

28 November 2017

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Commerce Commission  
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Dear Chief Adviser

**Review of Auckland and Christchurch Airports' third price setting events – Qantas Group feedback to the Process and issues paper**

Qantas Airways and Jetstar Airways (collectively, the 'Qantas Group') appreciate the opportunity to provide feedback on the Commerce Commission's Process and issues paper (the 'Paper') relating to Auckland and Christchurch Airports' third price setting events.

During the respective consultations undertaken by Auckland and Christchurch airports, the Qantas Group provided detailed feedback on the elements the Commerce Commission is seeking feedback on. The aspects of Auckland Airport's and Christchurch Airport's respective third price setting events that the Qantas Group requests the Commerce Commissions more detailed review are as follows:

**Auckland Airport ('AIAL')**

- WACC: The Qantas Group believes AIAL is targeting excessive profits in setting a target WACC of between 6.99% and 7.06%, and that AIAL has not sufficiently justified targeting a WACC greater than the Commission's mid-point average of 6.41%.
- Runway Land Charge: The Qantas Group believes this charge is a blatant attempt at pre-funding by AIAL, and is not supported by the Qantas Group. Imposing a runway charge in the absence of investment will artificially inflate AIAL's returns unsustainably, will not improve current services, and is an inequitable cross subsidisation by current airlines for future entrants.
- Operational Expenditure: The Qantas Group is still very concerned with the level of proposed operating expense growth rates over the pricing period; especially the large increase in 2018. The proposed approach, where AIAL has stated it will accept the risk of forecast errors, is redundant if operational expenditure costs are so highly inflated to start with that there is no risk of 'forecast errors'. Operational cost increases well above CPI provides little incentive for innovation, demonstrate efficiency or economies of scale which is reasonably expected.
- Capital Expenditure: The Qantas Group has provided feedback on the size and deliverability of the capital plan over PSE3. While the Qantas Group is closely working with AIAL on the scope and concept design of the plan, there are still significant questions over the quantum, staging and deliverability of several projects. For these reasons, the Qantas Group would support the Commerce Commission investigating the viability of a capex 'wash-up'-type mechanism to ensure the risk of AIAL not delivering projects within PSE3 does not sit solely with airlines. The efficiency of the pricing methodology is based on capital being



commissioned as modelled. Delays or overestimations in capital plans is effectively prefunding and subsidising future users whilst guaranteeing a WACC return without risk to the Airport. Perversely a delay in the capital plan can mean that depreciation and return is paid on undelivered capex and again in the next pricing period once the capital is delivered.

Timing of Second Runway: While the Qantas Group notes AIAL has not included any costs relating to the second (or northern) runway in PSE3, the Qantas Group wishes to reinforce that, while a second runway may be required in the future, the timing and scale of this runway still requires ongoing consultation between AIAL, airlines and Airways.

### **Christchurch Airport ('CIAL')**

- WACC: The Qantas Group believes that CIAL is targeting excessive profits through targeting a higher WACC (6.82%) than the Commission's mid-point estimate of 6.41%. The Qantas Group believes CIAL's justification for targeting the 61<sup>st</sup> percentile is not justified, and requests the Commission to review this aspect of PSE3 pricing in relation to the appropriateness of CIAL's targeted return.
- Demand Forecasts: The Qantas Group's view is that CIAL's international passenger targets are understated, given the current growth rates both at CIAL, and in New Zealand more generally. The Qantas Group believes that the significant (~45%) reduction in the terminal price per passenger from FY17 to FY18 will stimulate demand specifically at CIAL, relative to comparable airports in New Zealand.
- Capex: While the Qantas Group generally supports CIAL's (comparatively) modest approach to capex in PSE3, the ~\$10m allocated to 'terminal reconfiguration' without any detailed spend breakdown or planning proposals is concerning. This 'blank cheque' approach to significant capex is not one supported by the Qantas Group. The Qantas Group requests that the Commission review this item in regards to the apparent 'contingency fund' has on efficient pricing over PSE3.

The Qantas Group is a member of the Board of Airline Representatives New Zealand's ('BARNZ') and we support their response to the Paper, titled 'Review of Auckland and Christchurch Airport's (sic) third price setting events – Process Issues paper', and supports the position taken by BARNZ on the issues raised. This includes the expert advice from Dr John Small, and the complementary assessment from Pat Duignan on the Runway Land Charge at Auckland Airport.

More generally, the Qantas Group also supports BARNZ's view that both the analysis of the price setting event disclosure information and the annual disclosure information should be reviewed and assessed concurrently, and that the scope of the Commission's review should be broader, with focus on not just the quantitative aspects of price setting, but also the qualitative (such as efficiency). Neither quantitative nor qualitative inputs should be reviewed in isolation, and the Qantas Group believes a complete picture of the final pricing determination of AIAL and CIAL, respectively, can only be obtained through assessing all elements of the respective final determinations.

If you have any questions about this submission, please contact Mr Sam Henderson ([Samuel.Henderson@jetstar.com](mailto:Samuel.Henderson@jetstar.com)) is the appropriate Qantas Group contact.

Yours sincerely,



**Andrew Parker**  
Group Executive Government, Industry and International Affairs