

31 January 2014

Ms Sue Begg
Deputy Chair
Commerce Commission

By email sue.begg@comcom.govt.nz

Dear Ms Begg

WACC range within final Christchurch Airport s56G Report

As you will be aware, the recent High Court decision on the merits review of the input methodologies contains a number of pertinent observations on the appropriate WACC range.

The High Court cast considerable doubt on the input methodology for default pricing paths, where the Commission had applied the 75th percentile of its identified WACC range.

The Court described using the 75th percentile WACC estimate for default pricing paths as a decision 'clearly at odds with the s52A(1)(d) purpose of limiting the ability of regulated suppliers to extract excessive profits' (refer para 1461) and 'unlikely to be necessary to promote incentives to invest and innovate' (refer para 1479). Moreover, the Court felt that allowing higher than normal expected returns will not create the right incentives to generate efficiencies.

Overall, the Court summarised its position as being that, while MUEG had not met the requisite threshold of establishing that a mid-point WACC would provide a materially better input methodology, it had 'cast significant doubt' on the Commission's use of the 75th percentile point within the WACC range for default pricing paths, which led the Court to recommend that the Commerce Commission reconsider this point when it next reviews the input methodologies. (Refer para 1483 and 1486).

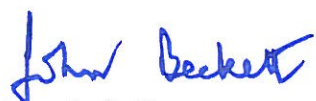
For information disclosure for regulated airports, the High Court confirmed the Commission's input methodology, which provides for a WACC range between the 25th and 75th percentile, with the 50th percentile being used as the starting point for assessing profitability. The Court described this approach as one which 'will promote the purpose of ID regulation, namely ensuring that sufficient information is readily available ... to interested persons to assess whether the purposes of Part 4 are being met.' (refer para 1490).

In the case of the s56G review for airports, however, the Commerce Commission reports have set out the expected NPV of returns at the 50th and 75th percentile WACC estimates. As the Commission is estimating the expected NPV of returns, the High Court's views on the inappropriateness of the 75th percentile for default pricing paths indicates to BARNZ and the airlines that the expected NPV of returns should likewise be estimated at the mid-point estimate only.

As the Commission is now finalising its s56G report for Christchurch Airport, BARNZ members ask that the Commission takes into account the observations of the High Court, and places greater

emphasis on the results produced at the mid-point WACC estimate, which the High Court confirmed is the appropriate starting point for profitability analysis for regulated airports under Part 4.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "John Beckett". The signature is fluid and cursive, with the first name "John" and the last name "Beckett" clearly distinguishable.

John Beckett

Executive Director