

BARNZ

Board of Airline Representatives New Zealand Inc

**SUBMISSION ON
COMMERCE COMMISSION
INFORMATION DISCLOSURE (AIRPORT
SERVICES) DRAFT REASONS PAPER AND
DRAFT DETERMINATION**

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PUBLIC VERSION

CONFIDENTIAL INFORMATION OBTAINED DURING CONSULTATION
WITH AIAL HAS BEEN REMOVED

PART 1 – INTRODUCTION AND IDENTIFICATION OF KEY AREAS OF DIFFERENCE

BARNZ has reviewed the Information Disclosure (Airport Services) Draft Reasons Paper as well as the Draft Determination provided by the Commission for consideration.

Overall, BARNZ considers that the information being proposed for annual disclosure will be of considerable use to interested persons wanting to assess the extent to which Part 4 of the Act is being met.

There are a number of areas in which significant improvements have been made compared to the information required to be disclosed under the current Airport Authorities (Airport Companies Information Disclosure) Statements. These include disclosure of the regulatory asset base roll-forward, disclosure of actual and forecast capital expenditure, disclosure of revaluations for segmented activities, reconciliation between actual capital expenditure and previously forecast expenditure, forecast disclosures following a price setting event, improved breakdown of assets allocated to segmented activities, improved and more relevant reliability measures, the new capacity and utilisation measures and disclosure of passenger satisfaction surveys. This information should all be valuable in helping interested parties to understand and form their own views on the relative performance of regulated airports over time.

However, there are five key instances where BARNZ considers that the proposed information disclosure requirements fail to provide sufficient information for interested persons to be able to fully assess the extent to which Part 4 is being met. These key instances of insufficient information all relate to the asset base. The determination of the RAB (both initially and how it is rolled forward) is one of the most significant elements in any regulatory regime. It provides the touch-stone against which the regulated supplier's performance is measured, particularly in respect of returns earned and whether excessive profits are being extracted. As such, interested persons need to have a full understanding of how the initial RAB has been determined and how it is rolled forward thereafter. The proposed information disclosure requirements do not provide a full level of understanding of this critical element, meaning interested persons will not be able to make informed assessments as to whether the purpose of Part 4 is being met (as per section 53A), in particular whether excessive profits are being extracted and the degree to which the asset base is efficient.

The key instances where BARNZ considers that insufficient information will be disclosed with respect to the asset base are as follows:

- **The absence of detailed disclosures and reports on adjustments made to the 2009 disclosed asset base when setting the initial RAB.**

The proposed Report on the Initial Regulatory Asset Base in Schedule 27 is currently drafted at a level which is so high and summary that it will not provide interested persons with sufficient information to understand how the initial RAB is made up and what adjustments were made to the 2009 valuations disclosed under the Airport Authorities Information Disclosure Regulations in order to obtain the initial RAB. Key adjustments (such as removal of land held for future use and the MVAU valuation adjustment) are proposed to be disclosed simply as a total with no supporting data or reports. Users will not know with any clarity what assets are included in the RAB and what assets have been excluded. Given that the Initial RAB is rolled forward in subsequent years, it is crucial that interested persons are able to understand how the initial RAB has been determined,

including what assets have been included and how they have been valued. Moreover, the information currently proposed to be disclosed in relation to the initial RAB will be insufficient to enable interested persons to be able to assess whether the assets included in the initial RAB are 'useful'. This is a further significant shortcoming given that in its Draft Input Methodologies the Commission has proposed only applying a 'used' test for when assets may be included in the RAB, and has taken the view that interested persons should make their own assessments as to whether assets are 'useful'. Currently, the proposed information with respect to the initial RAB will not enable interested persons to make this assessment.

- **Not requiring disclosure of the revaluations contained within the initial RAB**

The majority of assets used to provide regulated airport services have long lives, spanning decades and covering many pricing periods. As such, it is imperative that interested persons have information covering as long a period as possible in order to be able to make assessments of the returns earned by regulated suppliers over the lifetime of the assets. The Commission's Draft Decision is to base the initial RAB on the values disclosed by the airports in 2009, which include significant past revaluations. However, there is no proposed requirement in Schedule 27 for airports to disclose the revaluations which will be inherent in an initial RAB determined from the disclosed 2009 values. In the absence of information as to revaluations which occurred in earlier periods, interested persons will not be able to make informed assessments as to whether the returns earned over the lifetime of the asset are reasonable or not and whether excessive profits are being extracted.

- **The lack of any express requirement for information on the forecast asset base used to set prices.**

The forecast asset base is not one of the components used to set forecast revenue which is required by clause 9.1(c) to be disclosed in further detail after a price setting event. The asset base is one of the most material inputs when determining charges using a building block methodology and interested persons need to be able to understand the composition and value of the asset base used by each airport to set charges as well as any difference between it and the RAB used for disclosure purposes. BARNZ considers that the forecast asset base should be included as one of the factors in clause 9.1(c) requiring further detailed disclosure after a price setting event.

- **The lack of any detailed information on the rolled forward asset base for the segmented activities**

The disclosures for segmented activities contained in Schedule 6 do not contain any information on how the asset bases (and asset classes) for the three segmented activities have been rolled forward. The Report on the RAB Roll-forward in Schedule 5 is at the Airport Business level. BARNZ considers that information on asset class roll forward needs to be provided for each of the segmented activities in the same format as that contained in Schedule 5(b)(vii). Without this information interested persons will not be able to understand the changes in the asset values and classifications for the segmented activities. For example, an interested person will not know how much airfield land was revalued by or what capital expenditure or changes in allocation occurred with respect to terminal buildings.

- **Only requiring separate disclosure of capital expenditure projects over \$30m.**

Only requiring separate disclosure for projects which are more than \$30m in value will mean that the vast majority of airport capital expenditure will only be forecast and

disclosed as a lump sum under the three categories proposed by the Commission. This will significantly limit the ability of interested persons to assess the innovation and investment being undertaken and whether it will enable services to be provided at a level that reflects consumer demands. In the current pricing periods the Commission's proposed threshold would only have required disclosure of one project by Christchurch, one or two by Wellington and three by Auckland. BARNZ considers that the threshold for requiring disclosure of key capital expenditure projects under the Commerce Act information disclosure should either be:

- The same threshold as for information disclosure for EDBs and GDBs where BARNZ understands the Commission is requiring disclosure of the five largest projects; or
- Set at a dollar value which captures projects which interested persons would be concerned about. \$30 million is much too high. BARNZ considers that \$5 million is an appropriate threshold for information disclosure if a dollar value is to be specified. In the current pricing period this would have required disclosure of two projects by Christchurch, three or four projects by Wellington and eight projects by Auckland Airport.

The issue of the appropriate threshold for requiring disclosure of key capital expenditure projects, and the confusion which has arisen between the threshold under the Airport Authorities Act for consultation over capital expenditure (where BARNZ has suggested a threshold of \$30m rather than the current threshold of 20% of identified airport activity assets) and the threshold for requiring disclosure of key capital expenditure projects under the Part 4 information disclosure requirements (where BARNZ considers that \$5m is the appropriate threshold if a monetary value is to be applied), is discussed in further detail in Appendix A to this submission.

There are other suggestions and comments or queries which BARNZ has identified in its review of the Commission's proposed information disclosure requirements. These points are all set out in Part 2 of this submission in further detail, however the most significant are:

- Requiring disclosure of the existence and extent of Service Level Agreements
- Requiring a breakdown of operating costs in the first year of disclosure – but with the option for airports to either use the current categories or the new categories
- Clarification of whether the annual revision and resetting of full cost recovery charges constitutes a Price Setting Event
- Whether there should be three domestic weight breaks to mirror the common use of aircraft for GA, turbo-prop and jet operations
- Alignment of the definition of arrival time and departure time with commonly understood industry definitions which are based on the aircraft being 'on-block' and 'off-block'
- Simplification of the proposed terminal service income measures
- The need for separate and transparent disclosure of gains and losses on derivative financial instruments outside of operating expenditure
- Improved provision for disclosure of current depreciation rates and changes to asset lives
- Adopting a lower threshold (5%) for requiring an explanation for variances in forecast capital expenditure incurred over the period to date as opposed to the threshold for variances in annual line items (10%)

- Requiring disclosure of assets and costs directly allocated to unregulated activities
- Disclosure of the duration of on time departure delays under broad time bands
- Simplification of the breakdown of aircraft parking stands
- Simplification of disclosure of aircraft movements on the busy day
- Removal of disclosure of movements by aircraft type for aircraft under 3 tonnes
- Disclosure of FTEs and human resource costs by segmented activity
- Annual disclosure of standard prices
- Consideration of whether average landing charges per passenger for domestic flights under 3 tonne and average parking charges are required
- That the Commission should give further consideration to the proposed measure of average freight income per tonne MCTOW, including the purpose of the measure (which will inform how it should be calculated)
- Disclosure of average passenger service charge for domestic passengers
- Review of the forecast demand information

These suggestions, as well as the five key instances where BARNZ considers that the draft Information Disclosure Determination fails to provide sufficient information to interested persons to assess the extent to which Part 4 is being met, together with other more minor matters, are outlined in Part 2 of this Submission.

In addition, BARNZ has used the word and excel versions of the draft determinations provided by the Commission to illustrate the suggestions made in this submission.

BARNZ has worked with Airbiz and NZAA on a joint letter from Airbiz which provides further comments on the capacity and utilisation measures which were developed from the Joint Working Document collaborated on by BARNZ and NZAA last year. The letter from Airbiz has been separately forwarded to the Commission, and BARNZ agrees with the points made in that letter.

Finally, BARNZ would welcome the opportunity to discuss any of the matters raised in this submission with the Commission, and suggests there would be considerable merit in an industry workshop being convened by the Commission, as occurred with respect to quality monitoring in December 2009, to work through these matters (and any other matters raised by NZAA) to ascertain whether industry consensus exists with respect to any particular matters.

PART 2 – DETAILED COMMENTS ON INFORMATION DISCLOSURE (AIRPORT SERVICES) DRAFT REASONS AND DRAFT DETERMINATION PAPERS

BARNZ has organised its detailed comments on the Draft Reasons Paper and the Draft Determination for information disclosure following the structure of the Commission’s Reasons Paper and then by commenting on the draft determination and its schedules.

There are several key aspects of the Commission’s Draft Input Methodologies which BARNZ does not consider will promote the long term benefit of consumers in accordance with section 52A. With the exception of discussion on the key capital expenditure project threshold, these matters are not repeated in detail in this information disclosure submission. However, this submission should be read in conjunction with the points made in BARNZ’ Submission on the Input Methodologies Reasons and Draft Determination Papers.

CHAPTER 3 – HISTORICAL FINANCIAL INFORMATION DISCLOSURES

<p><i>Gains and losses on sale</i> (para 3.47)</p>	<p>The Commission’s draft determination is that gains and losses on the sale of an asset should be recognised as income, except where an asset is sold to another regulated supplier, where no loss or gain is to be recognised.</p> <p>BARNZ considers that a further proviso is required to deal with the situation of vested assets which were originally transferred to the regulated supplier for little or no consideration. Going forward, new vested assets will enter the asset base at the cost the airport paid for the asset. (Refer 4.4.106 Draft Reasons Paper). However, previously vested assets already included in the RAB will be valued as per the Airports’ 2009 financial disclosures.</p> <p>Where a previously vested asset is THEN sold for less than its value in the RAB, BARNZ considers that the loss on sale should only be recognised up to the extent of the actual investment by the regulated supplier. A practical example exists with Puhinui Road and Puhinui Bridge which were vested in Auckland Airport by Transit NZ in 2002, apparently for nil consideration. The Airport subsequently revalued the assets by \$6m in 2002 and again by further unknown sums in 2004 and 2006. If these roading assets were in the future transferred back to Transit NZ for an amount less than the current book value, then it would not be appropriate for the ‘loss on sale’ as against the book value to be recognised as negative income, given that the airport did not originally incur any cost to acquire that asset.</p> <p>The loss on sale in this case (and in the case of any vested assets) should only reflect the actual investment by the regulated supplier – that is, any original consideration and any subsequent capital investment in maintaining or improving the asset. If this is not the case, then the regulated supplier will have earned returns considerably in excess of the FCM rule.</p>
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CHAPTER 4 – QUALITY AND STATISTICS

<p><i>Reliability – service level agreements</i></p>	<p>The Commission stated at para 4.35 “<i>if effective service level agreements are in place between Airports and airlines (or between</i></p>
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<p><i>(para 4.35)</i></p>	<p><i>Airports and passengers) then the price-quality trade-offs become explicit through the amount of compensation paid and disclosure regulation of service reliability becomes less important.”</i></p> <p>BARNZ does not have any accurate information with respect to the extent to which individual service level agreements (SLAs) are currently in place between the three regulated Airports and airlines or the extent to which any such agreements are effective. However, BARNZ is aware that despite considerable efforts to develop such a document, there are no SLAs in existence in relation to common services and assets at Auckland, Wellington or Christchurch Airports which apply to all airport users. BARNZ suggests there would be merit in Airports being required to disclose the number of SLAs they have with respect to regulated services, the proportion of users of regulated services that these SLAs relate to and the services covered by the SLAs. The precise terms of the SLAs should not be required to be disclosed. This disclosure could occur within Schedule 12.</p> <p>Requiring disclosure of the existence and extent of SLAs would materially improve the ability of the Commission and interested persons to assess whether regulated suppliers are providing services at a quality which reflects consumer demands and the extent to which Part 4 is (over time) providing incentives for regulated suppliers to provide services at a quality that reflects consumer demands.</p>
<p><i>Reliability – planned maintenance (paras 4.37 and 4.40)</i></p>	<p>The Draft Reasons Paper states at para 4.37 that “BARNZ and NZAA agree that planned maintenance is not a concern for airlines as it can be adequately accommodated within schedules...”. A similar statement is made at para 4.40 that “BARNZ has made clear in its submissions that airlines are not concerned with planned interruptions ...”. Page 58 of BARNZ’ Submission of 11 September 2009 on the Commerce Commission Information Disclosure Discussion Document is provided to support these statements.</p> <p>It goes a step too far to say, as the Draft Reasons Paper currently does, that BARNZ is not concerned about planned maintenance. BARNZ cannot find, and is not aware of, any statements by it to the effect that it is not concerned about planned maintenance. Airlines are aware of planned maintenance and are concerned to ensure that the level of planned maintenance is appropriate. Airlines would be concerned if excessive planned maintenance occurred as this would likely result in airlines incurring additional operating costs. However this has not been a problem to date.</p> <p>Therefore unplanned maintenance is of greater concern and both BARNZ and NZAA considered the disclosure requirements should focus on it. The measurement of planned maintenance under the previous disclosure regulations had produced some absurd results of extremely long periods of unavailability as airbridges were replaced. In some cases, there had not been a reduction of service as an additional airbridge had first been constructed. Therefore BARNZ proposed focusing on unplanned interruptions and improving the</p>

	<p>collection of data with respect to unplanned interruptions, including expanding it to include collection of the impact of the unplanned interruptions on on-time performance.</p> <p>A more correct statement of BARNZ’ position would be that “Airlines are not as concerned with planned maintenance as they are with unplanned maintenance, as planned maintenance (so long as it is not excessive) can usually either be accommodated between scheduled services or contingency plans can be implemented by the airport and airlines such that the planned interruptions have a relatively small effect on passengers”.</p>
<p><i>Utilisation – passenger data (Para 4.77)</i></p>	<p>The Commission has commented that “to date there has been a common reluctance by airlines to provide passenger data”. This comment was contained in the Airbiz Report. As a statement it is largely accurate. However, despite this reluctance airlines do provide large amounts of information to airports and to Government agencies. There are significant commercial and privacy issues with respect to the collection of passenger information and the potential misuse of it and airlines are extremely cognisant of these. Notwithstanding this, there is an ever increasing array of regulatory requirements for airlines to provide detailed information to Government Agencies and this information provides a robust source of data.</p> <p>The Commission has inferred that the missing information in the Airports’ databases with respect to passenger information was as a result of airlines not providing appropriate data on passenger numbers. BARNZ does not accept that airlines are the primary cause of lack of passenger data in the Airports databases.</p> <p>Before every flight departs Airways is advised of the number of people on board – which provides an accurate and up-to-date source of passenger volumes. Internationally, both Customs and Immigration run advance passenger processing systems which provide accurate passenger volumes for both departing and arriving flights based on advance passenger data provided by airlines. The Customs data (known as CUSMOD) is used by a number of airports, Government Agencies and BARNZ for various billing functions and apportionment of costs. In addition information is also provided directly to airports. For example, airlines provide monthly schedules to Wellington Airport advising of the exact passenger volumes, including transit and transfer passengers and crew as well as other exempt passengers, for both domestic and international flights.</p> <p>BARNZ therefore does not accept that there are any holes in available data that can be described as primarily due to airlines failing to provide information.</p>
CHAPTER 5 – FORECAST REVENUE	
<p><i>Disclosure of capital expenditure project forecasts (para 5.57)</i></p>	<p>The Commission’s Draft Determination is that key capital expenditure projects (which have to be disclosed in greater detail) should be defined as projects being greater than or equal to \$30million.</p>

	<p>As described in Appendix A, BARNZ considers that a \$30m threshold for a key project is much too high and will only result in one to two projects for each airport being required to be disclosed in the additional detail over a five year period. In many years, there will not be any projects requiring the additional disclosure. This will fail to ensure interested persons have sufficient information to assess whether appropriate incentives to invest occur, and whether the investment will result in services being provided at a quality that reflects consumer demands.</p> <p>BARNZ considers a lower threshold would materially improve the ability of interested persons to assess whether the purpose of Part 4 is being met. The analysis undertaken by BARNZ suggests a threshold of \$5m is appropriate and would not result in an excessive number of projects being disclosed. Alternatively, the threshold proposed by the Commission for EDBs and GDBs of disclosure of the top five projects could be applied.</p>
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CHAPTER 6 – PRICING DISCLOSURES

<p><i>Disclosure of average pricing (para 6.11)</i></p>	<p>The Commission’s Draft Determination is that ‘average prices’ should be disclosed, calculated by dividing ‘net revenue’ by ‘actual demand’.</p> <p>BARNZ considers that disclosure of average charges will provide a valuable statistic. However, the Commission should beware that this statistic will not provide any meaningful information with regard to the level of discounts granted by airports.</p> <p>There is a material group of passengers which (under current charging approaches) either do not pay airport charges or do not pay full airport charges. This means that a simple division of revenue by demand will be unlikely to disclose the average deduction in standard prices from discounts. For example, repositioning crew, diplomats, military personnel, under two year olds and transit and transfer passengers all do not pay international departure charges. In addition, at Auckland and Christchurch Airports children under 12 do not pay the international departure/arrival charge while at Wellington Airport children aged between 2 and 11 years pay \$10. During consultation in 2007 Auckland Airport advised approximately [] of international passengers with Auckland Airport as their origin or destination are exempt from the international departure/arrival charge.</p> <p>If a calculation is required to highlight the average deduction which results from pricing incentives, then adjustments will need to be made to the demand statistics to remove exempt passengers and to adjust for the reduced price for children.</p> <p>For its part, BARNZ considers that so long as the aggregate total of pricing incentives has been disclosed, then this ought to be sufficient. The additional cost and complexity required to adjust for exempt passengers and for passengers paying a reduced rate such as children in order to enable this calculation to be undertaken appear to BARNZ to outweigh the benefit which could be achieved from the calculation.</p>
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CHAPTER 7 – CERTIFICATION AND AUDIT

<p><i>Transitional provisions – timing of first disclosures (para 7.44)</i></p>	<p>The Commission’s Draft Determination is that disclosures will not be required in the first year until 11 months after year end.</p> <p>While BARNZ considers this is appropriate in the case of WIAL whose year end will only be four months after the publication of the final disclosure requirements, BARNZ believes this is overly generous in the case of Auckland and Christchurch Airports whose balance date is at the end of June, some three months after Wellington, by which time the new requirements will have been known for six months.</p> <p>BARNZ believes it would be more appropriate to provide for disclosure to be 8 months after year end in the case of Auckland and Christchurch Airports, meaning all three airports would make their first disclosures under Part 4 at the same time, at the end of February 2012. This would also ensure the disclosures are available in a timely manner for the section 56G review due to occur in 2012.</p>
<p><i>Transitional provisions – disclosure of operating costs (para 7.44)</i></p>	<p>The Commission’s draft determination is that disclosure in the first year under the Part 4 Disclosure Requirements will not include operational and capital expenditure by categories.</p> <p>The current disclosure requirements under the AAA include a requirement to break operating costs down into staff costs, R and M, administration costs and other. The proposed transitional provision leaves open the possibility that an airport could simply disclose operating costs as one total amount in the first year’s disclosures, which BARNZ does not consider appropriate as it would create a ‘gap year’ within the information available for interested persons to monitor trends. This would make it more difficult to identify changes as a result of the new information disclosure requirements.</p> <p>BARNZ suggests that for the year ended 2011 Airports should be required to break down operating expenditure either using the categories provided in clause 6 of the Schedule to the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 or as provided under Schedule 3 of the Commerce Commission Information Disclosure Determination.</p>
<p>DETERMINATION</p>	
<p>Clause 8.1(a)(ii) and (iii)</p>	<p>We suggest it would help avoid confusion if the terminology used in the titles to Schedule 13 and 14 mirrored the defined terms ‘airfield activities’, ‘aircraft and freight activities’ and ‘specified passenger terminal activities’.</p>
<p>Clause 9.1</p>	<p>The impact of charges which are reset annually needs to be considered in relation to the requirement for disclosure of forecast revenue information following a Price Setting Event. The terminal services charge and the jet fuel pipeline charge at Auckland airport are both reset annually with demand and costs forecast for the following year and a wash-up occurring reflecting actual use and actual costs incurred during the year just completed. The annual resetting of these charges appears to fall within the definition of a Price Setting Event.</p>

	<p>BARNZ assumes it is not the Commission’s intention for clause 9.1 to be triggered as a result of such annual resets. If this is the case, then BARNZ suggests a proviso could be included in clause 9.1 along the lines of “within 20 Working Days following a Price Setting Event (other than a charge which is reset annually) ...”.</p> <p>If annual resets were found to trigger an obligation to disclose forecast information then BARNZ surmises it would be likely that Auckland Airport would seek to move away from the current annual resetting process for the TSC and fuel pipeline charges that would not be seen as desirable by BARNZ members. Airlines value the transparency which the annual forecasting and wash-up processes provide for the TSC and fuel pipeline assets, as well as the opportunity these processes provide for airlines to engage with the airport on what quality consumers demand with respect to these two activities.</p>
Clause 9.1(c)	<p>Clause 9.1(c) requires certain components of the price setting decision by an airport to be disclosed in further detail following a price setting event. This list does not include ‘forecast asset base’.</p> <p>BARNZ considers ‘forecast asset base’ should also be a component the Airport is required to disclose in that further detail. The asset base is one of the most material inputs when determining charges under the building block methodology currently used by the airports. Interested persons need to be able to understand the composition and value of the asset base used by each airport to set charges as well as any difference between it and the RAB used for disclosure purposes. This is one of the five key areas of difference BARNZ has with the Commission’s draft Information Disclosure Determination.</p> <p>BARNZ also considers that where the asset base used for pricing differs from the RAB, then the Airport should be required to disclose any valuation report which exists. This mirrors the current requirement in the Airport Authorities Information Disclosure Regulations for valuation reports to be disclosed.</p>
Clause 14	<p>BARNZ suggests it would be appropriate for provision to be made for the Commission to consult with interested persons before the Commission grants an Airport an exemption from any of the requirements of the Determination.</p>
Clause 15.1	<p>BARNZ considers that allowing all three Airports an additional six months to prepare their disclosures in the initial year is overly generous in the case of airports with a 30 June balance date. BARNZ suggests the transitional provisions should provide for disclosure to occur by 28 February 2012 for all airports.</p>
Clause 15.6(a)	<p>BARNZ does not consider it is appropriate to exempt airports from the requirement to break down operating expenses using the categories proposed by the Commission in the first year of disclosure, without alternatively requiring operating expenditure to be broken down using the current categories in the Airport Authorities Regulations.</p> <p>The outcome under the Commission’s current approach is that no breakdown of operating expenditure will be required in the initial year</p>

	of disclosure, which is not appropriate. BARNZ suggests airports instead be provided with the option for disclosure in respect of FY11 of being able to disclose a breakdown of operating expenditure either under the current categories or under the new categories.
Clause 15.6(b)	The line item references appear to be incorrect. The reference to line items 88-90 should presumably be to line items 84-86 and the reference to line item 91 should presumably be to line item 88.
DEFINED TERMS	
Airside circulation and arrivals concourse	See Airbiz comments regarding the number of definitions creating an unnecessary level of complexity.
Appropriate point for domestic weight breaks	<p>While not a defined term, this question affects a number of the definitions used as the basis for requiring disclosure of statistics and for calculating performance measures. This applies to the following defined terms:</p> <ul style="list-style-type: none"> • Average landing charge per passenger for domestic flights 3 tonnes MCTOW and over • Average landing charge per passenger for domestic flights under 3 tonnes MCTOW • Average landing charge per tonne MCTOW for domestic flights 3 tonnes MCTOW and over • Average landing charge per tonne MCTOW for domestic flights under 3 tonnes MCTOW <p>The Commission is currently proposing using 3 tonnes as the dividing point for domestic aircraft, and having disclosure occur separately for aircraft below 3 tonnes and aircraft above 3 tonnes.</p> <p>The practical reality of airport operations in New Zealand is that there are three classes of domestic aircraft operated in New Zealand, with considerably different features and needs, both in terms of runway width and length, rescue fire requirements and terminal requirements such as airbridges and security needs. Broadly speaking, they are:</p> <ul style="list-style-type: none"> • GA operations, which are less than 3 tonnes • Turbo-prop aircraft, which fall between 3 tonnes and 30 tonnes. These aircraft are predominantly found on regional routes, but can also operate on the main trunk line. • Jet aircraft, which are over 30 tonnes and are predominantly found on the main trunk line. <p>This categorisation is used by the Commission in Schedule 13. With this in mind, BARNZ suggests the appropriate weight breaks for domestic aircraft are:</p> <ul style="list-style-type: none"> • Aircraft up to and equal to 3 tonnes • Aircraft greater than 3 tonnes and less than 30 tonnes • Aircraft 30 tonnes and greater

<p>Airport, Airport Business and Airport Company</p>	<p>While only a drafting point, BARNZ queries whether there is enough of a distinction in the names assigned to the terms Airport or Airport Business (which both mean those business units providing specified airport services) and Airport Company (which is the entire airport, including regulated and unregulated activities).</p> <p>It is not immediately apparent from the term Airport or Airport Business that this is the subset comprising the regulated activities and not the whole airport. Adding a descriptor such as Specified Airport Business or Regulated Airport Business may well aid in the interpretation of the requirements by interested persons.</p>
<p>Arrival time</p>	<p>The Draft Determination defines Arrival Time as the runway arrival time. This differs from how arrival time is normally measured within the aviation industry.</p> <p>Airline industry standards measure arrival time at the point when blocks (or chocks) are applied to the aircraft wheels once it is stationary at the relevant stand (be it a contact stand or a remote stand) – this is commonly called ‘on block’. This is the standard commonly used in current airline reporting systems.</p> <p>This is also the approach mandated by the United States Department of Transport for the compulsory collection of domestic airline on-time performance within the United States (refer 14 CFR Part 234.4(15)(e) which provides <i>Actual arrival, departure and elapsed times shall be measured by the times at which the aircraft arrived at and departed from the gate or passenger loading area.</i> (Available at http://edocket.access.gpo.gov/cfr_2002/janqtr/pdf/14cfr234.2.pdf)</p> <p>The Commission’s proposed definition would mean it would not necessarily be possible for all airlines to use their current systems for measuring delays as an input to the new disclosure regime. Significantly, separate measures would in some cases need to be taken and automated messages from current departure control systems may not be able to be sent to the Airports.</p> <p>BARNZ recommends the Commission amend the definition of Arrival time to align with industry standards and enable greater advantage to be taken of current measuring systems.</p>
<p>Average passenger service charge per domestic passenger</p>	<p>This measure is missing from the Commission’s proposed disclosures. More than 14 million domestic passengers use the three regulated airports every year. BARNZ considers that the average passenger service charge (or average terminal charges) per domestic passenger is an important measure which should be disclosed as part of the pricing statistics.</p> <p>BARNZ also notes that when calculating the average passenger service charge per domestic passenger, lease income received by airports from airlines leasing operational areas for processing domestic passengers and their baggage, will need to be taken into account. Historically there is a distinction between how domestic and international terminal</p>

	<p>facilities were paid for, with domestic operational areas being leased rather than paid for by common use terminal charges. However this is now changing as airport terminals are redeveloped and as the number of domestic airlines increases. For example, while the domestic baggage make-up areas at Auckland Airport are leased by airlines, at Wellington the same space is common use. Thus a mixture of domestic terminal charges and leases of domestic operational areas exists at the three airports.</p> <p>In order to ensure like comparisons are made, it will be necessary for lease revenue of domestic passenger and baggage operational areas to be included within passenger service income.</p>
<p>Average Passenger service income Average Terminal services income</p>	<p>BARNZ is not certain that the distinction between average passenger service income and average terminal service income is required in as many cases as the Commission is currently proposing.</p> <p>The Draft Determination proposes measures with respect to the average terminal service charge for both international and domestic passengers with an airbridge or transfer bus and without an airbridge and transfer bus. The cost of collecting the information to disclose the proposed measures appears to BARNZ to significantly outweigh any benefit and to be more information than necessary to meet s53A.</p> <p>Terminal access charges are currently only a relatively small proportion of terminal charges. For example, at Wellington the required revenue associated with airbridges is in the vicinity of 40 cents per international and domestic jet passenger. At Auckland [] of annual costs are associated with airbridges in the TSC Agreement, out of a total TSC annual charge of \$27.5m. BARNZ also notes that any distinction made by airports with respect to terminal access appears to be between flights with an airbridge and flights without an airbridge. A flight on a remote stand using a transfer bus is usually treated as a flight without an airbridge.</p> <p>BARNZ suggests that a simpler means of providing sufficient information with respect to terminal access charges, so as to enable interested persons to assess whether s52A is being met, would be for airports to disclose:</p> <ul style="list-style-type: none"> • Average actual income from all terminal charges (that is, both passenger service income and terminal service income) per domestic passenger and per international passenger • Standard domestic and international terminal service charges • An explanation of what adjustment (if any) is made between flights having different means of accessing the terminal (i.e. airbridge access, transfer bus access and remote walking access). <p>BARNZ does not consider that the cost of collecting data to calculate the average actual charge is warranted with respect to terminal service income as a stand-alone measure.</p>

	(Note BARNZ also suggests that terminal services charge be renamed to terminal access charge – see discussion under the definition of terminal services charge.)
Baggage outbound – notional capacity	The proposed definition refers to outbound baggage – notional capacity being measured in ‘passengers per hour’. BARNZ considers this should be measured as ‘bags per hour’ which is what is being processed by the outbound baggage sortation system.
Departure time	<p>The Draft Determination defines Departure Time as the runway departure time. This is the same issue as discussed above with respect to the definition of Arrival Time. Industry standards measure departure time at the point when blocks are removed from the aircraft wheels – commonly called ‘off block’.</p> <p>BARNZ recommends the Commission amend the definition of departure time to align with industry standards and enable better advantage to be taken of current measuring systems.</p>
Holding costs (proposed new definition)	There is no definition or formula provided for determining the annual holding costs for land held for future use which is disclosed under Schedule 5. Paragraph 4.4.28 of the Input Methodologies (Airport Services) Draft Reasons Paper indicates that holding costs are ‘the actual or implicit funding charge associated with this capital investment’ but this definition does not appear to be included within either the Information Disclosure Determination or the Input Methodologies Determination.
Inbound domestic transit and transfer passenger	Defining a domestic transit and transfer passenger as one ‘who has baggage checked through onto an outgoing flight’ will not result in an accurate picture of domestic transit and transfer passengers as not all transit and transfer passengers will have checked in baggage. BARNZ suggests that the definition be reworded as per the proposal by Airbiz at point 7 of its letter.
Key capital expenditure projects	<p>Key capital expenditure projects are proposed to be defined as projects being greater than or equal to \$30m.</p> <p>As already outlined (and discussed in Appendix A), BARNZ considers that a \$30m threshold is much too high and will only result in one or two projects being required to be disclosed per airport in detail over a five year period. A lower threshold will materially improve the ability of interested persons to assess whether the purpose of Part 4 is being met.</p> <p>The analysis undertaken by BARNZ suggests a threshold of \$5m is appropriate as it would result in disclosure of projects interested persons have a significant interest in, but would not result in a proliferation of projects needing to be disclosed. Alternatively, the threshold proposed by the Commission for disclosure by EDBs and GDBs of the five largest projects would also be appropriate.</p> <p>In addition, there are several points regarding the process of measuring the value of the project which would benefit from clarification:</p> <ul style="list-style-type: none"> • Is the value of the project to be calculated inclusive or exclusive of financing costs? BARNZ’ view is that the entire project cost,

	<p>including expected financing costs, should be taken into account.</p> <ul style="list-style-type: none"> • Where a project will provide regulated and unregulated assets (such as an extension to the terminal which will encompass aeronautical space as well as retail space), then is the entire capital spend to be taken into account in determining if the threshold is met or just the proportion that relates to the regulated business? • Where a project is able to be constructed in stages, with each stage able to be used as it is completed, then should the disclosure occur as each stage is commissioned or when the entire project is complete and all stages are in use? This question arises with Christchurch Airport's Integrated Terminal project which is being constructed in stages.
MCTOW	BARNZ suggests that further specification be provided that it is the MCTOW 'contained in the aircraft's certificate of Registration'.
Net revenues (proposed new definition)	BARNZ notes that there is no definition or formula provided for determining the annual net revenues associated with land held for future use which is required to be disclosed under Schedule 5. Paragraph 4.4.28 of the Input Methodologies (Airport Services) Draft Reasons Paper indicates that net revenues are 'revaluations and revenue generated from other interim uses' but this definition does not appear to be included within either the Information Disclosure Determination or the Input Methodologies Determination.
Operational expenditure	<p>The Commission has included gains and losses on derivative financial instruments within the definition of operational expenditure. BARNZ notes that such gains and losses can potentially be very large, can significantly affect the regulatory profit and can obscure the identification of trends. For these reasons BARNZ considers that gains and losses on derivative financial instruments should not be included within regulatory disclosure statements.</p> <p>However, if the Commission decides to include gains and losses on derivative financial instruments, then it is imperative they be shown as a separate line item and not included within operating costs. Otherwise it will be difficult for interested persons to measure trends in operating costs over time and discern whether efficiency improvements are occurring.</p>
Outbound domestic transit and transfer passenger	This is the same issue as for inbound domestic transit and transfer passengers, namely that linking the definition to baggage checked through will not result in an accurate picture of domestic transit and transfer passengers as not all transit and transfer passengers will have checked in baggage. BARNZ supports the definition being reworded as per the Airbiz recommendation.
Passenger facilities functional floor space	This definition may well not be needed any more
Passport control (inbound) – floor space	There appears to be duplication with the definitions of Passport control (inbound) – floor space and Passport control (inbound) – overall functional floor space appearing to be defining the same space.
Pricing	The end of the fourth line of this definition appears to be missing some

Methodology	words after ‘and including, where applicable, ...’
Publicly Disclose	<p>BARNZ notes that interested persons will, for the most part, be very unlikely to read the Gazette, hence a notice in the gazette is likely to only be helpful to the Commission or other Government Departments. BARNZ continues to consider that emails to a register of interested persons would be more appropriate.</p> <p>However, given the Commission’s lack of favour with this proposal, we instead suggest that in addition to the notice in the Gazette the regulated supplier also be required to give a similar notice in any industry publication and in the local newspaper. These additional notices should increase the possibility of interested persons being made aware of the disclosures.</p>
Standard price	This definition needs to be amended to reflect the fact that the price may be set to passengers as well as to airline customers. Currently the definition only refers to airline customers.
Terminal services income	Broadly speaking, this is defined as income related to the transfer or transportation of passengers between an airport terminal and an aircraft. BARNZ considers this term is likely to create confusion. Since the 1970’s there has been a terminal services charge at Auckland Airport which relates to all international terminal airside space, equipment and operating expenses. While it includes transfer and transportation costs, the charge at Auckland Airport (which represents the commonly understood meaning of terminal service charge to airlines) is significantly wider. To avoid confusion, BARNZ suggests this defined term be renamed along the lines of ‘terminal access income’
SCHEDULE 2 – REPORT ON RETURN ON INVESTMENT	
2(b)(i) Debt leverage assumption	As outlined in BARNZ’ Submission on the Input Methodologies Reasons Paper, BARNZ would prefer actual leverage to be used, but if an estimate is to be applied, then it should not be at 40% which is the upper bound of the range. BARNZ considers the Commission should continue to apply its previous leverage of 25%.
2(b)(ii) \$30m threshold for commissioned projects	<p>At lines 65 to 74 space is provided for commissioned projects (defined as those \$30m or greater) to be disclosed. Nine lines are allowed for the disclosure of commissioned projects. While BARNZ acknowledges that the lines allowed are merely space-holders, the fact nine lines were allowed suggests the Commission is under a misconception about the frequency of projects valued at \$30m and above. At the \$30m threshold, there will be many years where individual airports will not have any commissioned projects.</p> <p>As previously submitted (and outlined in further detail at Appendix A), BARNZ considers that the proposed \$30m threshold will result in insufficient information for interested persons to be able to assess the performance of the airport against the purpose statement contained in section 52A. A lower threshold is required.</p> <p>BARNZ suggests either a threshold of \$5m or the threshold proposed by the Commission for EDBs and GDBs of disclosing the top five projects.</p>

SCHEDULE 3 – REPORT ON THE REGULATORY PROFIT	
Gains and losses on derivative financial instruments	<p>As discussed above, BARNZ considers that gains and losses on derivative financial instruments should not be included within regulatory disclosure statements or within the definition of operational expenditure.</p> <p>However, if the Commission decides to include gains and losses on derivative financial instruments, then it is imperative they be shown as a separate line item and not included within operating costs. Otherwise it will be difficult for interested persons to measure trends in operating costs over time and discern whether efficiency improvements are occurring as the derivative gains and losses can significantly affect the regulatory profit and obscure the identification of trends.</p>
SCHEDULE 4 – REPORT ON THE REGULATORY TAX ALLOWANCE	
	No comment
SCHEDULE 5 – REPORT ON THE REGULATORY ASSET BASE ROLL FORWARD	
Schedule 5(b) Disclosure needed for changes to depreciation rates	There does not appear to be provision for recording changes to asset lives and depreciation rates as was jointly suggested by NZAA and BARNZ in May. A similar section to that found in 5(b)(iii) is needed for ‘disclosure of depreciation rate changes in year of change’.
Schedule 5(b)(viii) Definitions required	BARNZ notes that there is no definition or formula provided for determining the annual holding costs or the net revenues. Paragraph 4.4.28 of the Input Methodologies (Airport Services) Draft Reasons Paper indicates that holding costs are ‘the actual or implicit funding charge associated with this capital investment’ and net revenues are ‘revaluations and revenue generated from other interim uses’ but these definitions do not appear to be included within either the Information Disclosure Determination or the Input Methodologies Determination.
SCHEDULE 6 – REPORT ON SEGMENTED ASSETS	
Location	BARNZ suggests Schedule 6 would be better located adjacent to Schedules 10 and 11 which contain further information on asset allocations and cost allocations for each of the identified airport activities. Otherwise, at first glance, the segmented information would look relatively sparse to any interested person. In addition, a cross reference to Schedules 10 and 11 could be a useful aide.
Information on asset roll forward	<p>While information on asset classes for each segmented activity is contained in schedule 10 (which is an improvement on the Airport Authorities Information Disclosure requirements), there is no requirement to provide any information or report on how the asset class has been rolled forward for each segmented activity. BARNZ considers that information on asset class roll forward needs to be provided for each of the segmented activities in the same format as that contained in Schedule 5(b)(vii). Without this, interested persons will not be able to understand the changes in the asset values and classifications for the segmented activities. For example, an interested person will not know how much airfield land was revalued by or what capital expenditure or changes in allocation occurred with respect to terminal buildings.</p> <p>This is one of the five key instances where BARNZ considers that the</p>

	draft Information Disclosure Determination fails to provide sufficient information to interested persons to enable them to assess the extent to which the purpose of Part 4 is being met.
SCHEDULE 7 – CONSOLIDATION STATEMENT	
Location	<p>BARNZ also suggests Schedule 7 would be better located in closer proximity to Schedules 10 and 11 which contain further information on asset allocations and cost allocations between the identified airport activities and unregulated activities.</p> <p>Again, a cross reference to Schedules 10 and 11 could be a useful aide.</p>
SCHEDULE 8 – REPORT ON RELATED PARTY TRANSACTIONS	
	No comment
SCHEDULE 9 – REPORT ON ACTUAL TO FORECAST CAPITAL EXPENDITURE	
Schedule 9(a) and 9(b) Capital expenditure projects	<p>As previously discussed, BARNZ considers that the \$30m threshold for disclosing individual projects is much too high and will only result in one to two projects per airport for each pricing period being separately disclosed, with there being no projects meeting this threshold for disclosure in many years. BARNZ suggests that \$5m be the threshold for a key capital expenditure project.</p> <p>This is one of the five key instances where BARNZ considers that the draft Information Disclosure Determination fails to provide sufficient information to interested persons to enable them to assess the extent to which the purpose of Part 4 is being met.</p>
Schedule 9(a) Explanation of variance	<p>The Commission is proposing that airport companies provide an explanation for any line item variance of more than 10%. BARNZ recognises that it is desirable and efficient for airports to have the flexibility to bring forward or defer capital expenditure as market circumstances or the physical life of the asset change. Nevertheless, BARNZ considers that 10% is on the high side as a threshold for providing an explanation – particularly as most projects will only be disclosed within a category. An airport could systematically over-estimate capital expenditure by 5% to 9% every year and not be called on to explain this.</p> <p>BARNZ considers that, as a safeguard to any systematic over forecasting, a lower threshold should be required in respect of the variance for the <u>period</u> to date.</p> <p>BARNZ suggests that for the second half of the period the threshold for explaining variances between the actual capital expenditure and that forecast for the period to date should be 5%. This would mean that an airport with a pattern of over-forecasting capital expenditure would need to provide the relevant explanations and justification, whereas an airport which had some projects brought forward, while others were deferred, would not be likely to meet this threshold.</p>
Schedule 9(b) Forecast disclosures following a price setting event	As discussed above in relation to the definition of a price setting event, the Commission may need to provide clarification of whether the annual resetting of a regularly reviewed charge (such as the terminal services charge and jet fuel pipeline charges at Auckland Airport) constitutes a price setting event which triggers this obligation.

SCHEDULE 10 – REPORT ON ASSET ALLOCATIONS

Disclosure of directly attributed assets to unregulated activities	<p>In order to assess the reasonableness of cost and asset allocations between regulated and unregulated activities, it is important to know the costs and assets directly attributable to both regulated and unregulated activities. Currently Schedule 10 does not require the disclosure of assets directly attributed to unregulated activities.</p> <p>BARNZ considers that Schedule 10 should require that the assets directly attributed to unregulated activities are also disclosed. In the absence of this, the totals shown in Schedule 10 will be giving a misleading picture of the assets of the Airport Company and will be likely to cause significant confusion if interested persons make differing assumptions as to what is included and excluded or try and undertake comparisons with the results in Annual Reports published by the Airport Company.</p>
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SCHEDULE 11 – REPORT ON COST ALLOCATIONS

Disclosure of directly attributed costs to unregulated activities	For the same reasons discussed above in relation to Schedule 10, BARNZ considers that the costs directly attributed to unregulated activities should also have to be disclosed within Schedule 11.
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SCHEDULE 12 – REPORT ON RELIABILITY MEASURES

Party responsible	Schedule 12 currently requires identification of the party responsible for the interruption. BARNZ suggests this be qualified as ‘the party predominantly responsible’ so as to reduce debate if other parties also contributed to an interruption.
On time departure delay	The schedule proposes disclosure of the total number of flights affected by on time departure delay (OTDD) and the total duration of the delay. Given that OTDD is the key measure indicating the impact of the loss of service on airlines and passengers, BARNZ considers that for this measure greater detail should be provided of the length of the delays, with the frequency of delays being categorised into broad time bands such as, 30 min or less, between 30 mins and 60 mins, between 1 hour and 2 hours and greater than 2 hours.
Aerobridge availability	BARNZ agrees with the comment by Airbiz that there appears to be duplication measuring aerobridge availability between the measures at lines 51 and 24.
Comment on box on page 18	The purpose of the comment box on page 18 does not appear to be stated. Presumably this is along the lines of ‘Commentary concerning reliability measures’.

SCHEDULE 13 – REPORT ON CAPACITY UTILISATION INDICATORS FOR AIRCRAFT, FREIGHT & AIRFIELD ACTIVITIES

Title	To avoid confusion BARNZ suggests the defined terms from the AAA be used which are ‘airfield activities’ and ‘aircraft and freight activities’. This would mean the title would read ‘Report on Capacity Utilisation Indicators for Airfield Activities and for Aircraft and Freight Activities’.
Aircraft parking stand terminology	In this schedule the terms ‘aerobridge’, ‘ground’ and ‘remote’ are used, whereas in Schedule 16 the terms ‘airbridge’, ‘contact stand walking’ and ‘contact stand bus’ are used. BARNZ suggests ‘airbridge’, ‘contact stand – walking’ and ‘remote stand – bus’ are the clearest terms. These terms also have the advantage of being able to

	be used for disclosure of capacity and utilisation for both the specified passenger terminal activities and for airfield activities and aircraft and freight activities.
Breakdown of aircraft parking stands	<p>The suggested breakdown of apron stands seems to be significantly more precise than occurs in reality at airports. BARNZ suggests this be simplified to three categories of aircraft, namely:</p> <ul style="list-style-type: none"> • International jet • Domestic jet • Domestic turbo-prop. <p>BARNZ also supports the other suggestions by Airbiz at 13.1 of its letter regarding aircraft parking stands.</p>
Breakdown of aircraft movement on the busy day	<p>The suggested breakdown of aircraft movements during the busy day could also be simplified. BARNZ suggests the following categories:</p> <ul style="list-style-type: none"> • International jet • Domestic jet • Domestic turbo-prop • General Aviation • Other (military, non-scheduled, diplomatic)
Breakdown of aircraft movement during the busy hour	<p>Currently disclosure is only required of the total number of aircraft movements during the busy hour. BARNZ considers that the information would be more meaningful if the aircraft movements were broken down using the same categories as for the busy day. This would indicate the degree to which capacity during the busy hour is being consumed by different aircraft types.</p>
SCHEDULE 14 – REPORT ON CAPACITY UTILISATION INDICATORS FOR PASSENGER TERMINAL ACTIVITIES	
Title	BARNZ recommends the title be aligned with the defined term ‘Specified Passenger Terminal Activities’.
	No comment other than the points raised in the Airbiz letter
SCHEDULE 15 – REPORT ON PASSENGER SATISFACTION INDICATORS	
Commentary box	The box beneath the report is without a title or description.
SCHEDULE 16 – REPORT ON ASSOCIATED STATISTICS	
16(ii) Domestic landings	<p>BARNZ suggests that disclosure should occur under the following categories:</p> <ul style="list-style-type: none"> • Scheduled aircraft 3 tonnes and less • Scheduled aircraft greater than 3 tonnes but less than 30 tonnes • Scheduled aircraft equal to or greater than 30 tonnes <p>However, disclosure for scheduled aircraft 3 tonnes and less should be reduced to simply requiring disclosure of the number of landings and total MCTOW as is the case for military and diplomatic aircraft, freight aircraft and other aircraft.</p> <p>Scheduled aircraft greater than 3 tonnes should still be disclosed by aircraft type.</p>

	The total MCTOW and number of movements should also be shown.
16b Terminal access	<p>BARNZ considers the clearest terminology for both different types of terminal access and hard stands is:</p> <ul style="list-style-type: none"> • airbridge • contact stand – walking • remote stand – bus
16b Terminal access	BARNZ considers that the issue of terminal access really only applies to international flights and domestic jet operations. Domestic turboprop operations will virtually always use a walking contact stand. Therefore, to reduce the cost of data collection BARNZ suggests the measures in 16b be confined to domestic jet flights and international flights.
16c Domestic transit and transfer passengers	BARNZ agrees with Airbiz’ comment that it is not practicable to report the number of domestic transit and transfer passengers as there is no readily available data source.
16f Human resource Statistics	<p>BARNZ requests that the number of FTEs and total human resource costs be required to be disclosed for each segmented activity.</p> <p>BARNZ has found tracking FTEs per passenger separately within airfield activities and specified passenger terminal activities over the past 10 years to be a useful litmus test of efficiency improvements. In addition, changes in staff allocations provide a very transparent indicator of the degree of change in allocation methodologies, particularly with respect to corporate overhead staff.</p>
SCHEDULE 17 – REPORT ON OPERATIONAL IMPROVEMENT PROCESS	
	No comment
SCHEDULE 18 – REPORT ON PRICING STATISTICS	
Disclosure of charges	BARNZ suggests it would be useful for there to be annual disclosure of the charges payable to the airport for identified airport activities as is currently the case under the Airport Authorities Information Disclosure Regulations. Disclosure purely after a Price Setting Event is unlikely to be sufficient as all three airports have now adopted the practice of setting a pricing path under which charges vary every year. Moreover, some charges (such as the terminal services charge at Auckland Airport) are set on a cost recovery basis and vary every year. BARNZ suggests it would be helpful if disclosure of prices occurred for the new financial year as well as the financial year just ended.
Average landing charge per pax for domestic flights under 3 tonnes	For its part, BARNZ does not consider that the average landing charges per passenger for domestic flights under 3 tonnes will be particularly relevant given that most movements under 3 tonnes will be GA flights which usually do not have paying passengers. Moreover, as these aircraft are unlikely to use the terminal the airport is also unlikely to have records of any passengers.
Domestic weight breaks	<p>BARNZ considers that it would be useful for there to be an additional weight break at 30 tonnes for domestic flights, so measures would be disclosed with respect to domestic flights under the following categories:</p> <ul style="list-style-type: none"> • Aircraft 3 tonnes or under (average landing charge per tonne of

	<p>MCTOW only)</p> <ul style="list-style-type: none"> • Aircraft over 3 tonnes and under 30 tonnes (average landing charge per passenger and per tonne MCTOW) • Aircraft 30 tonnes and over (average landing charge per passenger and per tonne MCTOW)
Average parking charges	<p>It is BARNZ' understanding that parking charges are not often charged in New Zealand. BARNZ therefore questions whether there would be sufficient benefit from requiring airports to disclose the average parking charge per aircraft per day. A simple disclosure of the revenue earned each year from parking charges could be an alternate disclosure which should be simpler to prepare but at the same time provide interested persons with sufficient information.</p> <p>The disclosure of revenue from parking charges could either occur in Schedule 3 as a note to airfield revenue or in Schedule 18.</p>
Average freight income per tonne MCTOW	<p>The Commission is proposing 'average freight income per tonne MCTOW' be disclosed.' BARNZ has a number of queries about this measure and would like to understand it better. A large amount of freight is carried in the hold on scheduled passenger services, thus the proposed measures will not be reflecting all of the landing charge income or MCTOW associated with freight. Moreover, aircraft and freight activities cover a wide range of services including facilities and services for refuelling aircraft, flight catering and waste disposal. It is not clear to BARNZ what the relationship is between aircraft and freight activities (as per the heading within schedule 18) and the term 'freight income' used within the measure. From the definitions, freight income appears to encompass some, but not all, aircraft and freight income.</p> <p>It is difficult for BARNZ to be able to comment meaningfully on this measure without a better understanding the Commission's purpose in developing this measure. At this stage BARNZ is unclear whether the measure in its current format would provide any meaningful information.</p>
Average terminal service charge measures	<p>As discussed above when commenting on the definitions, terminal access charges are currently only a relatively small proportion of terminal charges. At this stage for a New Zealand disclosure regime, BARNZ does not see it as necessary for terminal service access charges to be separated out from passenger service charges for the purposes of calculating average charges per passenger. BARNZ does not believe that the benefit from calculating average terminal service income will outweigh the cost of collecting the necessary data to calculate the average actual charge.</p> <p>Instead BARNZ suggests that the Pricing Statistics Report should disclose 'average actual income from all terminal charges (that is, both passenger service income and terminal service income) per domestic passenger and per international passenger'.</p> <p>In addition, following a Price Setting Event, the airport should be</p>

	<p>required to disclose the following information:</p> <ul style="list-style-type: none"> • Any domestic and international terminal service charges • An explanation of price differentials (if any) between flights having different means of accessing the terminal (i.e. airbridge access, contact stand walking and remote stand bus).
Average passenger service charge per domestic passenger	This measure is currently missing from Schedule 18. BARNZ considers that the average passenger service charge per domestic passenger is an important measure for interested persons.
SCHEDULE 19 – REPORT ON THE FORECAST TOTAL REVENUE REQUIREMENTS	
19b(iii) Capital Expenditure projects	<p>As noted earlier in this submission, a \$30m threshold for disclosing capital expenditure projects will only result in one or two projects for each airport per pricing period being required to be disclosed. The ten lines provided in the spreadsheet are unlikely to be filled and it is extremely unlikely that additional rows will be required. The vast majority of forecast capital expenditure will be contained in the ‘other capital expenditure’ line.</p> <p>As BARNZ has already noted, it considers a much lower threshold is required for key capital expenditure projects and believes \$5m would be an appropriate threshold. An alternative approach would be to apply the ‘top five projects’ threshold proposed by the Commission for information disclosure requirements for EDBs and GDBs.</p>
SCHEDULE 20 – REPORT ON DEMAND FORECASTS	
Passenger terminal demand	It would be useful for international transit and transfer passengers to also be forecast. At Auckland Airport there are nearly one million international transit and transfer passengers per annum which form a significant portion of passenger volumes. As transit and transfer passengers only use airside facilities and only pay charges relating to airside facilities, any analysis by interested persons needs to be able to take account of transit and transfer passengers.
Aircraft runway movements – busy hour	Schedule 20 currently proposes disclosure of the inbound flights during the busy period. Given that the runway capacity is consumed by both arriving and departing flights, BARNZ supports the Airbiz suggestion that the disclosure should be of ‘total aircraft movements during the runway movement busy hour’.
Aircraft runway movements – disclosure of international and domestic movements	When forecasting growth in airfield use, understanding and predicting likely increases (or decreases) in demand for domestic and international passenger travel is key. As such, BARNZ considers that the forecast demand should separately show ‘scheduled international passenger aircraft’ and ‘scheduled domestic passenger aircraft’. We understand this recommendation is included in the Airbiz letter.
Aircraft runway movements – disclosure by aircraft weight	<p>Where disclosure of forecast inbound flights is broken down by weight, BARNZ considers that three weight breaks should be applied rather than the two currently proposed by the Commission:</p> <ul style="list-style-type: none"> • Aircraft 3 tonnes or under • Aircraft over 3 tonnes and under 30 tonnes • Aircraft 30 tonnes and over
Commentary box	The suggestion by Airbiz that space be provided for any commentary to the demand forecasts is supported by BARNZ.

SCHEDULE 27 – REPORT ON INITIAL REGULATORY ASSET BASE VALUE

<p>Base valuation for determining the initial RAB</p>	<p>BARNZ does not consider that using the 2009 disclosed values as the basis for the initial RAB represents the best means of promoting the long term benefit of consumers. An initial RAB based on the 2009 disclosed values will result in any excessive profits earned by regulated suppliers being concealed for decades to come and will also result in the FCM rule being significantly breached. These concerns have been outlined in BARNZ’ Submission on the draft Input Methodologies Reasons Paper, where BARNZ has estimated that the present value of the gross excess returns (inclusive of tax) able to be concealed will be in the vicinity of [REDACTED].</p> <p>The comments below regarding the content of the proposed Report on the Initial RAB are accordingly made without prejudice to BARNZ’ view that the 2009 disclosed asset values are not the appropriate basis for determining the initial RAB, unless adjustments are made to remove revaluations which have not been treated as income when charges were set.</p>
<p>Supporting information and reports needed</p>	<p>The decisions on the initial RAB, and in particular how it is valued and what assets are included within it, is one of the most significant elements in any information disclosure regime. The RAB provides the yard-stick against which airport performance is measured in terms of the returns earned and whether excessive profits are extracted.</p> <p>BARNZ considers that the proposed Report on the Initial Regulatory Asset Base is currently drafted at a level which is so high and summary in nature that it will not provide interested persons with sufficient information to understand the how the initial RAB is made up. Key adjustments (such as removal of land held for future use and the MVAU valuation adjustment) are proposed to be disclosed simply as a total with no supporting data or reports.</p> <p>Given that the initial RAB will be rolled forward as the RAB in all future years of disclosure under Part 4 (other than land which may be revalued at MVAU from time to time) interested persons need to be provided with a full understanding of how the initial RAB has been determined and of all changes and adjustments made between the valuations disclosed in 2009 under the Airport Authorities Information Disclosure Regulations and the initial RAB.</p> <p>This is one of the five key instances where BARNZ considers that the draft Information Disclosure Determination fails to provide sufficient information to interested persons to enable them to assess the extent to which the purpose of Part 4 is being met.</p> <p>BARNZ considers the following reports need to be disclosed and made available to interested parties on request:</p> <ul style="list-style-type: none"> • The valuation reports which formed the basis of the values disclosed by the airports in 2009 under the Airport Authorities Information Disclosure Regulations. (The Airport Authorities Information Disclosure only requires valuation reports to be made

	<p>available for a period of one year after disclosure so interested persons are already unable to obtain these documents from Auckland and Christchurch Airports and from September will cease to be able to obtain Wellington Airport's 2009 valuation report).</p> <ul style="list-style-type: none"> • A report on the adjustments removing land held for future use and other excluded assets from the values disclosed by the airports in 2009 under the Airport Authorities Information Disclosure Regulations. Without this report (and access to the original valuation reports) interested persons will not be able to assess whether the RAB represents one which is used or useful – the latter component being left to interested persons to make their own assessment under the Commission's Draft Input Methodologies. • A Valuation Report for the MVAU valuation of land as at the year ended 2009 • A report on the adjustments required to adjust the land value disclosed by the airports in 2009 under the Airport Authorities Information Disclosure Regulations to an MVAU value as at the year ended 2009 • A report on the adjustments for lost and found assets made to the values disclosed by the airports in 2009 under the Airport Authorities Information Disclosure Regulations. • A report on the cost allocation adjustments made to the values disclosed by the airports in 2009 under the Airport Authorities Information Disclosure Regulations. <p>Without these reports, interested persons will not understand what assets are included in the Initial RAB or the basis of the MVAU valuation of the land.</p>
<p>Disclosure of revaluations contained within initial RAB 27b(i)</p>	<p>If the Commission confirms its Draft Decision to base the initial RAB on the values disclosed by the airports in 2009 (which BARNZ does not consider promotes the long-term benefit of consumers), then the Report on the Initial RAB needs to include disclosure of the revaluations incorporated in the initial RAB which have not previously been treated as income for the purposes of pricing. This is necessary in order to provide interested persons with sufficient information to assess whether the purpose of Part 4 is being met (as per section 53A).</p> <p>This is one of the five key instances where BARNZ considers that the draft Information Disclosure Determination fails to provide sufficient information to interested persons to enable them to assess the extent to which the purpose of Part 4 is being met.</p> <p>The majority of assets used to provide regulated airport services have long lives, spanning decades and covering many pricing periods. As such, it is imperative that interested persons have information covering as long a period as possible in order to be able to make assessments of the returns earned by regulated suppliers over the lifetimes of the assets. In the absence of information as to returns earned in earlier</p>

	<p>periods, it is not possible to assess the extent to which excessive profits are being extracted. A high return in later years may not be seen as unreasonable if earlier years with low returns are taken into account. By contrast, a return in later years at the lower end of the WACC range will not be unreasonable if higher returns were earned in earlier years of the asset's life. If the Commission does not require disclosure of the level of revaluations within the initial RAB which have not been treated as income when charges were previously set, then interested persons will not be able to make informed assessments as to whether the returns earned over the lifetime of the asset are reasonable or not.</p> <p>This issue was discussed by NZIER at pages 6 – 7 of their paper dated 3 February 2010 on the Commission's Emerging Views relating to the Initial RAB Values for Airport Services. NZIER stated:</p> <p><i>...for interested persons to assess whether firms in regulated industries 'are limited in their ability to extract excessive profits' in a manner consistent with 'the outcomes produced in competitive markets' it is important that they conduct the assessment over as long a period of time as practicable.</i></p> <p>The airports have the information available to undertake this calculation. In its 2008 Disclosure Financial Statements AIAL disclosed the value of its identified airport activity assets using the historic cost model (refer Note 8c of AIAL's Disclosure Financial Statements for the year ended 30 June 2008). WIAL also disclosed the value of its identified airport activity assets at their deemed historic cost, with 2002 asset values being adopted as the deemed historic cost (refer note 12 of WIAL's Disclosure Financial Statements for the year ended 31 March 2008).</p>
Asset lives 27b(vi)	<p>BARNZ and NZAA presented an industry view to the Commerce Commission in May to the effect that rather than the Commission setting depreciation rates each airport should disclose its current rates in some detail as an initial benchmark, with subsequent changes disclosed as against those initial rates. The joint document recorded:</p> <p><i>Each airport to disclose their own standard asset lives as well as current depreciation rates. The initial disclosure will be in sufficient detail to allow interested parties to fully understand the approaches adopted by the airports. It is envisaged that this disclosure will be in further detail than currently disclosed.</i></p> <p>The provision for disclosure of asset lives in Schedule 27 does not reflect the joint expectation that there would be a detailed disclosure of current depreciation rates in the initial disclosure year. BARNZ suggests that guidance be added to the effect that <i>'the initial disclosure must be in sufficient detail to allow interested persons to fully understand the asset lives and depreciation rates adopted by the airport'</i>.</p>

THRESHOLD FOR DISCLOSING CAPITAL EXPENDITURE PROJECTS

The Commission is proposing disclosure of forecast capital expenditure under the categories of capacity growth, asset replacement and renewal and safety, security and environment. This is to be supplemented by disclosure of key capital expenditure projects in more detail.

The Commission has defined a key capital expenditure project as one having a forecast cost equal to or greater than \$30 million. BARNZ considers this threshold is much too high and will not result in interested persons having sufficient information to be able to assess whether the purpose of Part 4 is being met.

A \$30 million threshold will only result in one or two projects needing to be disclosed per pricing period. The lack of information on key projects will make it difficult to assess whether appropriate investment is occurring in the replacement, renewal and upgrading of assets, whether forecast capital expenditure will result in services being provided at a quality which reflects consumer demands and whether capital expenditure is being forecast at appropriate levels and at the appropriate time so that there is limited opportunity to extract excessive profits through capital expenditure forecasting.

BARNZ notes that the draft information disclosure requirements prepared by the Commission for EDBs and GDBs require disclosure of the five largest projects falling within the capital expenditure period.

In adopting \$30 million as the threshold for disclosure, the Commission has referred to oral comments by BARNZ at the workshop at page 83 of the Transcript suggesting that a threshold of \$30 million could be appropriate.

Unfortunately, confusion appears to have arisen due to the combination of discussion during the Workshop of the threshold under section 4C of the Airport Authorities Act for capital expenditure consultation on the one hand and the proposed new threshold under the Commerce Act information disclosure requirements for disclosure of key capital expenditure on the other hand.

The suggestion by Ms Cooper that a \$30 million threshold was appropriate was in relation to a proposed new threshold for section 4C of the Airport Authorities Act. It was not in relation to a key capital expenditure threshold for disclosure under Part 4 of the Commerce Act. The discussion by several airport representatives at lines 23 to 33 on page 82 of the Transcript immediately prior to Ms Cooper's comments raised the question of the section 4C threshold under the Airport Authorities Act and this was the context in which the \$30 million threshold was suggested by Ms Cooper. The comments immediately following Ms Cooper's statement by Mr Beckett were also on the topic of a new threshold for consultation over capital expenditure under the Airport Authorities Act.

Unfortunately BARNZ did not state its view on the appropriate threshold for information disclosure at the Workshop. In order to provide clarity, the BARNZ' view is that:

- The threshold for requiring capital expenditure consultation under section 4C of the Airport Authorities Act should be amended to \$30 million.

- The threshold for requiring disclosure of key capital expenditure projects under the Commerce Act information disclosure should either be the same approach as for EDBs and GDBs which is the five largest projects or should be set at a dollar value which captures projects which interested persons would be concerned about. \$30 million is much too high. BARNZ considers that \$5 million is an appropriate threshold for information disclosure if a dollar value is to be specified.

BARNZ does not consider that the thresholds for disclosure of capital expenditure projects under the Commerce Act and consultation on capital expenditure projects under the Airport Authorities Act need to be set at the same level.

The obligation to consult under section 4C of the Airport Authorities Act imposes a legal obligation on airports, which can be challenged by judicial review if not fully complied with. The process can be quite time consuming. As such, consultation under the Airport Authorities Act should only have to occur for very significant projects. BARNZ considers \$30million is the appropriate threshold for the consultation obligation under the Airport Authorities Act, and we understand that NZAA holds a similar view.

By contrast, the requirement to disclose information under the Commerce Act is a much smaller obligation and BARNZ considers that a significantly lower threshold is appropriate. BARNZ' view is that \$5 million is the appropriate threshold for the information disclosure obligation under Part 4 of the Commerce Act. Alternatively, the EDB and GDB approach of requiring disclosure of the five largest projects would also be appropriate.

At the end of this discussion, BARNZ has set out the capital expenditure forecasts of the three airports from their most recent pricing consultations. This demonstrates that a \$30m threshold would have only required the disclosure of three projects for Auckland over six years, one or two projects for Wellington over six years (depending on whether the two RESA projects were treated separately or as one combined project) and one project for Christchurch over five years. Under a \$30 million threshold, there would have been 11 or 12 years across the three airports in which there would not have been any disclosure of individual projects.

A \$30 million threshold will mean that significant projects that the public would be interested in, such as redevelopment of the terminal roads and major refurbishment of terminals, would not be the subject of individual forecasts and disclosures upon completion. It also means that important aeronautical projects involving major renewals like a runway overlay would not be captured. Likewise, incremental expansion of airfield surfaces such as new hardstands or taxiways would not be separately disclosed.

A runway overlay is a critical investment with respect to maintaining the safety and quality of the runway. Airlines have a vested interest in ensuring that such investment occurs in a timely manner. Without it, the runway will deteriorate and cause significant safety concerns. Setting the disclosure threshold at \$30 million would mean that such a vital project, critical to the quality of the airport, and one of the most important airfield projects, would not be disclosed.

BARNZ considers that analysis of the capital expenditure projects forecast by the airports in their most recent consultations (as set out below) clearly shows that a \$5 million threshold is appropriate for an information disclosure regime. A \$5 million threshold would not capture a plethora of projects and lead to significant compliance costs. In fact, a \$5 million threshold

would have only resulted in disclosure of eight projects by Auckland Airport, three or four projects by Wellington Airport and two projects by Christchurch Airport.

BARNZ does not consider that this is an unreasonable requirement. In fact, without this information interested persons would not have the ability to properly assess whether the purpose of Part 4 and the objectives in section 52A(1) are being met.

Auckland Airport Capital Expenditure Projects as forecast during consultation in 2007¹

	\$5m	\$10m	\$15m	\$20m	\$30m
FY2007					
FY2008		Terminal precinct roads []	DTB Refurbishment []		Expanded arrivals []
FY2009	Stand 19 []				Pier B []
FY2010	Engine Run-up []				
FY2011			International Terminal Refurbishment []		Northern Runway []
FY2012					

Wellington Airport Capital Expenditure Projects as forecast during consultation in 2007²

	\$5m	\$10m	\$15m	\$20m	\$30m
FY2007					
FY2008	Northern RESA \$7.5m			Southern RESA \$23.5m	
FY2009					International Terminal Development \$72m
FY2010	Runway Overlay \$5m				
FY2011					
FY2012					

Christchurch Airport Capital Expenditure Projects forecast during consultation in 2008³

	\$5m	\$10m	\$15m	\$20m	\$30m
FY2008					
FY2009	RESA \$5m				
FY2010					
FY2011					Integrated Terminal Project \$97m
FY2012					

¹ AIAL Aeronautical Pricing Model 28 June 2007

² WIAL Capital and Infrastructure Maintenance Programme contained within Initial Information Package dated 7 August 2006

³ CIAL CAPEX Summary as at November 2007