

Christchurch Airport pricing review 2017-2022

Draft report

19 July 2018

Commissioner Dr Stephen Gale



Overview

- Second review of Christchurch Airport's (CIAL) pricing decisions since ID requirements came in under Part 4
- Airport regulation 'light-handed' – we review pricing/spending decisions to increase transparency about performance
- In this review we have focused on:
 - reasonableness of target returns
 - efficiency of pricing
 - reasonableness of forecasts



Draft conclusions

- Broadly satisfied CIAL not earning excessive profits
- Target returns on services priced over the five-year period are reasonable
- We consider it may be more appropriate to assess expected returns on regulated services priced under individual contracts over a greater period of time than five years.

Framework for considering target returns

- Airports do not have to apply our cost of capital approach when setting prices
- We use our estimate as a benchmark for assessing whether expected returns are appropriate
- The IMs require an airport to provide evidence to explain difference between its target return and our benchmark



Target returns on priced services

- Makes up about 85% of regulated services
- Targeting return of 6.44%, below our adjusted benchmark of 6.47%
- We consider these returns are reasonable
- Adjusted benchmark reflects CIAL's higher costs of borrowing, based on its lower credit rating (BBB+) in comparison to our benchmark of A-



Expected returns on other regulated services



- Expecting return of 7.87% on remaining ~15% of regulated services
- Around \$6m in extra revenue, compared to our adjusted benchmark of 6.47%
- About 1.5% above what we would consider to be reasonable
- These services are priced under individual contracts with varying terms, start dates, and rent reviews
- Seeking feedback on proposal to assess these returns over a longer period.

Changes to pricing structure

- New charging structure moving to per passenger charges does not raise significant concerns
- CIAL's per-passenger charges are simple to understand and transparent
- CIAL has rebalanced charges across international and domestic passengers to promote better use of terminal facilities, but generating relatively large cost changes for some airlines
- We encourage airports to stabilise pricing structures to support airlines in their planning and investment over the long-term

Other forecasts

- No significant concerns with the forecasts that underpin CIAL's pricing decision, including:
 - Demand
 - Capital expenditure
 - Operating expenditure
 - Opening and closing investment values



Have your say

- Submissions on CIAL draft report due 16 August
- Cross submissions on CIAL draft report due 6 September
- Cross submissions on our assessment of AIAL's expected returns in light of CIAL's draft report by 23 August
- Final reports for Christchurch and Auckland expected in October 2018
- Draft report can be found at www.comcom.govt.nz
- Email submissions to regulation.branch@comcom.govt.nz



Airport regulation

We regulate certain key facilities and services to get people and cargo on and off aeroplanes at New Zealand's three major airports.



Regulated services

Airfield

This includes: runways, taxiways, plane apron parking; air and ground traffic control facilities; airfield maintenance, safety and emergency services.

Passenger terminal activities

This includes: check-in and baggage handling; security, customs, immigration and quarantine facilities; passenger facilities, seating, and duty-free collection areas.

Aircraft and freight

This includes: aircraft servicing, refuelling, maintenance and hangar facilities; freight handling and storage, security, customs and quarantine services.

Services *not* regulated

This includes: retail facilities; car parking; and access for taxis, shuttles and buses.

Information disclosure regulation

The Commission does not regulate airport *prices*. We review airport pricing decisions to promote greater understanding of their performance.

