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Dear Keston

### SUBMISSION ON COMMERCE COMMISSION'S COST OF CAPITAL UPDATE PAPER

Thank you for the opportunity to comment on the Commerce Commission's Cost of Capital Update Paper: 30 November 2015.

Wellington International Airport Limited (*WIAL*) has participated in the development of the New Zealand Airports Associations (*NZ Airports*) submission, and supports the points made in that submission.

The NZ Airports submission is made in a context where the Commission has signalled it is not looking to make major changes to the WACC IM in this review. For that reason the NZ Airports submission focuses on improving the empirical approach to estimation of the asset beta.

However WIAL would like to record its view that the Commission's WACC methodology will not result in a robust estimate of the cost of capital WIAL faces in real world capital markets. An appropriate cost of capital would recognise WIAL's risk profile, cost of debt, leverage, and the historically anomalous interest rate environment.

We appreciate the Commission is not looking to review these issues and for that reason we have not traversed the ground in any detail. However we did not want this important point to be overlooked. The Commission's WACC estimate will under compensate WIAL for the cost of capital it faces in the market.

This is important, because the experience with the implementation of Part 4 regulation is that information disclosure regulation has the practical effect of price control. Analysts assume the Commission's WACC settings will flow directly through to price decisions, and airports are heavily criticised if they depart from the Commission's WACC. For this reason the under estimation of the cost of capital will have a direct effect on investment incentives, and in particular the timing and extent of airport initiatives to grow airline competition, connectivity and traffic - which drive long term benefits for consumers.

Yours sincerely

**Martin Harrington**  
Chief Financial Officer