



WELLINGTON INTERNATIONAL AIRPORT LIMITED

CROSS SUBMISSION TO THE COMMERCE COMMISSION

SECTION 56G PROCESS AND ISSUES REVIEW

20 JULY 2012

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Executive Summary

Introduction

1. Wellington International Airport Limited (“**WIAL**”) is pleased to provide this cross submission with respect to the Commerce Commission’s Airport Services – s56G Reports, Process and Issues Paper (“**Process and Issues Paper**”).
2. This cross submission should be read in conjunction with the earlier submissions made by WIAL, and also the submission and cross submission made by the New Zealand Airports Association (“**NZ Airports**”) which was prepared with input from and is fully supported by WIAL.
3. Air New Zealand Limited (“**Air NZ**”) and the Board of Airlines Representatives of New Zealand Inc. (“**BARNZ**”) have both made extensive submissions to the Commerce Commission (“**Commission**”). Much of these submissions are not based on evidence or facts. The Air NZ submission is full of rhetoric and unsupported assertions.
4. It is a matter of public record¹ that the increased regulatory oversight of Airports in Part 4 was not based on **evidence** of there being a problem in the industry. Of particular relevance to this cross-submission is the damning comment by the Regulatory Impact Assessment Unit to the Ministry of Economic Development (“**MED**”) that “*The [Cabinet] paper argues that the claims of over-charging have some weight...it is important to explain why the officials concur with the view of one party...*” WIAL assumes the “one party” whose claims were given weight without requiring evidence to have been Air NZ. It is critical that the Commission require evidence before giving weight to assertions - and the airline submissions contain very little evidence in support of claims of regulatory failure.
5. It is disappointing that Air NZ’s submission solely targets intrusive regulation of airports without any attempt or willingness to seek to establish a constructive commercial relationship with its airport suppliers. The airline submissions give no consideration to the costs and distortions that are inevitable when regulation is over-used. WIAL provides examples in this cross-submission and other reports of commercial agreements and notes that it has put in place agreements with its major airlines, including Air NZ.
6. WIAL trusts that the Commission will assess all submissions on merit and substance.

Airline Dismissal of the ID Regime

7. Air NZ and BARNZ have repeated throughout their submissions that WIAL has not adopted the Commission’s Input Methodologies (“**IMs**”) in its recent pricing consultation for the 2012-2017 pricing period, and consequently concluded that the information disclosure regime (“**ID Regime**”) is ineffective and in need of urgent change. This is incorrect and provides little or no evidence or insight into the effectiveness of Part 4.
8. Air NZ states that WIAL’s Final Pricing Document (“**FPD**”) “*shows a complete disregard for ID regulation and the underlying IMs. WIAL’s comments during the price setting process reveal the negligible effect of ID regulation and the lack of consideration given by WIAL to acting in a way that would promote the purpose of Part 4.*”²
9. This comment is wrong, and Air NZ is fully aware that it is wrong. The facts are:

¹ WIAL substantive submission 6 July 2012 pages 5-6

² Air NZ Limited Submission - Section 56G Review 29 June 2012, page 3, paragraph 5

- The Commerce Act (“**Act**”) requires IMs to be developed for the ID Regime as monitored by the Commission.
- WIAL has published clear and accurate disclosures in accordance with the Commission’s Determinations.
- WIAL applied IMs in its recent consultation under the Airport Authorities Act (“**AAA**”) in a number of areas and consulted fully on the reasons why it was not considered appropriate to do so in a couple of specific areas.
- The IMs are not mandatory for price setting under the AAA, and this is not their intended purpose, or else airports would be subject to price control on a de-facto basis, contrary to Parliament’s intent.
- Parliament specifically determined retention of the AAA price setting provisions.
- WIAL applied, through consultation, a number of commercial concessions to its price setting that materially offset the net impact of variations from the application of IMs – demonstrating that the net outputs need to be considered and not selective inputs.
- WIAL has prepared its Annual Disclosures for the years ended 31 March 2011 and 2012, both of which report actual returns of below 7%.

Aside from the inflammatory and incorrect nature of the assertion, Air NZ’s comments also appear to show a misunderstanding of the Part 4 purpose statement.

10. In its submission, Air NZ is exhibiting a closed mind and demonstrates that it had predetermined its position before the ID Regime had even started.
11. WIAL has previously highlighted the extent of consultation under the AAA, the countervailing powers of the airlines and the actual outcomes achieved by WIAL compared to other airports in Australasia and worldwide.
12. WIAL has also highlighted in its substantive submission that the existing regulatory regime, including information disclosures and AAA consultation, has not been shown to be ineffective but was considered a sector in good health. This view was supported by Treasury and the MED in their 2007 reviews of the proposed new airport regulation at that time.^{3 4 5}
13. This has all been achieved in a regime where WIAL’s first set of Annual Disclosures was published less than 4 months ago, and the section 53(B)(2) reviews of the disclosures are yet to be completed by the Commission.

Part 4 Purpose Statement

14. The Commission is required to consider all aspects of the Part 4 purpose statement and consequently WIAL has structured its cross submission according to the purpose statement and its four limbs (a) to (d).

³ Treasury report to the Associate Ministers of Finance (Hons Phil Goff, Trevor Mallard and Clayton Cosgrove), 17 October 2007

⁴ Treasury briefing to Hon Phil Goff, 12 October 2007

⁵ Regulatory Impact Assessment Unit (“**RIAU**”) paper to MED, 11 October 2007

Outcomes Consistent with Competitive Markets

15. Air NZ and BARNZ are silent on the extent of competitive market behaviour that is evident in the recent and previous pricing consultation processes, which could be at least partly credited to the existence of the AAA and Part 4 mechanisms. In particular, Air NZ and BARNZ do not acknowledge:
 - The detailed information made available to airlines as customers;
 - The extent of discussion around investment programmes and cost levels, both within price consultation and in the context of business as usual;
 - The changes, risk sharing and concessions WIAL has made as a result of the views put to it by its customers;⁶
 - Commercial agreements reached with airlines; and
 - Voluntary agreement by WIAL to engage in independent arbitration.
16. WIAL has been open to commercial agreements with its airlines for many years and has had commercial agreements with most of its major airlines, including Air NZ. This remains WIAL's preferred relationship with its airline customers.
17. Air NZ's failure to recognise the potential for commercial agreements as an important part of a healthy aviation industry appears to be a blatant attempt to force the failure (or perceived failure) of the Part 4 of the ID regime. It also puts it at odds with best practice that is encouraging constructive engagement between airports and airlines as the sub-optimality of unnecessary regulation is more fully understood.

Incentives to Invest and Innovate

18. Air NZ comments that *"Where this innovation involves improving efficiency and lowering investment there is simply minimal incentive to innovate."*⁷ BARNZ notes that WIAL has not been *"tardy to invest"*.⁸
19. These statements are not supported by evidence and are simply incorrect. WIAL has a history of well-managed, innovative and appropriate investment in airport infrastructure. WIAL demonstrated in its substantive submission the developments that it had achieved, and was planning to achieve for its business.⁹
20. By their nature, airport investments typically have long lives and often involve significant lead times. As a result, this requires a robust discipline in development and infrastructure planning and consultation with stakeholders.
21. WIAL has highlighted that it has a constrained and very small airport site of 110 hectares. This requires efficient use of its space, contrary to Air NZ's comment. Such innovation is evidenced by the installation of swing gates and common user terminal flexibility that was built into the Northern Pier development. These flexibilities will enable WIAL to accommodate the expected long term increases in demand by increasing utilisation of the Northern Pier for domestic services and thereby deferring any additional terminal works.

⁶ WIAL Final Pricing Document pages 6-7 in respect of the most recent consultation

⁷ Air NZ Limited Submission to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review 29 June 2012, page 17, paragraph 57

⁸ BARNZ Submission to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review 28 June 2012, page 13

⁹ WIAL substantive submission 6 July 2012 pages 42-45

22. WIAL has committed to \$65 million of investment in aeronautical facilities in the 2012-2017 pricing period which will achieve improvements in facilities for passengers, improve asset utilisation and address regulatory compliance issues.
23. The Commission needs to be alert to the incentives that dominant airlines have to oppose efficient and timely investment in order to constrain capacity. Congestion can have demand exceed supply in a way that enables airlines to increase airfares to inefficiently high levels. And, when accompanied by the type of 'grandfathered' access rights that often exist in aviation, blocking capacity expansion can reduce competition by locking out new entrant capacity. Fortunately, the regime that has existed in New Zealand under the AAA has prevented this from occurring.

Incentives to Improve Efficiency and Provide Services at a Quality that Reflects Consumer Demand

24. Air NZ comments that *"WIAL is not incentivised to undertake activity that does not increase investment and is not incentivised to ensure that investment is efficient."*¹⁰
25. This statement is simply wrong, both in theory and practice. It is evident from WIAL's capital forecasts for the 2012-2017 pricing period that this is untrue. WIAL has confirmed through its passenger quality surveys that its gate departure lounges and amenities need improvement. As a consequence, WIAL has forecast capital development works to improve facilities in the South West and South Piers to improve passenger amenity as well as enabling redesign of the apron area.
26. These projects will however not enable WIAL to accommodate the expected long term increases in demand and WIAL expects to meet this demand by increasing utilisation of the Northern Pier for domestic services. This will increase utilisation of WIAL's existing facilities and defer consideration of a further major expansion to the main terminal building
27. This demonstrates a significant improvement in efficiency where WIAL is seeking to increase utilisation of its existing facilities rather than committing to more substantial expansion of other piers.
28. The five-year pricing cycle, which is a common feature of many regimes around the world, also provides a deliberate incentive for WIAL to execute investments efficiently because WIAL receives a short term benefit before passing the longer term benefit of this efficiency to customers in the subsequent price reset.
29. Air NZ also comments that airlines are best informed about end user service quality expectations and consequently that quality investment should be subject to demand from airline customers and subject to approval by airlines.
30. This is overly simplistic and wrong on many levels. The current regime, with quality of service monitoring and consultation between the airport and all substantial airlines is an effective approach. Allowing airlines alone to determine service quality as proposed by Air NZ would result in disputes between airlines with different needs – or distort competition by effectively allowing Air NZ as the dominant airline to determine standards for all.

¹⁰ Air NZ Limited Submission to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review 29 June 2012, page 14, paragraph 45

Sharing of Efficiency Gains with Consumers

31. Air NZ comments that “ID [Information Disclosure] and the IMs have not resulted in WIAL sharing with consumers the benefits of efficiency gains in the supply of regulated goods, including through lower prices. It has also not resulted in outcomes consistent with those produced in workably competitive markets.”¹¹
32. This statement is incorrect. In its recent consultation for the 2012-2017 pricing period, WIAL has:
- forecast a decrease in real operating costs per passenger throughout the pricing period; and
 - implemented a new pricing structure which is designed to improve the efficient utilisation of key WIAL assets that are congested or limited in capacity.
33. Price movement by itself is not evidence that outcomes are not consistent with workably competitive markets. The cost of goods and services in workably competitive markets move, over the medium to long term, with movements in all costs. WIAL has demonstrated that its prices are related to its costs and further shown how it has generated efficiencies in operations and investment and is sharing these with customers.

Limit in Ability to Extract Excessive Profits

34. Air NZ and BARNZ have provided considerable analysis in their submissions of the profits earned by WIAL and claimed that these are excessive. This analysis is flawed and it has ignored a number of matters.
35. Air NZ and BARNZ have focused their analysis on WIAL not applying the Commission’s IMs in pricing and concluded that WIAL is earning excessive returns. However, WIAL needs to be assessed, inter alia, on its forecast return on assets for the 2012-2017 pricing period. WIAL’s forecast return is 8% on WIAL’s asset base for specified airport services and 8.75% if the Commission’s approach to valuation is used.
36. In addition, WIAL should be assessed on its actual ex-post returns. WIAL’s actual returns for the years ended 31 March 2011 and 2012, as reported in its Annual Disclosures are both below 7% as reported below: ¹²

Year Ended 31 March	Post Tax ROI	Commission 75th % Cost of Capital for WIAL
2011	6.16%	8.19%
2012	6.91% ¹	7.75%

¹: Per WIAL’s draft 2012 Annual Disclosures (to be published by 31 August 2012)

37. In addition to the low levels of actual return, both years report returns below the Commission’s cost of capital for WIAL.
38. WIAL notes the variability and volatility inherent in preparing forecasts and that it is important that ex post returns over a period of time are considered in order to assess performance.

¹¹ Air NZ Limited Submission to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review 29 June 2012, page 21, paragraph 80

¹² As derived by applying the IMs. The returns would be lower if the asset valuation methodology proposed by WIAL was applied.

39. The ID Regime provides an independent framework for assessment of WIAL's performance over time and between airports. WIAL considers that there is no evidence that the outcomes reported by WIAL are excessive.

ID Regime Statutory Framework

40. Air NZ and BARNZ are seeking to extend the scope of the review almost before the ID Regime has begun.
41. The Airlines have submitted that the Commission:
- Should evaluate WIAL's performance based on "single till" where the outcomes from regulated and unregulated services are considered collectively¹³, and
 - Look to extend the range of services included in the ID Regime¹⁴.

WIAL notes this is outside the scope of the review specified in s56G.

International Best Practice

42. WIAL highlighted in its substantive submission references to a number of reviews of airport regulation and pricing which have recently been completed in various countries around the world, including the UK and Australia.
43. WIAL commissioned independent expert economists Sapere Research Group ("**Sapere**") to prepare a report on "Recent developments in airport regulation in Australia and the UK and implications for New Zealand". It is intended that this report will assist the Commission in its assessment of the effectiveness of the current ID regime in light of recent international best practice.
44. The report outlines the airport regulation that exists in Australia and the UK, which are both principally subject to information disclosure requirements aimed at providing information relevant to monitoring and negotiation of airport price and service levels. The report also highlights some findings from these countries including the benefits and risks of different forms of regulation.
45. At a high-level, governments in both these countries are concerned that regulation is fit-for-purpose, and is designed to be flexible, targeted and proportionate. Both governments employ a cautious use of price control, due to the costs it imposes and the associated impacts on the incentives to invest (and ultimately prices and service quality for users).
46. It notes that with respect to the regulation of airports, there is a trend towards commercial negotiations and agreements, supported by light-handed regulation and backed by the threat of ex post enforcement if necessary.
47. A copy of this report is attached with this cross submission.

Air NZ Confidential Submission

48. WIAL is disappointed that Air NZ has chosen to provide the Commission with both a public and confidential version of its submission. WIAL is uncertain as to why Air NZ has done this and assumes that the material redacted from the public version (which appears to disclose potential changes in air fares) is considered to be commercially sensitive by Air NZ.

¹³ Air NZ Limited Submission to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review 29 June 2012, page 28, paragraph s 117-119

¹⁴ BARNZ Responses to Commerce Commission Questions Relating to Process, dated 28 June 2012, pages 4-5

49. WIAL requests the release of this information in order that it and other parties can make submissions on its validity. Alternatively, WIAL considers that the Commission should ignore the redacted material in fairness to other parties.

Introduction

Scope of this Cross Submission

50. This is WIAL's cross submission in respect of the submissions made by Air NZ and BARNZ on the Process and Issues Paper issued by the Commission.
51. It is separate to the submission and cross submission made by NZ Airports which were prepared with input from and is fully supported by WIAL.
52. WIAL notes that due to the extensiveness of the submissions by Air NZ and BARNZ, WIAL confirms that where it has not responded to certain statements made in their submissions, this should not be taken as acceptance or agreement of such matters.

WIAL Contact Details

53. WIAL will be pleased to provide any further information required in support of this submission. Our contact person is:

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Requirements for Review

Application of IMs

54. Air NZ and BARNZ have repeated throughout their submissions that WIAL has not adopted IMs in its AAA pricing consultation and consequently concluded that the ID Regime is ineffective and in need of urgent change.
55. Air NZ states that WIAL's FPD "*shows a complete disregard for ID regulation and the underlying IMs. WIAL's comments during the price setting process reveal the negligible effect of ID regulation and the lack of consideration given by WIAL to acting in a way that would promote the purpose of Part 4.*"¹⁵
56. This comment is wrong and Air NZ is fully aware that it is wrong. WIAL has demonstrated in its substantive submission that it did consider the appropriateness of the IMs for the determination of pricing and in fact applied these where it considered that it was appropriate to do so.¹⁶ This position was made clear to Air NZ and BARNZ during consultation and is set out in WIAL's published consultation material. In addition, with regard to cost of capital, the Act specifically provides in section 53F that suppliers subject to information disclosure are not required to apply this IM.
57. WIAL considers that there is a materially better methodology for land valuation and cost of capital, than that set out in the IMs determined by the Commission. These are subject to the current merits appeal process. Air NZ in turn has its own merits appeal regarding land valuation, where it considers that a materially better methodology should exist.
58. The IMs apply to information disclosure but not pricing consultation. The IMs were determined for the ID Regime whilst the AAA was retained for airline consultation. As submitted by WIAL and the other airports during the Commission's consultation on the IMs there is a significant risk that the IMs are seen to be mandatory for pricing as well as information disclosure. As such, the IMs will result in de facto price control. This is precisely what Air NZ and BARNZ are now proposing and since WIAL has not fully adopted the IMs it reportedly has a disregard to ID regulation.
59. WIAL has devoted considerable time and resource to complying with the ID Regime and submitted two Price Setting Event Disclosures, its 2011 Annual Disclosures and is shortly to release its 2012 Annual Disclosures. All these disclosures have been released over the last 9 months and represent a considerable focus by WIAL's management, Board and a Sub Committee which was set up to assist with the transition to the new ID Regime.
60. Notwithstanding the above, WIAL applied a building block methodology (consistent with prior pricing consultations) for calculating its required revenue during consultation. This was based on inputs considered most applicable to WIAL, such as adoption of its own cost of capital as recommend by its expert advisors. This is different to the Commission's cost of capital which is based on airport industry parameters as opposed to WIAL specific parameters.
61. As set out in this cross submission, whilst WIAL has indeed adopted methodologies that it considers are most applicable to WIAL and based on advice from expert advisors, it has ultimately adopted a commercial approach in its final pricing. As a result, it is the pricing outcome that is relevant and not, as submitted by Air NZ and BARNZ, solely the

¹⁵ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 3, paragraph 5

¹⁶ WIAL Substantive Section 56G Submission, 6 July 2012, paragraphs 83-84

application (or not) of IMs. It is therefore important that the Commission does not allow itself to be caught in this debate and properly focusses on the outcomes that WIAL is forecasting to achieve over the pricing period.

62. In summary, we reiterate that WIAL has not disregarded the ID Regime and notes the following;
- The Act requires IMs to be developed for the ID Regime as monitored by the Commission.
 - WIAL has published clear and accurate disclosures in accordance with the Commission's Determinations.
 - WIAL applied IMs in its recent consultation under the AAA in a number of areas and consulted fully on the reasons why it was not considered appropriate to do so in a couple of specific areas.
 - The IMs are not mandatory for price setting under the AAA, and this is not their intended purpose, else airports would be subject to price control on a de-facto basis, contrary to Parliament's intent.
 - Parliament specifically determined retention of the AAA price setting provisions.
 - WIAL applied, through consultation, a number of commercial concessions to its price setting that materially offset the net impact of variations from the application of IMs – demonstrating that net outputs need to be considered and not selective inputs.
63. WIAL also highlights that Air NZ states that WIAL has not applied all revaluations to income "*as required under the IMs*" ¹⁷ and consequently that WIAL's revenue is overstated by \$10 million per annum.
64. However, the IM does not address forecast valuation changes or variations from these as is required to be addressed in pricing. The IM recognises annual revaluations on an ex post basis at CPI or the actual change in land valuation where land is revalued. The ex post application is considerably different from the treatment of a forecast variance that can occur over a five year forecast pricing period.
65. Air NZ also ignores ex post variations in any other pricing inputs. For example, WIAL's actual operating costs for the 2007-2012 pricing period were \$9.5million¹⁸ above forecast. This was principally due to two unforeseen circumstances, namely the higher cost of insurance following the Christchurch earthquakes and increased regulatory costs for the ID Regime, which was not contemplated at the time of consultation. Air NZ does not make reference to these or other variances or propose how WIAL should be compensated.

Focus on Consultation Outcomes

66. As noted above, much of the Air NZ and BARNZ submissions are directed at inputs to WIAL's consultation revenue and pricing calculations rather than outcomes.
67. An example of this is the considerable comment provided by Air NZ on WIAL's land valuation where WIAL has "*adopted an MVEU [Market Value Existing Use] approach in*

¹⁷ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 5, paragraph 13

¹⁸ Per WIAL's draft 2012 Annual Disclosures (to be published by 31 August 2012)

*absolute and deliberate contrast to the MVAU [Market Value Alternative Use] adopted in the asset valuation.”*¹⁹

68. As noted earlier, land valuation under the ID Regime is currently subject to a merits appeal and Air NZ is also appealing the Commission’s IM for land valuation. As a consequence, it is contradictory that Air NZ supports the Commission’s approach to land valuation.
69. Whilst WIAL has adopted an MVEU approach for land valuation, its forecast return on investment for the price setting period is 8% on WIAL’s specified airport services asset base and 8.75% if the Commission’s approach to land valuation is used. Both are lower than WIAL’s advisor recommended WACC and an indicative New Zealand market average of 9.3% as at December 2011 published by PricewaterhouseCoopers (“**PWC**”)²⁰. Of the five port companies included in the sample three are above 8% with Auckland Airport at 9.4%.
70. In addition, Air NZ states that WIAL “*determined a WACC of 10.51%, disregarding the Commission’s WACC figure of 7.06.*”²¹ Air NZ’s comment is contrary to section 53F of the Act which specifically provides that suppliers subject to information disclosure are not required to apply this IM.
71. Air NZ is also factually incorrect in commenting that WIAL adopted a WACC of 10.51%. WIAL did not adopt this WACC and instead excluded the 1% allowance for model error, recommended by WIAL’s expert adviser, reflecting a commercial decision by WIAL.
72. Air NZ further state then after allowing for the commercial concession, revenue is overstated by \$13 million per annum comparing to the Commission’s mid-point WACC of 7.06%. This analysis is misleading because it does not recognise WIAL’s target return of 8% for the price setting period.
73. The Commission’s range of WACC variables of 7.06% (mid point) to 8.04% (75th percentile) used by Air NZ in its analysis was published for the year commencing 1 April 2012. These were not published until 27 April 2012 i.e. until after consultation was completed. The most recent Commission WACC publication available to WIAL prior to the completion of consultation advised a WACC for WIAL of 7.75% (mid point) to 8.73% (75th percentile).
74. Furthermore, Air NZ states that WIAL “*has increased RAB through attributing regulatory uses to non-regulatory assets*”.²² This statement is incorrect.
75. WIAL has reassigned the seating area in the main terminal hall to reflect the fact that it is shared use space occupied by passengers awaiting their flights and/or purchasing commercial products. In the case of WIAL, the use of this space by passengers is amplified because of congestion in the gate lounges, where Air NZ agrees that enhancements are required, and proximity of the seating to gates. As a result, the area and associated assets are correctly reclassified as shared use assets.
76. By contrast Air NZ overlooks to mention that following feedback received during consultation, WIAL agreed to reclassify other assets either from dedicated aeronautical to

¹⁹ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 5, paragraph 12

²⁰ Appreciating Value New Zealand Edition one, March 2012, PWC – page 20

²¹ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 4, paragraph 11

²² Air NZ Limited Submission - Section 56G Review 29 June 2012, page 6, heading #4

common use, or from aeronautical use to non-regulated assets, thereby reducing the pricing asset base. The transparency of WIAL's asset allocation and responses to comments received during consultation are detailed in its published consultation documents.

77. Air NZ also comments that WIAL will achieve an increase of \$3.6 million in revenue from application of the smoothed price path. While this is correct in nominal terms it is incorrect in real terms. In consultation and in its price setting event disclosure, WIAL illustrated that the net present value of the smoothing adjustment is zero, which is consistent with the correct application of smoothing adjustments as defined in the Determination.
78. In conclusion:
- WIAL reiterates that its performance should be assessed on its outcomes as opposed to inaccurate or at best misrepresentative statements by Air NZ and BARNZ.
 - Air NZ and BARNZ do not make any reference to the return on assets set out in WIAL's FPD, which advises a return of 8.1% for the activities included in the pricing consultation.²³ This return is well below its advisor recommended WACC of 9.51%.

Focus on Actual Ex Post Outcomes not IMs

79. WIAL's actual ex post returns for the years ended 31 March 2011 and 2012, as reported in its annual disclosures are both below 7% as shown below²⁴:

Year Ended 31 March	Post Tax ROI	Commission 75 th % Cost of Capital for WIAL
2011	6.16%	8.19%
2012	6.91% ¹	7.75%

¹: Per WIAL's draft 2012 Annual Disclosures (to be published by 31 August 2012)

80. In addition to the low levels of actual return, both years report returns that are below the Commission's cost of capital for WIAL.
81. Variability and volatility from five year forecasts will occur and that it is important that ex post returns over a period of time are considered in order to assess performance.
82. The ID Regime provides an independent framework for assessment of WIAL's performance over time and between airports. The actual outcomes achieved, and forecast, by WIAL show there is no evidence that these outcomes are excessive.

ID Regime Needs to be Given Time

83. The Air NZ and BARNZ submissions dismiss the ID Regime before it has become fully operational. Air NZ notes in its submission that "*legislation has clearly failed to achieve its purpose and must be amended immediately to prevent further damage to consumers and the economy*"²⁵ and that "*regulation needs to be stronger than information disclosure.*"²⁶
84. However, the industry must respect the regime approved by Parliament and allow the regime to be fully implemented in the manner established in the Act. This includes not

²³ WIAL Final Pricing Document, page 10, section 6.3

²⁴ As derived by applying the current input methodologies. The returns would be lower if the asset valuation methodology proposed by the airports were applied.

²⁵ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 10, paragraph 27

²⁶ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 8, paragraph 22

only completion of the review in the manner prescribed by Section 56G but also completion of the monitoring reports required by Section 53B.

85. As BARNZ notes in its submission "*there has only been one set of historical information disclosure released by WIAL to date under Part 4*"²⁷ and "*Going forward it is BARNZ's expectation that the annual information disclosure will assist it in understanding WIAL's performance.*"²⁸
86. The completion of annual disclosures plus the above reviews will then provide the feedback required by the Act and allow the airports the opportunity to demonstrate through information disclosures that they are achieving the outcomes in the Part 4 purpose statement.
87. BARNZ also shares this view where it states that "*As the first sets of information have only just been released, the full extent of the benefits have not yet been experienced. However, it is BARNZ's expectation that over time the information will prove beneficial, particularly as data series are built up, and as actual performance is able to be measured against forecast performance from price setting events.*"²⁹

Alternative Forms of Regulation

88. The Air NZ and BARNZ submissions dismiss the ID Regime before it has been fully implemented and before any assessment of disclosures made under the regime.
89. Air NZ in particular proposes that the review of the ID Regime should be extended to include consideration of alternative forms of regulation, recognition of outcomes for unregulated activities within the outcomes for specified airport services and widening of the activities included within specified airport services. This is despite the fact that these issues were considered by Parliament before determining the 2008 changes to the Act and canvassed again in the Commission's consultation process to establish the ID Regime.

International Best Practice Airport Regulation

90. Air NZ submit that information disclosure "*even a new and improved version*"³⁰ would not be effective in promoting the purpose of Part 4 and suggest alternatives of negotiate/arbitrate, adoption of a single till and determining a pricing methodology.
91. A fundamental issue is that in an ineffective regulatory environment there must be evidence of inappropriate use of market power before further regulatory intervention is contemplated.
92. As WIAL submitted in its substantive submission, it considers that intrusive regulation can be detrimental to suppliers and the interests of consumers and therefore should not be implemented prematurely or lightly.
93. WIAL also highlighted in its substantive submission references to a number of reviews of airport regulation and pricing which have recently been completed in various countries around the world, including the UK and Australia.
94. WIAL has commissioned independent expert economists Sapere to prepare a report on "Recent developments in airport regulation in Australia and the UK and implications for

²⁷ BARNZ Response to WIAL Section 56G Issues Paper, dated 28 June 2012, page 1

²⁸ BARNZ Response to WIAL Section 56G Issues Paper, dated 28 June 2012, page 1

²⁹ BARNZ Response to WIAL Section 56G Issues Paper, dated 28 June 2012, page 29

³⁰ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 14, paragraph 44

New Zealand". It is intended that his report will assist the Commission in its assessment of the effectiveness of the current ID regime in light of recent international best practice.

95. WIAL highlights the key points set out in the report below:

- The form of airport regulation in Australia and UK differs to that applying to other regulated sectors (e.g. to electricity, gas and telecommunications network services):
 - In the other regulated sectors economic regulation typically involves price control;
 - The airports in Australia and UK (excluding the largest three) are subject to information disclosure requirements aimed at providing information relevant to monitoring and negotiation of price and service levels.
- The reasons given for the form of airport regulation differing to other regulated sectors include that:
 - The Airports' paying customers for aeronautical services are generally the airlines, who are well-informed and can bring to bear significant countervailing pressure in negotiations or consultations on price and service quality.
 - The cost of the airport services comprises a relatively small component of the end consumer ticket price.
 - Many airports run businesses complementary to providing aeronautical services, and the success of these is influenced by the volume of the people using the aeronautical services and their customer experience. Thus the success factors for these non-aeronautical businesses encourage airports to align their aeronautical service offerings with customer demand as regards service levels and also price.
 - In some locations there is perceived to be adequate competitive disciplines with respect to price and service quality.
- At a high-level, all three governments are concerned that regulation is fit-for-purpose, and is designed to be flexible, targeted and proportionate.
- With respect to the regulation of airports, there is a trend towards commercial negotiations and agreements, supported by light-handed regulation and backed by the threat of *ex- post* enforcement if necessary.
- Both governments employ a cautious use of price control, due to the costs it imposes and the associated impacts on the incentives to invest (and ultimately prices and service quality for users).
- In general, Sapere observe that there is a high degree of alignment between the current New Zealand Commerce Act system and the direction of reforms in both Australia and the UK.

Purpose of the Act

97. The section 52A purpose statement is central to the Commission's review. We highlight that this review is to ascertain *"how effectively the ID Regime is promoting the purpose in s 52A(1)1 of the Act in respect of specified airport services regulated under Part 4"*.
98. The overall purpose statement *"to promote the long term benefit of consumers....by promoting outcomes that are consistent with outcomes produced in competitive markets"*. In accordance with this, we have structured this cross submission to address the purpose statement and also its four limbs (a) to (d).
99. The Commission must focus on all four limbs and not almost solely on limb (d) as Air NZ has done in its submission. Furthermore, as previously submitted WIAL confirms that it considers that Parliament intended that limb (a) be given prominence.
100. WIAL has responded to the key points in the Air NZ and BARNZ submissions below.

Achievement of Outcomes Consistent with Competitive Markets

S52A(1): "to promote the long term benefit of consumers....by promoting outcomes that are consistent with outcomes produced in competitive markets"

101. In its submission, Air NZ states that *"ID has failed to promote the purpose of part 4 of the Act"* and that *"WIAL:*
- a) *Has minimal incentives to invest*
 - b) *Has minimal incentives to improve efficiency*
 - c) *Is not providing services at a quality that reflects consumer demands*
 - d) *Is not sharing with consumers the benefits of efficiency gains in the supply of services regulated under the Act; including through lower prices*
 - e) *Is not limited in its ability to extract excessive profits"*³¹
102. WIAL finds it incredulous that Air NZ considers that WIAL has failed every limb of Part 4 and comments on each of these limbs later in this cross submission.
103. In WIAL's view in addition to consideration of the specific limbs in the purpose statement WIAL's objectives and outcomes must be considered in any evaluation of outcomes consistent with competitive markets and the long term benefits for consumers. WIAL considers that the following matters evidence behaviour of outcomes consistent with competitive markets:
- Achievement of commercial agreements;
 - Fostering of competition; and
 - Price setting behaviour and commercial compromise.

Achievement of Commercial Agreements

104. An effective regulatory environment will encourage commercial agreements to be achieved between the parties in the industry and only require regulatory intervention to address exceptions from appropriate behaviour.

³¹ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 14, paragraph 42

105. The current combination of the AAA pricing consultation requirements and the ID Regime creates an environment where agreements can be established between airports and most airlines.
106. WIAL has been open to commercial agreements with its airlines for many years and has had commercial agreements with most of its major airlines. This remains WIAL's preferred relationship with its airline customers.
107. As highlighted in WIAL's substantive submission, the price monitoring regulatory environment in Australia has also similarly fostered agreements with the major Australian airports having agreements in place with the major Australian airlines.

Fostering of Competition

108. WIAL notes that in Air NZ's submission it commented that airlines have the most informed view of passenger service quality requirements and comments that *"it may be that the purpose of Part 4 in relation to quality is best achieved by requiring airline (customer) agreement to investments in quality"*.³²
109. The reality is that Air NZ has a dominant presence at all New Zealand airports and consequently requiring approval from Air NZ for investment would introduce a significant risk that competition would be stifled. WIAL has previously commented on examples of Air NZ's disagreement with historic capital developments that subsequently enabled WIAL to accommodate increased airline competition. WIAL commented in its substantive submission:³³
 - *"WIAL would have had to shorten the operating length of WIAL's runway (to enable the RESAs [Runway End Safety Area] to be provided within the existing runway envelope) which would have resulted in payload reductions (the amount of weight that could be carried on aircraft) for Qantas and Pacific Blue. As a result, fewer passengers could be carried by these airlines on each aircraft and the commercial viability of the flights would therefore be reduced.*
 - *WIAL would not have been able to provide the equivalent apron and air bridge facilities for Pacific Blue's domestic services if it had not proceeded with the terminal works."*
110. WIAL is therefore strongly of the view that airline approval of investment would be detrimental to the long term interests of consumers.
111. WIAL also notes that the most significant influence on the cost of air travel for consumers is competition between airlines. Air fares are clearly higher on routes where only one airline operates.
112. WIAL seeks to influence the level of competition by:
 - Development of commercial agreements with airlines as commented above.
 - Ensuring that appropriate infrastructure is available for use by carriers wishing to operate at WIAL (whilst also noting that capital developments are subject to AAA consultation).
 - Ensuring that airline prices are appropriate and do not act as a barrier to airlines operating at WIAL. The Leigh Fisher and Airbiz benchmarking data provided in

³² Air NZ Limited Submission - Section 56G Review 29 June 2012, page 51, paragraph 246

³³ WIAL Substantive Submission, page 29, paragraph 164

WIAL's substantive submission dated 6 July demonstrates that WIAL's charges are mid to lower range compared with the international and Australasian markets.

Price Setting Behaviour & Commercial Compromise

113. Air NZ and BARNZ comment that WIAL's consultation was not appropriate, and that the ID Regime is ineffective, because WIAL did not adopt the IMs to establish its pricing. WIAL has commented earlier on this matter.

114. WIAL is required to consult on prices by the AAA and then set prices "as it sees fit". Air NZ in particular makes much of this highlighted wording however in reality it is evident that WIAL comprehensively considers the airlines views and the regulatory environment before it sets prices. WIAL decided to publish its consultation material for the 2012-2017 pricing period on its website www.wellingtonairport.co.nz. This was undertaken to highlight the extent of consultation, in both its process and extensiveness, and also the significant exchange of views and commercial compromise.

115. The consultation is far from unrestrained as suggested by Air NZ and shows numerous evidences of commercial concessions and changes in approach following airline feedback. This is clear in both the most recent consultation, and those preceding it, from the binding arbitration, wash up arrangements and commercial concessions.

116. Examples of commercial concessions or arrangements from previous consultations are:

- In all of its consultations WIAL has varied the proposed building block inputs following the receipt of feedback from airlines.
- WIAL and all major airlines operating at WIAL entered into a Deed for the 1997-2002 pricing period. This Deed established agreed prices for the pricing period, a pricing adjustment mechanism that operated through the period and operating entitlements the airlines would have in the new terminal building. As part of reaching agreement WIAL accepted a lower cost of capital in return for litigation over the new terminal being withdrawn.
- Following on from the Deed WIAL submitted to a binding arbitration concerning its valuation methodologies as part of the process to set prices for the 2003-2007 pricing period. The arbitrator was former High Court Judge Sir Ian Barker. The arbitration endorsed the MVEU and optimised depreciated replacement cost methodologies that were being applied by WIAL.

WIAL notes that Air NZ has subsequently shown no regard for the commercial approach taken nor the outcome from the arbitration.

- WIAL and Air NZ reached a growth agreement in respect of the 2003-2007 pricing period. This resulted in rebates of approximately \$14 million being paid to Air NZ during the term of the agreement.
- WIAL sought to establish a similar growth agreement with Air NZ for the ensuing pricing period. Air NZ, however, insisted that the level of rebates should continue without reference to future passenger forecasts. As a result a commercial agreement could not be progressed.
- For the 2007-2012 pricing period WIAL agreed to establish a revaluation wash up arrangement and also a possible credit with respect to completion of the Northern Pier. These wash ups were to apply in the following pricing period should actual asset revaluations and/or timing for the completion of the North Pier terminal

development vary to forecast assumptions. WIAL notes that it also targeted a return on assets of 9% for this pricing period, which was below its cost of capital.

- In prices set for the 2013-2017 period WIAL has given effect to the prior period revaluation wash up arrangement as part of its commercial concessions, and has provided a credit of \$21 million³⁴ regarding the terminal development expenditure. WIAL has also adopted a valuation and cost of capital below those recommended by its external advisers.
- WIAL's expected return on investment for the 2012-2017 pricing period is 8.0% using WIAL's asset valuation methodologies. This is well below WIAL's cost of capital.

117. Far from setting prices in an unconstrained fashion as implied by Air NZ and BARNZ, WIAL considers that it has demonstrated appropriate commercial behaviour and judgments in consultation.

Incentives to Innovate and Invest

S52A(1): "to promote the long term benefit of consumers...by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services:

(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets"

118. Air NZ comments that "*WIAL is not incentivised to undertake activity that does not increase investment and is not incentivised to ensure that investment is efficient*".³⁵ BARNZ also notes that WIAL has not been "*tardy to invest*".³⁶

119. WIAL considers that this is another example of where both parties are choosing to ignore the reality of WIAL's past behaviour in pursuit of their overriding objective to garner heavy handed regulation.

120. Whilst it is true that airlines are leaders in airline investment and innovation, WIAL considers that it too has a history of well-managed, innovative and appropriate investment in airport infrastructure. WIAL demonstrated in its substantive submission the developments that it had achieved, and was planning to achieve for its business.³⁷ In addition, WIAL set out its process for assessing and determining infrastructure requirements, which includes master planning, consultation for individual projects under the AAA and consultation on capital expenditure forecasts for the setting of prices under the AAA at least every five years.

121. By their nature, airport investments have long lives and often involve significant lead times, such as to acquire future airport land. As a result, this requires a robust discipline in development and infrastructure planning and consultation with stakeholders.

³⁴ WIAL Final Pricing Document, pages 8-9, paragraph 6.1

³⁵ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 14, paragraph 45

³⁶ BARNZ Submission to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review 28 June 2012, page 13

³⁷ WIAL substantive submission 6 July 2012 pages 42-45

122. WIAL notes that the threshold for capital expenditure that requires consultation is currently set at 20% of aeronautical assets in the AAA. However, BARNZ and NZ Airports are currently working together to reduce this threshold to a lower amount of \$30 million.
123. In addition, WIAL will typically consult on projects at a much lower level of expenditure than this since it is important that stakeholder input is obtained. WIAL is currently consulting in respect of three terminal development projects with a total combined cost of approximately \$25 million.
124. During the consultation for the 2012-2017 pricing period, WIAL responded to the comments received by Air NZ and BARNZ regarding its capital expenditure forecasts. As Air NZ noted in its submission, other than \$3.5 million of operational compliance expenditure, which Air NZ and BARNZ regard as being required for Code D/E aircraft, it did not have any objections to the remainder of the capital works forecast.
125. WIAL notes that the new ID Regime will increase transparency of WIAL's investment decisions through the Price Setting Event Disclosures, which require 10 year capital forecasts with detailed support and analysis of key capital projects. In addition, the Annual Disclosures report actual expenditure against forecast for both the year and period to date with an analysis of variances.
126. This increased transparency will further assist interested persons in assessing whether WIAL is innovating and investing appropriately and whether this is consistent with outcomes produced in competitive markets.

Incentives to Improve Efficiency and Provide Services at a Quality that Reflects Consumer Demand

S52A(1): "to promote the long term benefit of consumers....by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services:

(b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands"

Efficiency and Service Quality

127. Air NZ makes the specific statement that *"Where this innovation involves improving efficiency and lowering investment there is simply minimal incentive to innovate"*.³⁸
128. This statement is incorrect.
129. By way of example, for the 2012-2017 pricing period, WIAL has forecast a growth in passenger numbers and changes in airline fleet. WIAL has identified through its passenger quality surveys that its gate departure lounges and amenities needed improvement.
130. As a consequence, WIAL has forecast capital development projects to improve facilities in the South West and South Piers to improve passenger amenity as well as enabling redesign of the apron.
131. These projects will however not enable WIAL to accommodate the expected long term increases in demand and WIAL expects to meet this demand by increasing utilisation of the Northern Pier for domestic services. This has been made possible due to the

³⁸ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 17, paragraph 57

installation of swing gates and common user terminal flexibility that was built into the Northern Pier during its most recent developments.

132. This demonstrates a significant improvement in efficiency where WIAL is seeking to increase utilisation of its existing facilities rather than committing to more substantial expansion of other piers.
133. WIAL's new price structure for the 2012-2017 pricing period also seeks to encourage efficient utilisation of facilities and we comment on this below.
134. Air NZ also comments that airlines are best informed about end user service quality expectations and consequently quality investment should be subject to demand from airline customers. We have addressed this issue in paragraphs 29 to 30 above.
135. WIAL again highlights that the new ID Regime will increase transparency and accountability, including the reporting of service quality levels. This has already had an immediate impact at WIAL, where operational reliability and passenger service quality levels are reported and assessed in operational forum meetings.
136. Over time the ID Regime will require WIAL to demonstrate its response to passenger perceptions of quality and to comment on its performance.

Price Structure

137. Air NZ and BARNZ make considerable comment concerning WIAL's new price structure for the 2012-2017 pricing period. WIAL notes that the new structure is a significant component of WIAL's objective to increase efficient utilisation of WIAL's facilities and accordingly we comment on the issues raised.
138. WIAL's new price structure was derived following consideration of advice and reports from its external advisers Leigh Fisher³⁹ and Sapere⁴⁰ and responses received during consultation. These advisor reports and responses thereon are available on WIAL's website.
139. WIAL's fundamental objective was to establish a price structure that encouraged efficient use of WIAL's facilities such that they:
 - Seek to encourage efficient use of WIAL's facilities where congestion is occurring or is expected to intensify.
 - Seek to incentivise airlines to generate the growth in passengers included in the forecast for the period.
 - Seek to align prices for all airport users receiving equivalent services. For airlines carrying passengers this in effect means paying the same average charge per passenger.
 - Seek to recover fixed costs in an efficient manner.
140. Achievement of these objectives provides efficiency benefits to consumers because they ensure the availability of facilities to passengers and they reduce the requirement for WIAL to undertake further investment on facilities in the short term.
141. WIAL has also included an incentive arrangement in its pricing structure to encourage airlines to grow the number of passengers at WIAL thereby resulting in lower average

³⁹ Leigh Fisher, Pricing Review of Aeronautical Services at Wellington Airport, International Airport pricing practices, 14 July 2011

⁴⁰ Sapere Research Group, Pricing review of Wellington Airport's aeronautical services, 15 April 2011

prices per passenger. Successful operation of the incentive scheme will produce long term benefits for passengers.

Balancing of charges across aircraft types

142. Air NZ and BARNZ have in their submissions highlighted the increases in cost per passenger for regional turbo propeller aircraft over the pricing period. These changes are a product of the move toward a similar charge per passenger for passengers on all aircraft types. The reasoning behind this change is described in section 38 of the FPD. The gradual balancing of charges aims to maximise the efficient use of the runway. It works to achieve this by removing the cost incentive to operate smaller aircraft.
143. The effective discount on a per passenger level equated to 41%⁴¹ under the previous price structure and this had the potential to limit growth by encouraging the use of low capacity aircraft in the limited peak period runway slots available. For example prior to 1 April 2012 an airline would have paid less in fees to operate 9 to 10 19 seat aircraft movements than for a single A320 movement even though the smaller aircraft activity uses almost 10 times the runway capacity. Arguably from an economic allocation perspective a flat runway charge would be most efficient but WIAL considered that moving to a comparable charge per passenger for all aircraft types over the pricing period is appropriate at this stage.
144. This change in price structure has the greatest effect on Air NZ's B1900 operations but only serves to increase average B1900 cost per passenger to a lower amount than the equivalent cost of a domestic A320 passenger off peak (2017 average cost per passenger A320 = \$13.13 and B1900 = \$11.48).

Introduction of Congestion or Peak Period Pricing

145. Air NZ refers to WIAL's introduction of peak period pricing and comments that this is not necessary because WIAL has not demonstrated that capacity constraints exist, airlines are managing congestion well and the outcome is a rebalancing of charges between jet aircraft and smaller regional aircraft.
146. WIAL clearly demonstrated that runway congestion exists and that peak period charging in combination with seeking other opportunities to relieve congestion through discussions with the operators at WIAL was appropriate. WIAL is currently working with Air NZ discussing options to better utilise apron capacity due to this peak time congestion. Notably peak time congestion is a barrier to entry for new competition and it is therefore in the interests of incumbent carriers to control capacity addition. Detailed comments are provided in WIAL's PSE⁴².
147. WIAL notes that BARNZ acknowledges the benefits of peak period or congestion pricing and commented:

"On the other hand, the introduction of peak pricing charges should provide improved signals to airlines over runway capacity and scarcity of airport resources at peak times.

Likewise the move to setting counter charges and aircraft parking (beyond an efficient allowance for the unavoidable time necessary to achieve the turn-around of

⁴¹ WIAL Final Pricing Document page 104

⁴² Price Setting Event Disclosure for the Pricing Period 1 April 2012 to 31 March 2017, 30 April 2012, pages 57-59.

an aircraft) on a time basis should also improve pricing signals to airlines over the time that they occupy these limited resources.⁴³

148. The differences in the changes to charges for different aircraft types are a function of WIAL's objective to rebalance charges between passengers and is the outcome of WIAL's approach to pricing for different services.
149. In particular, as noted earlier in order to accommodate future passenger growth and mitigate the need for substantial terminal development the North Pier will be utilised on an increasing basis for domestic services. This supports WIAL's treatment that the entire terminal should be regarded as a common passenger facility.
150. Similarly for the use of airfield facilities WIAL has sought to rebalance these such that by the end of the pricing period each passenger will pay approximately the same charge irrespective of the type of aircraft they fly on. WIAL considers that each passenger receives the same effective service from WIAL and consequently aligning charges more closely per passenger is the appropriate approach.

Incentives for New Capacity Funded from Aeronautical Charges will Result in Windfall Gains to WIAL

151. Air NZ comments that the incentive arrangement contained in WIAL's pricing schedule is inconsistent with the purpose of part 4 and will not share efficiency gains with customers.
152. Air NZ's claim cannot be substantiated. Incentivising airlines to grow passenger volumes means that future required revenues will be obtained from a larger passenger base. Clearly this therefore produces efficiency benefits for passengers. WIAL demonstrated in its FPD that average aeronautical prices are lower per passenger with the incentive arrangement in place than they would be if the forecast volume growth was withdrawn and required revenue sought from a smaller passenger base⁴⁴. Clearly this is in passengers interests.
153. Air NZ also comments that the incentive scheme discriminates against airlines with no countervailing power. Again this claim has no foundation. The incentive arrangement is available to all airlines that generate growth in passenger numbers.
154. The incentive arrangement has been published and is therefore fully transparent. The consequence of this is that airlines make the decision as to whether they wish to invest capacity at WIAL with certainty of the incentive benefits available.
155. Air NZ's comment that a fair scheme would provide discounts that are proportional to customer volume and value appears to miss the fundamental driver of the incentive programme. It is clear that such an approach would favour Air NZ as the highest volume operator at the airport, potentially at the expense of other airlines looking to grow the market. Instead of rewarding Airlines for existing traffic, the incentive program is designed to encourage new investment in the market, providing discounts to those operators who take the risks associated with adding new capacity. These discounts could equally rest with Air NZ or other carriers depending upon the decisions made to add capacity to Wellington.
156. Air NZ also comments that the incentive scheme is funded from the aeronautical revenue with no funding from the complementary business. The cost of the incentive arrangement

⁴³ BARNZ Response to WIAL Section 56G Issues Paper page 27

⁴⁴ WIAL Final Pricing Document 1 March 2012, page 110

is offset by the revenue added by the additional traffic generated by the incentive. This is the mechanism that delivers a lower charge per passenger than would otherwise occur.

157. Air NZ states that if new capacity is provided by a mix of carriers WIAL may not make the incentive payments because the minimum three services per week threshold will not be provided by a separate carrier. This is a feature of an incentive scheme designed to encourage growth beyond what would otherwise be expected from incremental economic growth. In respect of capacity on existing trans-Tasman routes, if one airline does not seek to gain a competitive advantage and introduce sufficient new capacity to meet the threshold they will not qualify for the incentive. This is intended to encourage an airline to take the initiative to invest in the growth required to avail of the incentives. The remainder of the international incentives relate to new routes on which it is unlikely that carriers would commence operations at frequencies lower than 3 flights per week.
158. WIAL shares the risk of traffic volumes and if growth is not achieved WIAL will not meet its revenue forecast. There are a range of offsetting volume risks associated with the five year passenger forecasts. The inclusion of an incentive arrangement served to add passenger growth to the forecasts over the period and in line with those forecasts WIAL anticipates that the incentive thresholds will be met and the incentive discounts will benefit carriers adding capacity.

Disaggregated Charges

159. Air NZ notes that WIAL has introduced disaggregated charges to encourage efficient use of assets but has not been consistent in the charges have not been disaggregated for air bridges and baggage handling.
160. WIAL considered the proposal for discrete charges during consultation and provided comment in its Revised Pricing Proposal (“RFP”).⁴⁵ The charges represent a small fraction of an airline charge, and WIAL commented as follows:
- A separate charge for air bridges could not be justified economically with the prospective consequence being that customers could be discouraged from using existing infrastructure. In addition, WIAL has been investing in additional facilities to enable rear stair embarkation and disembarkation to improve operating efficiency; and
 - WIAL advised that there were technical complexities in introducing a charging system for baggage handling and invited the airlines or BARNZ to “bring forward a technological solution which would enable an effective charging system if such a solution is known to them”⁴⁶. WIAL did not receive any subsequent advice from the airlines and consequently the prospect of this charge was not developed further.

Aggregated Charges and Cross-Subsidies for Terminal Usage

161. WIAL has explained above its rationale for treating the terminal as a common facility and levy an equivalent terminal charge for all passengers.
162. Air NZ comments that this results in domestic passengers subsidising international passengers and turbo prop aircraft passengers subsidising jet passengers.

⁴⁵ WIAL Revised Pricing Proposal, 22 November 2011, pages 68-70

⁴⁶ WIAL Revised Pricing Proposal, 22 November 2011, page 70

163. WIAL considered Air NZ's response in consultation but did not agree with this because efficiency principles suggest that a cross subsidy only arises where passengers are charged lower than the marginal cost. This is not the case at WIAL.
164. Air NZ now comment in its submission that because the marginal cost of an additional passenger is so low the economic rationale does not provide an appropriate basis for considering potential cross subsidisation.
165. Air NZ's view is incorrect and increasing common usage of the entire terminal is correctly recognised in the price structure. As described in the FPD⁴⁷, due to the limited gate lounge space available a growing number of domestic passengers are required utilise the North pier formerly devoted to International services.

Existence of Other Cross Subsidies

166. In addition to the terminal BARNZ refers to two other areas where it considers cross subsidisation may be occurring.
167. The per tonne charge for aircraft weights above 100 tonne is 10% of the weight charge per tonne for under 100 tonnes. BARNZ consider that larger aircraft require increased runway facilities and therefore should incur a higher charge⁴⁸, implying that larger aircraft will pay less for the use of facilities than smaller aircraft under the new price structure. WIAL notes that the larger aircraft will pay a significantly higher total charge and this reflects any additional costs incurred.
168. For instance, a 777-300 aircraft exceeding 100 tonne such as those operated by Air NZ would pay \$4,876 per movement at a 75% load factor at current 2012 charging rates. This compares to a smaller B1900 aircraft which, whilst paying a higher charge per tonne, faces significantly lower movement costs of \$95.
169. BARNZ also note that there is an inconsistency in the way the passenger component of airfield charges is addressed compared to the terminal. Different per passenger contributions are required from domestic and international passengers. BARNZ attempts to raise this feature in the context of catching WIAL acting inconsistently⁴⁹. On the contrary, WIAL agrees that this is an anomaly due to the legacy of the previous pricing approach. WIAL's pricing structure over the 2012-2017 pricing period seeks to address this gradually over the pricing period such that by the end of the period the charge per passenger is more closely aligned for passengers carried on all aircraft types. WIAL considers that this is most reflective of the use of the facilities at WIAL and establishes the situation were airlines have no incentive to manage aircraft allocation to minimise airport charges.

Prices are Less Cost Reflective

170. BARNZ comments that prices are less cost reflective because:

"WIAL has moved away from its previous approach of treating the food court seating area as a commercial activity and has now treated this as common space, allocating to aeronautical activities 75% of the costs of the café and bar seating space.

⁴⁷ WIAL Final Pricing Document page 106

⁴⁸ BARNZ Response to WIAL Section 56G Issues Paper page 25

⁴⁹ Ibid

WIAL has ceased to apply its air-bridge charge, which had existed since the terminal opened in 1997.

WIAL has ceased to allocate terminal costs to domestic and international activities, despite the fact that the Southern Pier is not able to be used by international operations, and there are large amounts of the International Terminal Rock development which will not be used by domestic operations – even if some gates are occasionally operated as swing gates.⁵⁰

171. WIAL has responded to the specific issues in respect of the terminal allocation and disaggregation of charges above.
172. At a fundamental level however WIAL's revenue and prices reflect the allocation of operating costs for the specified airport services as is evident from the building block calculations.
173. In making these comments BARNZ does not recognise that WIAL's pricing structure has been developed to encourage efficient use of WIAL's facilities rather than the historical approach of focussing on notional average cost recovery. This is also in contrast to the fact that BARNZ acknowledges the pricing approach taken by WIAL will incentivise efficient use of congested or scarce facilities.

Introduction of Aircraft Parking Charges

174. Air NZ comments that the introduction of aircraft parking charges was unnecessary because airlines are self-interested in freeing up gates to efficiently utilise aircraft. They further comment that parking charges in fact produce an inefficient outcome in that Air NZ has been incentivised to tow aircraft of aircraft gates to avoid the parking charge.
175. Air NZ's rationale does not withstand scrutiny. Aircraft gate capacity is scarce at peak times and this is forecast to increase as aircraft sizes increase thereby occupying larger gate footprints within WIAL's small land holding. The necessity to redesign the southern apron is recognised by the airlines and discussions are currently underway regarding prospective options.
176. If Air NZ is towing aircraft from gates to avoid parking charges this in fact demonstrates that the introduction of the charges is incentivising the appropriate behaviour and aircraft are being removed from gates when Air NZ is not utilising them to operate services.
177. BARNZ's, by contrast shows support for the new parking charges stating that *"the move to setting counter charges and aircraft parking (beyond an efficient allowance for the unavoidable time necessary to achieve the turn-around of an aircraft) on a time basis should also improve pricing signals to airlines over the time that they occupy these limited resources.⁵¹"*

Changes to Check in Facility Charges

178. Air NZ suggests that WIAL has excess check in counter capacity and consequently a charging structure seeking efficient use of check in facilities is unnecessary.
179. This is not correct and WIAL has had difficulties in the past with securing counter space for use by new carriers to Wellington. Furthermore if a new carrier were to commence operations at WIAL the previously utilised fixed term lease arrangements for counters

⁵⁰ BARNZ Response to WIAL Section 56G Issues Paper pages 24-25

⁵¹ BARNZ Response to WIAL Section 56G Issues Paper page 27

would have made it difficult for WIAL to accommodate the new airline at short notice. An airline seeking to operate wide body aircraft services could seek to utilise as many as 9 check-in counters for a check-in period. Air NZ's assertion that WIAL has excess counters would therefore be reliant on multi-user arrangements such as those implemented in the FPD to cater for growth of this nature.

180. It should also be noted that the check in facilities include queuing and baggage drop areas which require considerable floor space. This is beyond the requirement for space occupied by counters and kiosks.
181. Air NZ also comments that the terminal space has been reclassified as aeronautical common so that WIAL can achieve improved returns. Air NZ is incorrect. The space has retained the same area classification since the new terminal opened in 1999.
182. The new charging mechanism for counters introduced for the 2012-2017 pricing period is seeking to further increase efficient use of check in facilities so that expansion of these facilities is not required in the short term. However the revenues remain part of the total aeronautical revenues and are offset against the total revenue required. The change in pricing approach will therefore not produce an increase in total required revenue.
183. Air NZ refers to the forecast income in consultation of \$1.1 million from counter revenue with Air NZ estimating their share at \$0.7 million. Air NZ then comment that the charging approach will actually generate \$2.2 million in charges to Air NZ. The FPD estimated a number of counter hours required for the check-in of Air NZ passengers and a methodology for calculating the forecast revenue from check-in counters over the pricing period. Although invited to do so, Air NZ did not provide input to these assumptions during the consultation period. Following the issuance of the FPD, Air NZ has now stated that it will require additional counter hours and will therefore incur additional cost. WIAL has agreed to work with Air NZ in good faith to investigate a commercial agreement which will address this difference.

LUMINS Charges

184. WIAL notes that *"Air NZ agrees in principle with the approach to charging for noise and district plan (LUMINS) related costs."*⁵²
185. However it is extraordinary that Air NZ then expresses disappointment that WIAL established the charge within the AAA regime rather than through a separate commercial arrangement.
186. In May 2011 WIAL proposed a commercial arrangement during consultation including provision of a draft Heads of Agreement. Furthermore, WIAL proposed this agreement could be discussed outside the consultation process.
187. Air NZ and BARNZ did not provide feedback on this commercial agreement.
188. WIAL ultimately advised the airlines that if an agreement was not reached within the consultation period it intended to establish a charge under the AAA.
189. WIAL did in fact establish this separate charge but advised that it remained willing to consider a commercial agreement:

⁵² Air NZ Limited Submission - Section 56G Review 29 June 2012, page 60, paragraph 305

“However, WIAL remains willing to progress a long term commercial agreement with the airlines, which it considers would provide greater certainty for all parties involved.”⁵³

190. WIAL remains committed to a commercial agreement and notes that it met with Air NZ and BARNZ senior management at a meeting on 17 July 2012 to progress this matter further. At this meeting all parties agreed to progress discussions and supported a separate commercial agreement.

⁵³ WIAL Final Pricing Document page 123

Sharing of Efficiency Gains with Consumers

S52A(1): “to promote the long term benefit of consumers....by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services:

(c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices”

191. Air NZ notes that “*Information Disclosure has not resulted and is unlikely to result in sharing the benefits of efficiency gains*”.⁵⁴

192. Unfortunately, Air NZ then provides an analysis of whether WIAL is sharing efficiency gains through evaluation of WIAL's total airport business. This is despite the Commission's review not being to consider non-regulated business.

Air NZ Analysis

193. Air NZ has presented an analysis of WIAL's annual report to illustrate the return on investment (“**ROI**”) achieved in 2012.⁵⁵ WIAL notes that the analysis is fundamentally flawed and therefore provides no meaningful information. Air NZ have allocated asset revaluations as income to a single financial year and reported a ROI including these revaluations. This is incorrect with the revaluations representing asset value movements over a longer period and also includes both forecast and unforecast revaluations.

194. Air NZ also comments that because revenues have grown faster than costs that this is reflective of efficiency gains not being shared with consumers. Air NZ has not presented the complete set of facts.

195. Revenue is not only a function of costs but also other components of the building block model, such as investment in new facilities (and the cost of providing this investment through depreciation).

196. Air NZ also refers to the reclassification of “*\$13 million of assets associated with the main terminal retail hall to “commercial”*”⁵⁶ as reflecting WIAL's objective to maximise profits. This comment is incorrect.

- The \$13 million of assets represents the value of thoroughfares in the terminal leading from check in to the piers. WIAL implemented a commercial concession for the 2007-2012 pricing period where these spaces were allocated to the non-regulated business.
- In the consultation for the recent 2012-2017 pricing period, WIAL elected not to continue this particular concession. It is unquestionable that the thoroughfares are appropriately classified as common use assets.
- WIAL also reviewed its classification of seating areas within the main terminal hall and reclassified these from retail to terminal common use assets in its consultation for the 2012-2017 pricing period. The total value of these assets was less than \$3 million.

⁵⁴ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 18, heading 3.5

⁵⁵ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 19, Table 4

⁵⁶ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 21, paragraph 78

- WIAL provided an explanation during consultation that the gate lounges in the piers were congested and that passengers utilised the main terminal building while waiting for flights. WIAL's reclassification of the main terminal hall seating area as a shared or common use asset is appropriate.
- Air NZ has also not reported the fact that following airline submissions WIAL reclassified several other areas in the terminal during consultation, such that the aeronautical asset base was reduced. These changes are explained in WIAL's consultation documentation.

Price Structure

197. WIAL has noted above the intended objectives and benefits of its new price structure for the 2012-2017 pricing period.
198. Achievement of these objectives provides efficiency benefits to consumers because they ensure the availability of facilities to passengers and they reduce the requirement for WIAL to undertake further investment in facilities in the short term.
199. In addition, the successful operation of the incentive scheme will produce long term benefits for passengers. It is intended to produce a lower average price per passenger than if it was not in place⁵⁷ and seeks to achieve long term growth in the passenger base at WIAL therefore enabling fixed costs to be spread over an increasing number of passengers.

Operating Costs

200. Air NZ recognises that WIAL is forecasting a decrease in operating costs per passenger over the 2012-2017 pricing period however they seek to diminish this because revenue per passenger is increasing.
201. WIAL considers that it has demonstrated its commitment to efficient cost management by forecasting a real decrease in operating costs per passenger over the pricing period. In addition, as previously stated it continues to be the most cost effective of the major Australasian airports⁵⁸.
202. WIAL considers that this management of costs demonstrates a sharing with consumers of the benefits of efficiency gains.

⁵⁷ Refer to pages 108-111 of WIAL's Final Pricing Document

⁵⁸ WIAL substantive submission 6 July 2012 pages 41-42

Limit in Ability to Extract Excessive Profits

S52A(1): “to promote the long term benefit of consumers....by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services:

d) **are limited in their ability to extract excessive profits”**

203. Air NZ and BARNZ have provided considerable comment and analysis in their submission of the profits earned by WIAL and endeavoured to demonstrate that these are excessive. However, in performing this analysis both parties ignore the forecast return and outcomes of WIAL’s pricing consultation and also the actual ex post returns reported under the ID Regime. We have commented on these returns earlier in this submission.

Excessive Returns In Excess of IMs

204. Air NZ comments that WIAL “*extracts revenue and profit of at least \$117 million over the five year period, in excess of those expected under the IMs for asset valuation (including revaluations) and WACC*”.⁵⁹

205. The following matters should be recognised when assessing Air NZ’s calculations:

- Air NZ applying the Commission’s IMs, in particular:
 - Commission’s mid-point WACC of 7.06%; and
 - Removing an estimate for land conversion costs from WIAL’s land valuation.
- WIAL has previously noted that IMs are not mandatory for AAA pricing consultation. In addition, the land valuation and cost of capital IMs are still subject to the merits review proceedings.
- Air NZ ignore the fact that pricing was established as a commercial package and that any change to fundamental inputs and approaches would logically include a reconsideration of commercial concessions.
- Air NZ also ignores that WIAL’s return needs to be assessed based on its forecast outcome for the pricing period, namely its 8.1% return on pricing assets.

206. In short the Air NZ analysis is based on an assumption that IMs must be adopted as de facto price control.

207. BARNZ similarly refers to WIAL’s over recovery, which is slightly lower at \$99 million for the 2012-2017 pricing period.⁶⁰ We note that in applying BARNZ’s alternative methodology, it states that this would result in WIAL’s prices needing to reduce by 12.5%.

208. WIAL considers that both Air NZ and BARNZ’s analyses are not based on complete evidence or facts. As noted earlier, WIAL is forecasting to earn a return lower than its cost of capital for the 2012-2017 pricing period, its actual returns per its Annual Disclosures for 2011 and 2012 are both below 7% and its pricing has been benchmarked at lower to middle range in Australasia and worldwide.

⁵⁹ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 4, paragraph 7

⁶⁰ BARNZ Submission t to the Commerce Commission Commerce Act 1986, Part 4 Section 56G Review 28 June 2012, page 3

Air NZ Analysis of WIAL Profits

209. Air NZ has evaluated WIAL's historical and forecast outcomes from a number of perspectives, which are responded to below. However, our comments illustrate that misinterpretations can easily be developed from incorrect or inappropriate presentation of data. We reiterate that the new ID Regime should prevent this risk since it is based on prescribed IMs consistently applied over time and by each airport.

210. In respect of Air NZ's comments we note the following matters:

- Growth in WIAL's regulatory revenue – Air NZ illustrates the change in revenue compared to the change in passengers.⁶¹ However, as noted earlier this analysis is incomplete without any reference to other components of the building block model. This analysis ignores other components such as the cost of investments made during the period, the change in operating costs, Consumer Price Index or indeed actual returns achieved.
- Excessive profits compared to IMs – Air NZ reports its calculation of the difference in the revenue impact of WIAL's pricing approaches compared to the valuation and cost of capital IMs. However, in respect of cost of capital this analysis incorrectly assesses the difference between the cost of capital mid-point WACC published by the Commission and WIAL's cost of capital of 9.51%. This is incorrect as WIAL is not forecasting to achieve its cost of capital in the next pricing period with its estimated return at 8% for the period. Air NZ also fails to consider the actual returns WIAL is achieving within the ID Regime as reported above.
- Excessive profits against incremental investment – a comparison of the increase in revenue to investment over the pricing period is incorrect because it ignores all other factors leading to an increase in revenue including changes in operating costs and WIAL's low regulatory returns on investment for the previous pricing period.
- Excessive profits within overall business of WIAL – Air NZ illustrates WIAL's company returns included in its financial reports⁶² however it considers these against equity retained in the business excluding revaluations. This calculation is incorrect as any financial assessment of corporate entities considers annual earnings and valuation changes within a measure of a company's performance. This is illustrated below when we comment on Air NZ's comparison to property company returns.
- The single till analysis is also not consistent with the legislative framework Parliament has determined for airports and therefore Air NZ's approach is not relevant. The ID Regime provides a framework for WIAL's earnings from its regulated business to be reviewed and it is within this framework that WIAL's outcomes should be assessed.
- Excessive returns compared to market expectations – Air NZ have reported a financial analyst's view of WIAL's prospective pricing change. However, this note is based on their misinterpretation of the ID Regime, namely that IMs be applied for pricing and their misunderstanding of the impact of the change in land valuation methodology.

⁶¹ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 22, Chart 3

⁶² Air NZ Limited Submission - Section 56G Review 29 June 2012, page 24, Table 9

- Excessive profits compared to similar businesses in New Zealand – Air NZ has compared WIAL’s returns to several property companies or trusts with returns determined by pre-tax earnings divided by equity. However, WIAL considers that this comparison is incorrect because the property companies do not report separate revaluation reserves. Instead, revaluation changes are included in annual profit due to the financial reporting requirements of these businesses and are therefore transferred to retained earnings. Revaluations for these companies are included in equity and for comparison with WIAL, if this were appropriate; WIAL’s total equity should also be recognised.
- Excessive profits compared to value chain – Air NZ provides a graph that shows air fares decreasing in the period since 2007.⁶³ The change in air fares is reflective of market circumstances in New Zealand and particularly the level of competition in the market. However, it does not provide any indication of airport returns nor does it report the returns that Air NZ generates on sectors where no competition exists.

WIAL also notes that Air NZ seems to have reported a very selective period of time. WIAL confirms that domestic fares in New Zealand have increased approximately 4.7% per annum since 2000 and are currently approximately 27% higher since Pacific Blue’s withdrawal from the domestic market 20 months ago.⁶⁴

- Excessive profits compared to working competitive markets – Air NZ compares WIAL’s outcomes to those achieved by Infratil UK Airports.⁶⁵ The outcomes for the UK Airports reflect a set of circumstances that are not comparable to New Zealand, including the relative impact of the global financial crisis and size and nature of these airports in the UK market and hence their exposure to local market conditions. As a consequence, these airports should not be compared to WIAL without further assessment of these differences.

Land Valuation Arbitration

211. In its submission BARNZ states the following:

“BARNZ strongly considers that the Commerce Commission needs to obtain its own valuation of WIAL’s aeronautical land holdings in accordance with Schedule A (or an independent peer review of WIAL’s valuation) before the Commission can properly review the effectiveness of Information Disclosure under Part 4 of the Commerce Act and form a sound conclusion of its ability to promote the purposes set out in section 52A.”⁶⁶

212. WIAL does not agree that it is necessary for the Commission to obtain its own valuation of WIAL’s land. This would effectively establish the Commission as an arbitrator of valuation, or consultation inputs, and this is not appropriate for the Commission to undertake in its section 56G review.

213. WIAL agrees that it is appropriate for the Commission to ensure that the valuation applied for information disclosure has been prepared in accordance with the IMs. However, the basis for the valuation is set out in the MVAU valuation report prepared by Teller Young

⁶³ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 25, Chart 4

⁶⁴ Stats NZ CPI data for Air Transport Q2 2012

⁶⁵ Air NZ Limited Submission - Section 56G Review 29 June 2012, page 26, Table 11

⁶⁶ BARNZ Response to WIAL Section 56G Issues Paper page 9

and confirms that the valuation has been prepared in accordance with Schedule A of the Determination.

214. Detailed consideration of the rationale and inputs for the valuation was undertaken as part of consultation. As is evident from WIAL's published consultation documentation there was considerable discussion on this building block input, involving valuers and town planners represented both WIAL and BARNZ. WIAL's advisors Boffa Miskell and Telfer Young fully considered the feedback from Air NZ, BARNZ and their advisers during consultation and made several changes to their recommended valuations. As evidenced in the published consultation material, there can be no doubt that land valuation was exhaustively debated throughout consultation.
215. The MVEU land valuation used for pricing consultation was adopted by WIAL in its audited annual accounts for the year ended 31 March 2012. This valuation is, however, based on the airport developer cost of capital as recommended by Telfer Young and does not include the commercial concession adopted by WIAL in pricing. The land valuation is reported in WIAL's annual accounts at fair value in accordance with its accounting policies and GAAP.

Detailed Submission Issues – WIAL Responses to Airline Submissions on WIAL Questions

WIAL provides below brief comments on the Air NZ and BARNZ submissions regarding the questions relating to WIAL. The questions and WIAL's responses to the airline comments have been abridged for convenience.

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
Has ID impacted WIAL's performance?	ID Regime has had no impact on WIAL's performance because WIAL has not adopted the IMs for pricing.	Air NZ paras 138-142 BARNZ page 1	This is incorrect. WIAL gave full consideration to the IM's. Refer to paragraphs 54 to 62 of cross submission.
Has ID helped understand WIAL's performance?	As only one disclosure no impact for BARNZ in understanding WIAL performance. Will improve over time with further disclosures. Two areas of concern for adequacy of information: <ul style="list-style-type: none"> • Sufficient information not provided about changes in asset base resulting from cost allocations. BARNZ then refer to transfers within this group and lack of explanation of 2010 transfers. • Inclusion of leased assets in schedules. BARNZ seeking outcomes on pricing asset base. 	BARNZ page 1-2	BARNZ's view is consistent with WIAL's that further time is needed to enable a view to be formed on WIAL's performance. In respect of the particular issues: <ul style="list-style-type: none"> • BARNZ has not previously communicated these comments to WIAL. WIAL will consider this feedback in the preparation of its 2012 Annual Disclosures. • BARNZ is only concerned with the pricing asset base and not the other regulated services. The Commission has a role in respect of all users of regulated services and it is therefore appropriate that the disclosures address all regulated services. WIAL's substantial customers receive full explanation of pricing information in consultation. <p>The regulated services not part of consultation are a small component of WIAL's business and consequently do not materially affect the outcomes. It would be inefficient to have to further separate these in greater detail in information disclosure.</p>
ID affected effectiveness and scope of	More public transparency under ID but Air NZ has had access to consultation information previously.	Air NZ para 143	Air NZ acknowledges that it receives the consultation information it requires from WIAL.

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
consultation?	ID had no impact on consultation. This is because the consultation was undertaken in vacuum between two disclosure regimes.	BARNZ page 2-3	WIAL considers that the status of the ID Regime did not create a vacuum that meant the ID Regime was not recognised in consultation. The public transparency of WIAL's consultation and the recognition given to the IM's demonstrate this.
What performance/behaviour should Commission consider?	<p>Commission should concentrate on variations from IMs. Air NZ has highlighted 7 issues.</p> <p>Commission should review WIAL's response to Air NZ consultation comments on justification for congestion pricing and challenges for other pricing changes.</p> <p>WIAL's pricing decisions and use of market power under AAA. In particular:</p> <ul style="list-style-type: none"> • Asset valuation methodologies. • Reasonableness of valuations. • Treatment of revaluation gains. • Cost of capital. • Treatment of discounts in the pricing schedule. 	<p>Air NZ paras 144-151</p> <p>BARNZ page 3-4</p>	<p>As commented above Air NZ and BARNZ are seeking for the IM's to be regarded as de facto price control. Refer to paragraphs 54 to 62 of cross submission.</p> <p>WIAL fully demonstrated congestion of the runway facility to Air NZ during consultation and advised its proposed charging structure well in advance of when prices were set. This provided the airlines with the opportunity to consider and prepare for implementation of the charging structure if it eventuated in the final pricing decision. No feedback on implementation concerns was provided by the airlines to WIAL during consultation.</p> <p>WIAL has provided considerable comment in this cross submission on its pricing methodology, refer to paragraphs 137 to 190 of cross submission.</p>
WIAL earning excessive profits?	<p>Mid-point WACC should be applied. 75th %ile not necessary to incentivise investment as already incentivised by dual till, with airports receiving additional benefits from non-regulated services following aeronautical investment.</p> <p>Revenue up by 54% over pricing period and over recovery of \$99m. Increases to domestic passengers extraordinary.</p>	<p>Air NZ paras 152-165</p> <p>BARNZ page 3-4</p>	<p>Parliament retained the legislative structure based on dual till during development of the 2008 changes to the Act. Scope of review addressed in paragraphs 88 to 89 of cross submission.</p> <p>The BARNZ revenue calculation is founded on the inappropriate application of the IM's. Refer to paragraphs 205 to 208 of cross submission.</p> <p>Detailed comment on WIAL's pricing methodology is provided at paragraphs 137 to 190.</p>
Appropriate	Purpose of Act would be best met by a single till	Air NZ paras 166-178	Parliament retained the legislative structure based on dual

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
normal/ superior return?	<p>approach.</p> <p>Regulator should consider impact on non-regulated services in assessments of investments although this would not constitute regulation of these services.</p> <p>WIAL set prices at 9.5% above Commission range of 6.08% to 8.04% and mid-point of 7.06%.</p>	BARNZ page 4-5	<p>till during development of the 2008 changes to the Act. Scope of review addressed in paragraphs 83 to 87 of cross submission.</p> <p>WIAL is not seeking to achieve its cost of capital during the pricing period. BARNZ has not referred to the 8% return WIAL has forecast to earn in the pricing period. Refer to paragraphs 79 to 82 of cross submission.</p>
How should wash ups etc be considered?	<p>Commission should do two assessments:</p> <ul style="list-style-type: none"> • First without adjustments. • Second with adjustments and considering long term impact on charges. <p>Commission should consider overall business performance as discounts for aeronautical services provide enhanced performance in other parts of the business.</p>	Air NZ paras 179-180 BARNZ page 6	<p>Air NZ and BARNZ seem to ignore that pricing reflects the outcome of a combined package of building block inputs and commercial arrangements.</p> <p>An assessment of WIAL's aeronautical returns excluding commercial arrangements is inaccurate and incomplete as it is revenues after commercial arrangements have been applied that is used to determine pricing.</p> <p>The Commission is not required to consider the whole of WIAL's business to complete the section 56G review, and nor is it necessary.</p> <p>Incentive arrangements are part of the pricing methodology and should be considered in this context.</p>
Revenue from first PSE to second PSE	<p>WIAL's revenue for first and second PSE's significantly overstated.</p> <p>WIAL substantially over recovering. On BARNZ calculations \$99m using Commission midpoint and \$75m at 75th percentile.</p> <p>WIAL should use IMs plus:</p> <ul style="list-style-type: none"> • Reallocate main terminal hall to commercial • Reduce opex by 10% • Discounts should not be treated as a cost which increases revenue requirement. 	Air NZ paras 181-182 BARNZ page 6-8	<p>While the IM's didn't exist for the 2007-2012 pricing period, BARNZ undertook similar analysis, as for the 2012-2017 pricing period but using the IM assumptions, for this period adopting its own assumptions for building block inputs rather than those proposed by WIAL. BARNZ calculation for 2012-2017 pricing period was based on WIAL's adoption of IM's and the calculation is therefore incorrect. Refer to paragraphs 205 to 208 of cross submission.</p> <p>Detailed issues addressed in paragraphs of cross</p>

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
	<ul style="list-style-type: none"> BARNZ showing calculation that meant WIAL's revenue would have reduced to \$49m in 2013. 		<p>submission as follows.</p> <ul style="list-style-type: none"> 196 200-202 151-158 205-208 <p>BARNZ's proposal would have reduced WIAL's revenue considerably in 2013 despite the fact that the 2011, and 2012 annual disclosures show that WIAL's return on investment is below the cost of capital IM.</p>
Reasonable valuations?	<p>Air NZ preferred approach as per their merits appeal but didn't pursue in submission.</p> <p>WIAL not consistent with IM nor with BARNZ's application of IM for land valuation.</p> <p>Air NZ noted WIAL reducing land value from \$340m to \$273m during consultation.</p> <p>WIAL MVAU at \$141m, BARNZ view is \$98m. BARNZ provided their adviser reports to Commission.</p> <p>BARNZ recommended Commission obtain its own valuation per Schedule A. Says this is vital for section 56G review.</p> <p>WIAL has inappropriately used MVEU added 73% on top of MVAU.</p> <p>BARNZ comment other assets should be 2009 line in the sand. Although difference only \$1.2m now could widen over time.</p>	<p>Air NZ paras 183-189</p> <p>BARNZ page 8-12</p>	<p>WIAL's substantive submission on valuation and consultation material provides considerable detail on WIAL's rationale for its valuations and is based on advice provided by expert valuers, Telfer Young. The BARNZ MVAU reports were referred to WIAL's advisers for consideration and changes were made to WIAL's valuation. WIAL's advisers did not however find the final land use plan proposed by BARNZ to be credible.</p> <p>WIAL considers that it is inappropriate for the Commission to obtain its own valuation, and submits instead that the Commission should review the WIAL valuation to confirm that it is in accordance with the asset valuation IM for application in its annual disclosures.</p> <p>Refer to paragraphs 211 to 215 of cross submission.</p>
ID role on target ROI?	<p>WIAL has applied its own WACC of 10.51%.</p> <p>Smaller regional airports have used IM and large price increases have resulted which is detrimental to consumers. Therefore smaller airports accept the IM but</p>	<p>Air NZ paras 190-199</p> <p>BARNZ page 12</p>	<p>Refer to in paragraphs 69 to 73 of cross submission.</p> <p>Air NZ and BARNZ ignore actual forecast ROI for the 2012-2017 pricing period and the actual returns achieved by WIAL in its annual disclosures.</p>

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
	<p>larger airports seeking higher returns again. ID played a one sided role as WIAL dismissed Commission approach and used 9.51%.</p>		<p>WIAL notes the conflict in the Air NZ position between proposing that the major airports should apply the IMs and yet they oppose this for the smaller airports.</p>
<p>What capacity constraints occur and is investment required?</p>	<p>WIAL has not demonstrated congestion exists. Air NZ provide table of aircraft movements showing 2017 forecast less than 2008 actual. Air NZ also consider forecast movements overstated as Air NZ are/will be introducing larger aircraft. WIAL is land constrained. WIAL not tardy to invest and no investment deferred later than it should. BARNZ more concerned at over investment for aircraft levels above Code C. Runway close to capacity at peak times and cannot be extended. Industry working group needed to ensure maximum efficiency and investment as required. Taxiway below Code D/E levels but not constraint as WIAL has dispensation. Refer to WIAL's plans to spend \$28m getting clearing for Code D/E which is not required, should manage though dispensation. Some BARNZ members welcome WIAL assuming gate allocation role. Domestic lounges/ baggage handling constrained with capital expenditure planned. No international constraints. Domestic gates often fully utilised but use of walk on gates has alleviated capacity constraints.</p>	<p>Air NZ paras 200-204 BARNZ page 13-14</p>	<p>Air NZ's dismissal of capacity constraints at WIAL is incorrect. In contrast, WIAL notes that BARNZ acknowledges that these exist. WIAL agrees with BARNZ that it is appropriate for stakeholders to work together to address this. In the Air NZ submission they illustrate that WIAL's forecast aircraft movements may be lower in 2017 than the actual movements in 2008. However this analysis is incomplete as it does not consider demand in peak periods. Peak period movements already exceed runway capacity in poor weather conditions and WIAL's price structure is designed to encourage certain users to reduce their peak period services. WIAL also notes that it sought feedback on the forecast movements during consultation however none was provided. Consequently WIAL did not have the opportunity in consultation to address the forecast movements now advanced by Air NZ. The airlines continue to consider the compliance capital expenditure proposed by WIAL is to support Code D/E aircraft and is not required. WIAL considered this in consultation and undertook the following:</p> <ul style="list-style-type: none"> Deferring most of the expenditure to the subsequent pricing period to enable further discussion on the requirement for this capital expenditure. Only \$3.5m of expenditure has been retained in the 2012-2017 pricing period.

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
			<ul style="list-style-type: none"> • Demonstrating that the Civil Aviation Authority (“CAA”) was intending to reconsider compliance requirements following the adoption of International Civil Aviation Organisation (“ICAO”) Annex 14. • Commenting that compliance action was required to support current Code C aircraft operations. <p>WIAL is strongly of the view that it must be prudent in respect of compliance issues and the consultation comments demonstrate that WIAL has proposed an appropriate balance for the 2012-2017 pricing period.</p>
Factors outside control affecting capex/opex?	<p>Impact of natural disasters and regulatory regime.</p> <p>There are no capex factors outside WIAL’s control and WIAL should be able to manage compliance capex more efficiently than they are.</p> <p>Insurance and regulatory costs although WIAL can influence regulatory costs through extent of use of external advisers and decision on legal proceedings.</p> <p>Does not agree merits and judicial review costs should be in cost base for pricing.</p>	<p>Air NZ paras 205-206</p> <p>BARNZ page 14</p>	<p>WIAL disagrees with Air NZ’s statement that it can manage compliance capital expenditure more effectively. WIAL has been required to respond to changes in regulatory requirements that are outside its control. Examples in recent years are:</p> <ul style="list-style-type: none"> • Requirement for domestic passenger security screening. • Requirement for international passenger holdstow baggage screening. • Requirement for runway safety areas. <p>In the 2012-2017 pricing period the requirements are uncertain until the CAA identifies its specific requirements from the Annex 14 adoption and WIAL believes retaining a modest capital expenditure programme over the period is the appropriate and prudent approach.</p>
How reasonable are WIAL’s opex capex forecasts?	<p>Opex forecasts for 2 periods show alarming increase in expenditure. Asset allocation also impact share of costs.</p> <p>Forecasts not reasonable. WIAL has had commendable cost control since privatisation. Not in 2012-2017 pricing period. BARNZ provides its analysis for 10% saving</p>	<p>Air NZ paras 207</p> <p>BARNZ page 14-16</p>	<p>WIAL’s costs have increased and WIAL provided substantial detail on the historic and forecast cost changes in consultation.</p> <p>Air NZ and BARNZ did not engage in a review of the detailed information provided by WIAL and therefore did</p>

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
	without referring to detailed forecasts or WIAL's comparable cost efficiency.		not identify inefficiencies for WIAL to consider. BARNZ's proposed 10% reduction is derived from indexing actual 2007 costs at CPI and adopting this as a forecast for the commencement of the 2012-2017 pricing period. This calculation is incorrect. It ignores the substantial increases in insurance and regulatory costs in particular that WIAL has been required to incur. Despite these cost increases WIAL remains the most cost effective airport in Australasia.
How reasonable are WIAL's capex forecasts?	<p>Capex forecast reasonable except for works to support B777 operations ad achieve compliance with ICAO Annex 14.</p> <p>WIAL concerned that capex front loaded. Notes wash up adjustment but says doesn't address other capex. Refers to fire appliance replacement being forecast for 3 period and not done in first two.</p> <p>Also refer to Land Use Management and Insulation for airport Noise Study ("LUMINS") and forecast for house acquisition and likelihood time period will be extended.</p> <p>Concerned at code D/E expenditure as above. Do not mention ICAO annex 14.</p> <p>Undertaking terminal extensions using grand design. Cost optimisation for the North Pier Terminal - "the Rock" needs to be undertaken. Award winning design cost should be met by shareholders.</p>	<p>Air NZ paras 208</p> <p>BARNZ page 16-19</p>	<p>WIAL responded to these issues in consultation by:</p> <ul style="list-style-type: none"> • Offering a wash up in respect of the terminal development expenditure to address the concern regarding front loading. • Confirmed that it remained open to a commercial agreement for LUMINS, refer to paragraphs 184 to 190 of cross submission. • Has commented on the ICAO compliance expenditure above. • Disagrees with the BARNZ comments concerning cost optimisation of the Rock terminal development. In fact WIAL's final cost for the building development was within a cost estimate advised by BARNZ.⁶⁷ <p>WIAL's capital expenditure forecast for the 2012-2017 pricing period is reasonable and appropriate.</p>
Demand	Domestic reasonable with Air NZ not privy to international	Air NZ paras 209-215	Air NZ and BARNZ confirm there were no disagreements

⁶⁷ WIAL Revised Pricing Proposal 22 November 2011, page 50

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
forecasts?	<p>route development plans.</p> <p>Air NZ notes long haul plans speculative and in competitive market investor would bear risk.</p> <p>Air NZ did not comment on movement forecasts as considered these would be discussed in detail during consideration of necessity for congestion pricing.</p> <p>BARNZ considered forecasts reasonable.</p>	BARNZ page 19	<p>on passenger forecasts.</p> <p>WIAL sought feedback on aircraft movement forecasts but did not receive any feedback or queries during consultation.</p>
1st PSE demand compared to 2 nd PSE?	<p>Demand forecasts in first PSE were understated.</p> <p>BARNZ did not consider domestic growth projection for first PSE reasonable. Ignored fact WIAL did not know about Pacific Blue (“PB”) domestic entry.</p>	<p>Air NZ paras 216</p> <p>BARNZ page 19-20</p>	<p>The disagreement for the 1st PSE related to domestic passengers for 2008 only. WIAL forecast no growth as Origin Pacific had recently ceased operation and no new capacity had been advised by either Air NZ or Qantas. The airlines were requested to advise the source of prospective growth but did not do so and therefore WIAL retained the 0% growth forecast for 2008 (growth was forecast in subsequent years).</p> <p>Some months after the consultation was completed Pacific Blue commenced domestic operations at WIAL. This was unknown to WIAL during consultation.</p> <p>Analysis of WIAL's actual outcomes compared to forecast for the 2007-2012 pricing period shows the volatility that can occur but ultimately that the variances from forecast over the period were not material.</p>
Role of ID for negotiation of expenditure forecasts?	<p>No negotiation involved. Purpose of part 4 nullified by AAA. Refer to BARNZ comment that WIAL has lost its traditional focus on cost performance.</p> <p>BARNZ referred to historical cost analysis undertaken during consultation.</p> <p>Also says IM provides little guidance for cost allocation.</p>	<p>Air NZ paras 217-219</p> <p>BARNZ page 20</p>	<p>BARNZ and Air NZ continue to ignore that WIAL is the most cost effective airport in Australasia and that WIAL is forecasting operating costs per passenger to fall by 2.2% per annum over the pricing period.</p> <p>Air NZ and BARNZ chose not to review the detailed operating cost material provided in consultation and consequently WIAL received no suggestions from the</p>

Commission Questions	Airline Comment	Airline Submission Reference	WIAL Cross Submission
			airlines on how cost efficiencies be achieved. WIAL is fully transparent on its cost allocation approach and has demonstrated this transparency in information disclosures and consultation documents.
What R & D or innovation is WIAL undertaking?	WIAL upgrading FIDS system with new connectivity that and web based access to make it more convenient.	BARNZ page 20	WIAL has undertaken, and is planning to undertake, far greater innovation than the single example noted by BARNZ. Refer to paragraphs 118 to 126 of cross submission.
Comparison to R & D pre ID?	No comments provided		No comment required.
What R & D in other airports and overseas?	<p>Most passenger related and not airport led. Where required airports reluctant and slow to respond to innovation. Examples at WIAL</p> <ul style="list-style-type: none"> • WIAL slow to respond to Air NZ kiosk initiative. • Implementation of dual door aircraft loading. • Recent baggage area expansion achieved within existing footprint. • Implementation of SmartGate. <p>Majority of innovation around passengers undertaken by airport users. Joint project currently being undertaken by BARNZ and NZ Airports for international slot co-ordination. Airways undertaking various initiatives.</p>	<p>Air NZ paras 222-225</p> <p>BARNZ page 21-22</p>	Refer to WIAL substantive submission.
What changes in quality since ID introduced	<p>Not aware of any changes but upcoming improvements to South West Pier (“SWPO”) will provide some.</p> <p>No noticeable change in quality</p>	<p>Air NZ paras 226</p> <p>BARNZ page 22</p>	<p>The ID Regime has only been in force for a short period while significant quality improvements in WIAL’s infrastructure can have a long lead time. WIAL’s information disclosures on its capital programme demonstrate its ongoing commitment.</p> <p>WIAL does not have any direct role in processing</p>

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			passengers so shorter term quality changes are within the scope of the airlines and Government agencies for this area.
What could be improved or potentially lowered at WIAL?	<p>Air NZ Improvements necessary for regional airline customers. Air NZ providing options November 2011, no progress made.</p> <p>WIAL proposes 24 hour monitoring centre which is surprise given curfew.</p> <p>Gate allocation provided by Air NZ under WIAL policies at no cost to WIAL however WIAL assuming responsibility for function.</p> <p>WIAL provides no commitment to service quality and airlines will expend considerable revenues at WIAL and bear risk of WIAL nonperformance with compensation for losses incurred.</p> <p>BARNZ has received no feedback from airlines seeking particular improvement.</p>	<p>Air NZ paras 227-230</p> <p>BARNZ page 22</p>	<p>Air NZ's comment that WIAL provides no commitment to service quality is incorrect.</p> <p>WIAL maintains a strong commitment to preserving quality and this has been demonstrated in the robustness of its infrastructure and capital development programme over many years. Disclosures and the reporting of quality performance will provide further published evidence of this.</p>
What service quality consulted on? How different from first PSE?	<p>Addressed around forecast capex. Also discussed in separate discussions on details of developments.</p> <p>New pricing structure was also nominally seeking to improve service quality.</p> <p>No particular focus on service quality. Addressed in one on one meeting with WIAL in past. Operational forum process commenced in April 2012.</p>	<p>Air NZ paras 231</p> <p>BARNZ page 22-23</p>	<p>Air NZ has confirmed the manner in which service quality has been addressed to date. This will evolve further as the ID Regime becomes fully established.</p>
What role did ID play in negotiation on service quality?	<p>ID had no role.</p> <p>ID hadn't occurred at time of consultation therefore not possible to influence discussions.</p>	<p>Air NZ paras 232</p> <p>BARNZ page 23</p>	<p>WIAL agrees that ID currently has a limited role in this area.</p>

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Are right measures of quality captured in ID?	<p>Considerable comment ultimately saying airlines as direct customers are best placed to make decisions for passengers about price quality tradeoffs. Part 4 would be best achieved by requiring airline approval for investment.</p> <p>Note WIAL assuming gate allocation and Air NZ needing to retain cost in any event.</p> <p>Will be seen over time but current requirements are appropriate starting point.</p>	<p>Air NZ paras 233-249</p> <p>BARNZ page 23</p>	<p>Airline agreement to investment in quality should not be required. In a market where Air NZ is dominant this would enable them, though majority vote, to manage investment and impact airline competition. Refer to paragraphs 29 to 30 of cross submission.</p> <p>WIAL notes that Air NZ expresses disagreement with WIAL assuming direct responsibility for aircraft gate control. However, BARNZ comments that some of its airline members are supportive of WIAL performing this function.</p>
Do WIAL's 'prices reflect efficiency gains and are pricing principles efficient?	<p>No evidence that co-location of non-regulated services being shared with consumers. Commission well within its powers to consider efficiency benefits of unregulated activities</p> <p>BARNZ sees no evidence of efficiency gains in second PSE with revenue and opex significantly increased.</p>	<p>Air NZ paras 250-255</p> <p>BARNZ page 23</p>	<p>Parliament retained legislative structure based on dual till during development of the 2008 changes to the Act. Scope of review addressed in paragraphs 88 to 89 of cross submission.</p> <p>Cost efficiency issues addressed in comments on earlier questions above.</p>
To what extent prices for 2 nd PSE better reflect efficient pricing principles? Are they responsive to consumer demand?	<p>Air NZ and BARNZ provide considerable detailed comment on WIAL's pricing structure for the second PSE. This is addressed in detail in the cross submission above so is not repeated here.</p>	<p>Air NZ paras 256-309</p> <p>BARNZ page 23-27</p>	<p>Refer to paragraphs 137 to 190 of cross submission.</p>
Airlines ability to make price quality trade	<p>Passengers will make price quality tradeoffs for peak periods while airlines have more significant efficiency drivers than airport peak pricing.</p>	<p>Air NZ paras 310-313</p>	<p>WIAL is disappointed that Air NZ dismisses WIAL's objective to encourage efficient utilisation of the congested runway facility. WIAL will continue to seek</p>

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offs?	Air bridge and baggage charges would allow airlines greatest ability for tradeoffs.		other initiatives with the industry to manage the congestion issues in combination with the pricing signals.
Price impact on demand?	<p>Increased pricing must affect demand. Refer to WIAL submissions on Air NZ/PB alliance concerning impact of a restriction in supply or a raising of price which would cut out marginal passengers.</p> <p>Confidential percentage increase in airfares advised by Air NZ.</p>	Air NZ paras 314-322	<p>Increasing pricing may or may not affect demand with significant other factors involved such as level of aircraft capacity allocated by Air NZ and the level of competition on specific routes. On routes where no competition exists airport pricing is highly unlikely to have any influence on the setting of airfares. WIAL has no information, and was not provided with any by the airlines in consultation, of the impact of fares on other routes however WIAL notes that the congestion pricing approach replicates the Ramsey pricing approach used by airlines to set air fares.</p> <p>WIAL would like to comment on Air NZ's calculation of the increase in airfares from WIAL's charges but has not had the opportunity to do so because the information is confidential. WIAL encourages the Commission to require this information to be made public so it can be evaluated.</p>
Pricing impact on demand and revenues?	Air NZ comments increases in fares from charges will result in a reduction in economic growth of >\$50m per annum and loss of 375 potential jobs. These outcomes compared to a zero real fare increase.	Air NZ paras 323-328	WIAL cannot recalculate the economic impact submitted by Air NZ.
What comparator airports?	<p>None as Air NZ have not been able to identify a workably competitive airport. Outcomes from FPD should be assessed against IM benchmarks.</p> <p>Benchmarking secondary to considering actual assets and costs for pricing and over time. However comparison to Australian airports most appropriate for benchmarking. BARNZ is updating comparison to Australia.</p>	<p>Air NZ paras 329-330</p> <p>BARNZ page 28</p>	<p>Air NZ is not recognising the purpose statement which seeks to achieve outcomes consistent with competitive markets. One of the means to achieve this is to identify indicators of performance from benchmarking. WIAL notes that BARNZ agrees with this approach.</p> <p>Irrespective of all other issues about pricing inputs if the resulting prices per passenger can be seen to be within reasonable bounds on a comparative basis this will support the outcome that airlines are not paying charges</p>

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			inconsistent with competitive market outcomes.
Strengths of ID requirements?	ID regulation doesn't provide any redress to users. Airports can set prices under AAA and enforce payment. ID inherently weak.	BARNZ page 28-29	There is no evidence that the combination of AAA consultation and the ID Regime are not providing appropriate outcomes – prices are not high internationally and WIAL's actual returns are low when applying IMs. WIAL has also provided support for its achievements against each limb of the purpose statement in its substantive submission and in this cross submission.
Additional WIAL costs	WIAL best placed to detail costs but notes WIAL can influence with for example the cost of valuations it requires.	Air NZ paras 331	WIAL advised the costs incurred in its substantive submission.
How much info would have been publicly disclosed without ID regime?	The ID regime has had little impact on airlines but publishing of consultation documentation provides greater transparency for others. WIAL publishing more than is required with consultation information and ID regime likely to have been underlying factor in this.	Air NZ paras 332-333 BARNZ page 29	WIAL agrees with the comments by Air NZ and BARNZ.
Benefits to airlines and other users?	Major benefit is disclosure of discrepancy between pricing per Commerce Act objectives and WIAL's actual behaviour. The new framework provides an objective measure to assess an airports performance. AAA provides no constraint on price setting. As only first sets of information released full benefits not realised. Over time information will prove beneficial.	Air NZ paras 334-336 BARNZ page 29	This is incorrect. The AAA provides a strong structure for price setting together with the commercial outcomes from WIAL's consultations commented above in paragraphs 113 to 117 demonstrating this. The ID Regime provides a framework to enable assessment of airport performance. Air NZ and BARNZ have not commented on this framework or WIAL's performance within it. Evaluation of the financial and non-financial outcomes in WIAL's annual disclosures show that WIAL is appropriately achieving the outcomes required by the purpose statement.

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What additional information should be added to ID?	Major omission is information on unregulated business. Better disclosure of costs, assets and revenues from price setting event. These costs camouflaged within outcomes for total specified services.	Air NZ paras 337-338 BARNZ page 29-30	The Commission's role is to review the outcomes for regulated airport services. WIAL's substantial customers and BARNZ have the opportunity to evaluate the airport outcomes in consultation and it is unnecessary for the Commission to repeat this process.