

24 September 2010

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Commerce Commission
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Dear John

CROSS SUBMISSION ON PROPOSED CHANGES TO SCHEDULE 27

Introduction and overview

This is the NZ Airports Association's ("**NZ Airports**") cross submission in response to BARNZ's submission on the Commission's proposed changes to Schedule 27, requiring information about the "usefulness" of assets to be disclosed ("**the Proposal**"). This cross submission is also made on behalf of Auckland International Airport, Wellington International Airport and Christchurch International Airport ("**Airports**").

BARNZ's submission supports the Proposal but does not provide any compelling reasons why the additional disclosure is required to meet the purpose of information disclosure under Part 4 of the Commerce Act 1986 ("**Act**"). Instead, BARNZ merely asserts that the Proposal "will provide interested persons with a useful overview of key assets and their role in providing regulated airport services". This falls a long way short of demonstrating that the information is necessary to meet the purpose of information disclosure.

BARNZ in fact asserts that the Proposal does not go far enough and that the additional information will not, by itself, be sufficient to properly inform an interested person's assessment of whether the Part 4 purpose statement is being met. Again, this is a mere assertion by BARNZ. No attempt has been made to explain how the additional information sought by BARNZ is necessary for the assessment of whether the Part 4 purpose statement is being met.

Given that this extensive disclosure will trigger additional compliance costs, such justification is essential.

It appears that BARNZ is simply adhering to its approach of "the more information the better". Further, the additional information sought by BARNZ is, in any case, unrelated to the Commission's original question of what information is required to allow interested parties to assess the usefulness of assets. Instead, the information sought by BARNZ appears to be directed at allowing interested parties to assess whether the asset valuation input methodology has been complied with and to establish a link between the methodologies applied under the Airport Authorities Act 1966 ("**AAA**") information disclosure regime and outcomes from

application of the methodology. As NZ Airports set out in its submission of 17 September, the Commission's original proposal was to allow interested parties to assess the usefulness of additions to the asset base, following the initial disclosure. BARNZ's focus on requiring detailed verification of the initial disclosure bears no resemblance to that original proposal.

It therefore appears that requiring disclosure of information regarding the "usefulness" of assets is not a priority for BARNZ (which has a fully developed understanding of how assets are used in any event).

NZ Airports repeats its submission that the Commission has undertaken lengthy consultation extending to almost two years, to determine what information must be disclosed to meet the purpose of information disclosure (as set out in the draft determination). It is simply not credible to suggest, at this late stage, that the purpose of information disclosure will not be met without the disclosure of additional information not previously proposed by the Commission during the consultation process. As NZ Airports has previously submitted, interested persons will already be overloaded with information under the draft determinations as they currently stand.

NZ Airports' specific comments

Land disclosure

BARNZ considers that the proposed disclosure of all parcels of land identified in the Airports' valuation reports would provide "a useful introductory summary of the land areas and values". BARNZ also suggests that "value per ha" and "area" would also be "useful" columns.

NZ Airports considers that the Commission's proposal to require disclosure of information already contained in the valuation reports is inconsistent with good regulatory principles, such as cost efficiency and avoiding duplication of already available information. As NZ Airports has already indicated, it does not oppose making valuation reports available to interested persons and, if necessary, could request the independent value to include in their report a "description of use" for land.

NZ Airports opposes disclosure of this information within Schedule 27 simply to provide a "useful introductory summary" for BARNZ.

Significant asset disclosure

Regarding the Commission's proposed changes to Schedule 27, BARNZ submits that "the summary of significant assets will also provide a useful introduction or overview of airport assets". As NZ Airports notes above, that information is "useful" is not a satisfactory justification for why disclosure of this information is necessary to meet the purpose of information disclosure or why the benefits of this disclosure outweigh the considerable compliance costs that the Airports will incur as a result.

Nevertheless, NZ Airports agrees with BARNZ's submission that asset by asset disclosure is not desirable. BARNZ instead suggests that disclosure should be based on grouped related assets, rather than the disclosure of individual assets. However, as NZ Airports stated in its submission of 17 September, group or consolidated disclosure would defeat the objective of this disclosure. Grouping assets is a naturally high level exercise and NZ Airports fails to see how an informed view could be reached about the usefulness of an asset from this kind of high level disclosure. Disclosures cannot practically be provided in sufficient detail to allow thorough assessment by interested parties.

BARNZ is concerned that a threshold of 80% for significant assets is too low for the disclosure of fixed assets that are valued at many hundreds of millions of dollars, and proposes that either a higher threshold of 90% be used, or that disclosure of any asset or group of related assets worth more than \$5 million be required. NZ Airports has already set out its concerns with the proposed 80% threshold. Clearly, a 90% threshold would exacerbate those concerns.

NZ Airports agrees with BARNZ's suggestion that breakdowns of the vehicles, plant and equipment lines are not required.

Depreciation

BARNZ considers the tabular format proposed by the Commission for disclosure of asset lives is constraining. BARNZ proposes that the Airports be simply required to disclose their asset lives "in sufficient detail to allow interested persons to fully understand the asset lives and depreciation rates adopted by the airport", without any specific format being required.

BARNZ's comments throw into even sharper focus the impracticality of the amended Schedule. If assets are grouped, as proposed in the BARNZ submissions, then an asset life, as proposed by the Commission, would necessarily be a composite average life of the components that were grouped. Such an approach would give no reliable indication of the projected life of the core components of the assets shown.

Even if the Airports provide a schedule of their default depreciation assumptions for asset categories, as suggested by BARNZ, which arguably would be more suitable than inclusion in Schedule 27 in the manner proposed by the Commission, this would still not provide a link to the asset components forming part of the grouped assets.

NZ Airports submits that neither approach will provide interested persons with any additional benefit beyond the original Schedules (subject to earlier submissions by NZ Airports) proposed by the Commission.

Valuation reports and adjustments

BARNZ submits that the additional disclosures proposed by the Commission need to be supplemented by a requirement that the Airports provide valuation reports and copies of any asset adjustment reports to interested persons on request. BARNZ lists a range of adjustment reports in this respect, which taken together would provide a detailed description of how the 2009 disclosed valuations have been adjusted to produce the initial asset disclosure under the Act.

BARNZ is also concerned that the additional disclosure will not provide interested persons with information regarding adjustments for the exclusion of assets held for future use, adjustments in respect of initial cost allocations and adjustments for lost and found assets. BARNZ therefore submits that if the Commission confirms its approach of requiring a high level summary of assets, then it should also require a high level summary of:

- Land held for future use as at year 2009;
- Significant adjustments with respect to the initial cost allocation adjustment; and
- Significant adjustments with respect to lost and found assets.

NZ Airports submits that none of the additional disclosure sought by BARNZ is relevant to the narrow question that the Commission has invited submissions on. That is, what information should be disclosed to allow interested parties to assess whether assets are useful?

In NZ Airports' view, BARNZ's reason for requiring disclosure of this kind of information is clearly for the purpose of assessing the Airports' compliance with the relevant input methodology, rather than disclosure for the purpose of providing sufficient information to interested parties. Indeed, BARNZ states that "if the Commission does not require the public disclosure of valuation reports, then interested persons will not have sufficient information to assess the reasonableness of the values adopted by the Airports".

In NZ Airports' view, if a valuation is undertaken in accordance with the relevant input methodologies, it is neither necessary nor appropriate to require disclosure of additional information so that interested parties can audit the Airports' compliance with the relevant methodology. The Airports have a statutory obligation to comply with the input methodologies established by the Commission, and the Commission has various enforcement powers. Accordingly, it is inappropriate to seek disclosure of voluminous information to essentially allow interested parties to act as an auditor of compliance.

Conclusion

Please do not hesitate to contact me if you wish to discuss any of these matters directly.

Yours sincerely



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