
From: regulation.branch
Sent: Monday, 6 January 2014 4:23 p.m.
Subject: Commerce Commission - Consultation on impact of IM judgment on s56G reports for airports regulated under Part 4 of the Commerce Act

Good afternoon, and a Happy New Year.

As you may be aware, on 12 December 2013 the High Court released its judgment on the merits review appeals of the input methodologies applicable to information disclosure regulation for airport services under Part 4 of the Commerce Act. The Court ruled that a materially better asset valuation input methodology would provide for the initial MVAU valuations of Airports' land assets to be undertaken as at:

- 1 April 2010 in the case of Wellington Airport
- 1 July 2010 in the case of Auckland and Christchurch Airports.

We have considered the implications of this ruling for our s 56G reports. In short, we propose not to update the analysis on the pragmatic ground that the changed asset valuations would not change the conclusions presented in our final s56G reports for Wellington and Auckland airports, or the analysis presented in our draft s56G report for Christchurch airport. However, we will update our analysis in the case of Auckland Airport's s56G report if Auckland Airport or the airlines request that we do so. We set out our reasoning in relation to each airport below.

- Wellington International Airport. We do not consider that the change in initial MVAU date changes our conclusion on the effectiveness of information disclosure in respect of profitability for Wellington Airport. It does not impact the analysis already undertaken for our final s56G report, given that our analysis was based on a more up-to-date MVAU land valuation undertaken by Wellington Airport in 2011. This view is consistent with Wellington Airport's response to the judgment, which was also dated 12 December 2013 and published on the airport's website. In that statement, Mr Steve Sanderson, Wellington Airport Chief Executive, said that "The judgment is unlikely to have an effect on how aeronautical charges are determined or how performance information is presented to the Commerce Commission."
- Auckland International Airport. We expect that the change in initial MVAU date would impact the analysis already undertaken for our final s56G report, given that the analysis relies on the disclosed 2009 MVAU valuation. However, we do not expect that any consequential change in the analysis would have an effect on our conclusion about the effectiveness of information disclosure in respect of profitability. This is because we would expect the 2010 MVAU valuation to be higher than the 2009 MVAU valuation, which would likely bring any estimate of Auckland Airport's target returns further within the range of acceptable returns. As such, we do not propose updating our analysis once a new 2010 MVAU valuation becomes available.
- Christchurch International Airport. We do not consider that the change in initial MVAU date impacts the analysis already undertaken for our draft s56G report, given that our analysis was based on a more up-to-date MVAU land valuation undertaken by Christchurch Airport in 2012.

We seek your views on what impact, if any, the ruling concerning the valuation date has on our s 56G reports, and in particular, on the Auckland Airport s56G report. Please send your views to regulation.branch@comcom.govt.nz by 5pm on Friday 31 January 2014.

Please note that we will be consulting separately on how we will respond to the Court's decisions in relation to matters other than our s56G reports, including the WACC issue raised by a number of consumer groups.

Kind regards
Ruth

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