limited (ACIL)
- Board of Airline Representatives NZ (Inc) (BARNZ)
- Qantas Airways Limited (Qantas)

For the most part the submissions from CIAL, WIAL and NZAA focussed on statutory framework issues and matters of process. Air NZ considers that these submissions do not raise any new issues and therefore refers the Commission to its previous submissions on these issues made in the context of the Commission's Section 56G Review of WIAL.

The major issue raised by AIAL and ACIL relates to investment incentives and the level of return being targeted by AIAL. Air NZ addressed target return issues at paras. 31-39 of its 19 October submission to the Commission and refers the Commission to those previous submissions.

Air NZ reiterates its view that returns consistent with the WACC mid-point calculated pursuant to the WACC IM do provide an appropriate level of target return and in the case of AIAL – which has a high proportion of non-aeronautical revenues not subject to regulation – could in fact over-compensate investors. The dual till approach followed in the regulation of New Zealand airports creates an artificial and arbitrary delinking of the overall business performance of the airports, undermining the potential for interested parties to properly assess and understand airports' performance. Investors will as a matter of course look at the overall business performance rather than simply focus on aeronautical or non-aeronautical returns.

When considering the question of the target level of return it is also important to consider the actual impact on consumers of adopting a target return in excess of an appropriate level – which is a function of the asset base and the WACC. In AIAL's case, the difference in revenue terms between what AIAL considers justifiable (9.16%) and the mid-point WACC determined by the Commission on 31 July 2012 (6.49%) equates to an excess revenue requirement of more than $33 million **per annum**. Clearly this is not insignificant.

Air NZ looks forward to participating in the Commission's conference on this Review.

Yours sincerely

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