From: Neil Cochrane [mailto:Neil.Cochrane@cial.co.nz]
Sent: Tuesday, 19 November 2013 3:33 p.m.
To: Ruth Nichols
Subject: RE: Query on Christchurch Airport's submission

Hi Ruth, in response to your query your second bullet point reads our paragraph 199 correctly.

This was explained at the conference. When Alex Sundakov gave an overview of the CIAL model, he said (page 17 of the transcript, lines 12 to 27):

> So, the best way I think to think about a levelised price in this context is it's kind of like a rolling average. Its purpose is to dampen the fluctuations, but to allow for the regular reviews of factors that clearly need to be reviewed. So, in this particular case the model is a 20 year model, the life of the assets is much more than 20 years, and the intention is to run the model so that at every five year price reset, another five years of life gets added to the model, and there's a look through to 20 years forward. The reason for that is that, of course you can take any model and you can roll forward 20, 30, 50 years, you know, it's a copy and paste columns going ahead, but we all know that the quality of that analysis deteriorates very very quickly. So, it seemed to us that a 20 year look forward is kind of a reasonable and a practical compromise.

This is consistent with both the description in our submission and the way you have expressed it in your email.

This wasn't a topic of conversation during the consultation, as the commercial focus was very much on how the 2012 – 2017 prices were to be set.

I hope that helps you. Please let me know if there are any further questions you have.

Regards

Neil

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On 15/11/2013, at 3:14 pm, "Ruth Nichols" <Ruth.Nichols@comcom.govt.nz> wrote:

Dear Neil

Thank you for Christchurch Airport's submission on our draft s 56G report. As indicated in my email acknowledging receipt of the submission, we thank you for the effort you and your team went to in getting it to us on the due date.

At this stage, there was just one point of clarification we would appreciate you providing for us. Paragraph 199 of the Christchurch Airport submission states that: 'When CIAL resets the long term price path for PSE3 it proposes to do so by again undertaking calculations of costs and revenue over a 20 year period. In this manner, as we progress from price reset to price reset, the long term price path will be the outcome of a series of overlapping 20 year periods'.

Could you please clarify for us whether this highlighted text means:

- for each of PSE3, PSE4 and PSE5, CIAL intends to reset prices based on the remaining years of the current 20 year period that was used to set prices for PSE2; or
- for each of PSE3, PSE4 and PSE5, CIAL intends to reset prices based on new 20 year periods starting from the beginning of each successive pricing period

Our understanding from discussions Jo had with Simon is that it was the former. If that is incorrect, we would be grateful if you could please point us to anywhere in CIAL's consultation material with airlines, disclosure material, and/or earlier submissions on the s56G review that refers to this approach, or provides any further information on that approach.

Thank you.

Kind regards
Ruth

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