



8 December 2015

Kimberley Foo
Airports fast track process, Regulation Branch
Commerce Commission
PO Box 2351
Wellington 6140

By email: regulation.branch@comcom.govt.nz

Dear Kimberley

SUBMISSION ON COMMERCE COMMISSION'S INPUT METHODOLOGIES REVIEW DRAFT DECISION ON AIRPORT LAND VALUATION

Introduction and summary

1. Wellington International Airport Limited (*WIAL*) appreciates the opportunity to respond to the Commerce Commission's (*Commission*) draft decision "Fast track review of input methodologies for the application of airport land valuation methodology" (10 November 2015) (*Draft Decision*). WIAL supports and provided input to the submission made by the New Zealand Airports Association (*NZ Airports*).
2. This is a significant Draft Decision for WIAL. The concerns with the land valuation methodology that have been raised recently and are being addressed in the Commission's fast track process have largely been directed at WIAL's land valuation. A fair amount of concern was also expressed at the size of the differential between our land valuation and the land valuation approach proposed by valuers engaged by BARNZ. Therefore, this fast track process has the potential to resolve a number of disputes between BARNZ and us.
3. WIAL supports the approach taken in the Draft Decision of:
 - an orthodox application of key regulatory concepts, including opportunity cost; and
 - recognising the role of the expert valuer and not prescribing particular valuation models or reporting structures (but requiring a robust process and good transparency).
4. As recorded in the Draft Decision, analysis shows that the majority of the valuation difference between WIAL and BARNZ is attributable to the different application made by BARNZ's valuer when applying the opportunity cost concept. Therefore we welcome the Commission's further clarification of Schedule A.
5. We also support the Commission's proposal in the Draft Decision not to propose amendments to specify treatment for any future maintenance costs associated with assets transferred to local authorities under HBAU plans, and to leave this to be determined by professional valuer judgment.

Treatment of re-zoning costs

6. We agree with the Draft Decision that the cost (and time) of re-zoning land away from airport use to notionally vacant is not required to be accounted for in the MVAU valuation.
7. As stated above, we agree with the approach in the Draft Decision to emphasise an orthodox, internally consistent, approach to opportunity cost and HBAU. In workably competitive markets, investors earn a return on economically mobile assets (such as notionally vacant land clear of airport related improvements) at least equal to the value of the asset in an alternative use. Consistent with assessing the opportunity cost of using the assets for an airport, the HBAU valuation should proceed on the basis that the airport did not exist.
8. We also agree with the Draft Decision (in paragraphs 2.16 to 2.24) to leave the choice of the specific starting assumption to the professional judgment of the valuer.
9. We support NZ Airports' submission that there is potentially a range of factors that the professional valuer may take into account in determining the starting assumption for zoning, including those described in paragraph 2.17 of the Draft Decision, as well as other relevant factors. The rationale for this is more fully described in the NZ Airports' submission. We do not envisage this approach of allowing professional valuer judgment will require any material revision of our valuations.
10. We support the amendments to Schedule A proposed by NZ Airports.

Future maintenance costs

11. The Draft Decision proposes not to make IM amendments for "specifying the treatment of future maintenance costs or other potential liabilities associated with assets transferred to local authorities under HBAU plans" (paragraph 1.27.1). This is consistent with advice from EY that there is a range of potential factors to be considered and therefore the assessment should be left to the valuer's professional judgement.
12. WIAL supports this position and fully expects valuers to perform their assessment consistent with the special assumption (in clause A4 of Schedule A) that the land must be valued as notionally vacant and clear of airport related improvements; that is, on the assumption that no airport exists.

General

13. WIAL would like to reiterate that we appreciate the approach taken in the Draft Decision of a careful and predictable application of key regulatory concepts.
14. If the Commission has any questions about this submission or any other aspects of the land valuation methodology please do not hesitate to contact Martin Harrington at martin@wlg.aero.

Yours sincerely



Martin Harrington
Chief Financial Officer

