A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

12 November 2013

Regulation Branch
Commerce Commission
PO Box 2351
WELLINGTON 6140

Attention: Ruth Nichols

Email regulation.branch@comcom.govt.nz

Draft Report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Christchurch Airport

The Commission released its draft s56G report on Christchurch Airport on 15 October.

The Commission's conclusion is that "information disclosure has had minimal influence over Christchurch Airport's behavior." Importantly, the Commission found that "Information disclosure has **not been effective** in limiting excessive profits over the 20-year pricing period on which the PSE2 prices were based", although it considers the expected returns for PSE2 are "within an acceptable range".

Air New Zealand agrees with the Commission's conclusion that information disclosure has had minimal influence over Christchurch Airport and has been ineffective at limiting excessive profits. However, Air New Zealand disagrees with the Commission's conclusion that expected returns for PSE2 are within an acceptable range. Air New Zealand considers that the Commission has materially understated the return over both PSE2 and the 20 year pricing period.

BARNZ on behalf of airlines operating at Christchurch Airport has provided a detailed submission on the draft report highlighting the areas where the Commission's analysis is understating the returns which will be achieved by Christchurch Airport. These include a failure to incorporate all previous unforecast revaluations as income, not applying a forecast CPI increase to prices post-2022, not applying Christchurch Airport's PSE3 specified prices, applying year-end cash flows, and applying seemingly understated levels of taxable depreciation in years 12 to 20 of the period. It is noted that correctly treating previous unforecast revalutions alone – which Christchurch Airport has done in its modelling – increases the 20 year return on pricing assets to more than 10%, almost 60% more than the mid-point WACC used by the Commission in its analysis. Applying this adjustment to PSE2 only increases the return on pricing assets over this period to more than 9%, 40% more than the appropriate WACC.

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Air New Zealand fully supports the BARNZ submission and considers it fully addresses the concerns Air New Zealand has with the draft report.

Air New Zealand looks forward to the Commission re-considering its analysis in light of the BARNZ submission and applying the adjustments identified in that submission.

Please contact me on 021 311 747 or sean.ford@airnz.co.nz if you have any queries regarding this submission.

Yours sincerely

Sean Ford
Manager Aeronautical Suppliers