



29 March 2016

Keston Ruxton
Manager Input Methodologies Review
Commerce Commission
Regulation.branch@comcom.govt.nz

Dear Keston,

Professor Lally's advice on airport asset beta adjustment

BARNZ thanks the Commission for providing interested parties with the opportunity to comment upon the advice provided to the Commerce Commission by Professor Lally in relation to the 0.05 adjustment made by the Commission (so as to reflect the focus of regulation in New Zealand on only the aeronautical activities of airports) to the average asset beta of 0.65 which the Commission had estimated for airports as a whole.

Professor Lally has undertaken calculations using estimates and assumptions which produce an adjustment of 0.03, rather than the 0.05 adopted by the Commission in 2010. However, Professor Lally himself records that the precision of the estimates used in his calculation are *'very low'*, that this leads to an *'imprecise estimate'* of the estimated deduction, and that he therefore has *'very little confidence in the estimated deduction of 0.03'*.

In light of the acknowledged limitations of the accuracy of the calculations Professor Lally has been able to undertake, BARNZ considers that there is not a good case for amending the existing 0.05 adjustment contained in the current input methodology. Moving to an alternative adjustment, which has been acknowledged to be very imprecise and to have a low level of confidence would not be appropriate, and would create a risk of challenge on the ground that a materially better estimate exists.

Yours sincerely,

Kristina Cooper
Legal and Regulatory Manager