

By email

17 October 2017

Adrienne Darling
Head of Economic Regulation and Pricing
Auckland International Airport Limited
Email: adrienne.darling@aucklandairport.co.nz

Dear Adrienne

Exemption request response - Exemption for Auckland International Airport Limited information disclosure for the annual disclosures ending 30 June 2017 and 30 June 2018

1. We refer to your email of 8 September 2017 in which you proposed an approach to disclosing the revaluation of the regulated asset base (RAB) in your annual disclosure for the year ending 30 June 2017. You requested the Commerce Commission (Commission) confirm that your intended approach was appropriate.
2. As discussed, we are treating your email as an exemption request under section 2.9 of the Airport Services Information Disclosure Determination 2010 (ID Determination).

Background to the request

3. Auckland International Airport Limited (Auckland Airport) is required to disclose the value of revaluations of the RAB in its annual disclosures under clause 2.3(1)(a)(iv) of the ID Determination. Regulated airports are required to apply Parts 2, 3 and 4 of the Airport Services Input Methodologies Determination 2010 (IMs) when disclosing information under clause 2.3(1)(a)(iv).
4. Auckland Airport has had a moratorium on asset revaluations in effect since 2006 for the asset base used for price setting. However, assets excluded from Auckland Airport's price setting events but included within the RAB have continued to be revalued by Auckland Airport.
5. As part of the IM review, we amended Part 3 (Asset Valuation) of the IMs to reflect that airports can apply either a CPI-indexed or a non-indexed approach to revaluing assets (in addition to being able to revalue land assets using market value alternative

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use).¹ The decision to apply either a CPI-indexed or a non-indexed approach can be made for parts of the asset base separately.

6. The price setting disclosure requirements in the ID Determination (ie, ex-ante disclosures) have been updated to reflect the outcomes of the IM review; however, amendments to the annual disclosure requirements (ie, ex-post disclosures) have not yet been made.
7. Schedule 4b(iv) of the ID Determination (Calculation of Revaluation Rate and Indexed Revaluation of Fixed Assets) currently reflects the previous IM requirement that all assets (with the exception of revalued land, assets with nil physical life, disposed assets and lost assets) are revalued using CPI-indexation. This schedule, as currently specified, does not allow Auckland Airport to disclose the value of revaluations of the RAB in a manner consistent with its approach when setting prices.
8. Auckland Airport has proposed to include an additional line in Schedule 4b(iv) for its annual disclosure for the year ended 30 June 2017. The adjustment would allow Auckland Airport to net out the value of assets not subject to revaluation from the value of assets to which CPI indexation is applied. This line would be labelled “RAB value not subject to revaluations” or a similar wording.
9. We are currently in the process of consulting on a limited number of amendments to the annual disclosure requirements for airports but the proposed amendments will not resolve the issue relating to Auckland Airport’s revaluation disclosure. Therefore this issue is likely to persist beyond the disclosures for the year ended 30 June 2017. We consider that Auckland Airport will require a similar adjustment to Schedule 4b(iv) to be made for the disclosure year ended 30 June 2018.

Exemptions granted

10. The Commission considers that the adjustment to Schedule 4b(iv) proposed by Auckland Airport is appropriate in the present circumstances. It will allow the disclosed revaluations relating to the disclosure year ending 30 June 2017 and 30 June 2018 to meet the intent of the recent amendments as part of the IM review – ie, to allow an airport to disclose its asset values in a manner that is most consistent with the approaches used to set prices.²

¹ *Airport Services Input Methodologies Determination 2010* (Commerce Commission Decision 709, 22 December 2010), clause 3.7(7)(b).

² Commerce Commission “Input methodologies review decisions Topic paper 5: Airports profitability assessment” (20 December 2016), paragraph 209.

11. Therefore, under clause 2.9 of the ID Determination the Commission grants Auckland Airport the following exemption for the annual disclosures for the disclosure years ending 30 June 2017 and 30 June 2018.
 - 11.1 We exempt Auckland Airport from the requirement in clause 2.3(1)(a)(iv) of the ID Determination so that it need not use the calculation of indexed revaluation for either the RAB or the unallocated RAB as currently specified in Schedule 4b(iv).
 - 11.2 This exemption is granted on the condition that Auckland Airport discloses its indexed revaluations in a manner most consistent with the approach used to set prices by making the proposed adjustment outlined in paragraph 8 to Schedule 4b(iv).

Further information

12. This exemption may be revoked or amended in accordance with clause 2.9.1(b) of the ID Determination.
13. A copy of this exemption response letter will be published on the Commission's website.
14. If you have any questions regarding this matter, please contact Jo Perry on jo.perry@comcom.govt.nz.

Yours sincerely



Sue Begg

Deputy Chair