

9 September 2011

Ms K Murray
Manager (Acting), Regulation Branch
Commerce Commission
PO Box 2351
Wellington 6140
New Zealand

Dear Ms Murray

Airports Information Disclosure Determination Pursuant to Part 4 of the Commerce Act 1986 (the Determination)

1. Disclosure Following Price Setting Event

Wellington International Airport Limited (WIAL) is currently preparing its Price Setting Event Disclosures required by clause 2.10(3) of the Determination to be published by 30 September 2011. In preparing the disclosure information and as discussed with the Commerce Commission (the Commission), both directly by WIAL, and in conjunction with NZ Airports, it has become evident that certain matters in the Determination require clarification. There is also some information that WIAL did not prepare during its consultation for the current pricing period, which was undertaken in 2006/2007, and consequently wishes to seek an exemption from the Commission in respect of these disclosures. We provide further details below.

2. Matters Requiring Clarification

2.1. Scope of the Information Required

We consider that the Determination is not clear in respect of certain information that is required to be presented in schedule 18.

Clause 2.5(1)(a) requires that *"completing all of the following reports by inserting all information relating to the specified airport services supplied by the airport for that disclosure year"*.

Clause 2.5(1)(c) of the Determination refers to the information required for each of the inputs to schedule 18, for example forecast value of assets employed and forecast cost of capital. The definitions for these examples, and other inputs to schedule 18, contain the wording *"...used by an airport in determining the airport's total revenue requirement for the purposes of consultation undertaken as part of a price setting event."*

The requirements in these clauses are different. In clause 2.5(1)(a) the financial forecast information is required to include airport services information which may include services that are not part of the determination of landing charges with airlines and therefore not included in consultation as part of a price setting event. For WIAL all facilities subject to lease agreements were excluded from the determination of landing charges for the current pricing period.

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WIAL requests further guidance from the Commission on this matter before it can complete the disclosure information.

WIAL also notes that the Commission's guidance will also influence the manner in which Schedule 6 will be reported in the annual disclosure information. Schedule 6 requires an analysis of variances between actual and forecast operational and capital expenditure.

2.2. Forecast Operational Expenditure

The definition of forecast operational expenditure is consistent with the example for the other inputs referred to in Section 1.1 above, however, this definition also refers to the defined term 'operational expenditure'. This term refers to operating costs after applying Part 2: Cost Allocation of the Input Methodologies Determination.

WIAL considers that its directors cannot certify that the cost allocation processes in the current pricing period, which was consulted upon in 2006/2007, were applied in accordance with the Input Methodologies, since the Methodologies did not exist at this time.

We would appreciate confirmation from the Commission whether the link in the definition of forecast operational expenditure to the Input Methodologies was intended and whether it is required in this disclosure.

2.3. Qualitative Requirements in Determination

The Determination requires a considerable amount of qualitative comment to be provided by WIAL with regard to a pricing event that occurred before the current Commerce Act information disclosure requirements were contemplated. WIAL's objective for the disclosure is to provide comprehensive comment that will inform the Commission and other interested parties on the Determination requirements to the extent that this is possible.

However, WIAL is concerned that some aspects of the Determination require comment beyond what is possible for WIAL to provide. In particular we refer to clause 2.5(2)(c) which requires WIAL to provide *"an explanation of the extent to which the airport considers that the application of the pricing Methodologies will lead to efficient prices, including whether there are any cross subsidies."* WIAL can comment at a high level but cannot comment on whether cross subsidies did or didn't exist for each component of its business including each segment of airlines and passengers. Examples of how WIAL can or cannot comment are:

How WIAL can comment:

- On whether cross subsidies exist between the regulated and unregulated activities, and
- On whether cross subsidies exist between the regulated activities.

Where WIAL cannot comment:

- On whether there is any cross subsidisation between different passenger types which could be international versus domestic passengers or domestic jet passengers versus domestic propeller aircraft passengers or passengers that arrive at peak times versus passengers that arrive at non-peak times. Similar issues exist in respect of aircraft movements.



Consideration was not given to prospective cross subsidisation at this level during the consultation for current pricing (and it would also be difficult to achieve in any future pricing consultation) and it is beyond the level of detail that is typically required in discussions with airlines.

WIAL fully intends to provide full disclosure of the process by which prices were determined however it would appreciate guidance from the Commission on the extent of comment that is required in issues such as the above. WIAL suggests that the Commission could provide further guidance where words such as “any” are used in the Determination to require airports to comment on issues that were “considered or known” during the consultation

2.4. References to Past Information Disclosures

Clauses 2.5(1)(c)(x), analysis of differences between forecast financial information and historical information, and 2.5(1)(d), publication of valuation report, both refer to disclosures in respect of clause 2.3 which cannot be complied with because there have been no previous historic disclosures under this clause.

In respect of the second requirement WIAL proposes to disclose the Valuation Report which was used as the basis for pricing, and has been previously published as required under the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

WIAL would appreciate confirmation from the Commission that this accords with the Commission’s view of the Determination and that WIAL will not require a formal exemption from these requirements.

2.5. Disclosure of Passenger Information in Schedule 19

Schedule 19 requires passenger numbers to be disclosed separately for inbound and outbound passengers. For consultation, WIAL forecast passengers (international and domestic) in total and did not separate this into inbound and outbound passengers. This was on the basis that WIAL expected the proportion of these passengers to be approximately equal. WIAL’s disclosure will therefore show inbound and outbound passengers as half the forecast totals and will provide comment on this assumption.

WIAL would appreciate comment from the Commission that this approach is appropriate to meet the requirements of the Determination.

3. Exemptions Sought by Wellington Airport

There are some aspects of the pricing methodology information disclosure requirements where WIAL does not have the information since it was not required as part of the consultation at that time. In these circumstances, as detailed below, WIAL seeks exemptions from the Commission as permitted by clause 2.9(1) of the Determination.

The specific exemption requests below have been determined from WIAL’s current interpretation of the Determination. Once the comments on clarification have been received from the Commission, regarding the items in Section 1 above, WIAL will assess whether any further exemptions may be necessary and correspond again with the Commission should this be required.



3.1. Exemption from Demand Forecast Information

The Determination includes the requirement that WIAL publish the following information:

- Schedule 19a Passenger terminal demand – forecast busy hour passenger numbers for the 10 years commencing from 2008 broken down by domestic, international and combined passengers for inbound and outbound travellers.
- Schedule 19b Aircraft Runway Movements – forecast busy hour and busy day movements for the 10 years commencing 2008 broken down by domestic, international and combined passengers for inbound and outbound travel.

This information was not prepared for WIAL's pricing consultation for the period commencing 1 July 2007 and consequently it does not have this information available.

WIAL therefore seeks an exemption from these Schedule 19 disclosure requirements in respect of the price setting event information disclosure due on 30 September 2011.

In seeking this exemption WIAL wishes to advise the Commission that:

- WIAL addressed prospective capacity utilisation issues for the current pricing period in a different manner than is shown by the Commission's 10 year forecasts. WIAL will comment on how this was undertaken in the qualitative information contained in its disclosure due on 30 September 2011.
- It will not seek a similar exemption in the future. WIAL has already obtained this information for the next price setting event disclosure that will be required after WIAL completes its current consultation and sets new prices early in 2012.

3.2. Exemption from Classification of Operating Expenditure

Schedule 18b(iv) requires that WIAL provides a five year forecast of operational expenditure in three cost classifications.

Clause 2.10(5)(d) recognises that airports may not have classified costs in this way previously and exempts the airports from this disclosure for actual expenditure in Schedule 6 of the annual disclosure required for the year ended 2011.

The difficulties with classifying expenditure for the year ended 2011 also apply to the forecast expenditure for the price setting event disclosure.

WIAL therefore seeks an exemption from the Schedule 18b(iv) disclosure requirements in respect of the disclosure of operational expenditure by category for the price setting event information disclosure due on 30 September 2011.

WIAL intends to disclose the total operational expenditure forecast for each year as is required by the transition requirements for the year ended 2011.

WIAL notes that it is also establishing forecasts consistent with the Commission's expense categories for the next pricing period and will therefore be able to meet this disclosure requirement for the next price setting event.



4. Director Certification

The Commission's certification requirements in the Determination require directors to certify compliance with the Determination. We consider that this will not be possible until the above issues are resolved and we look forward to a response from the Commission on these.

However, we highlight that the directors will need time to consider the disclosure information after receipt of a response from the Commission and consequently WIAL is dependent on this information being available in sufficient time to allow submission of its price setting event disclosure before the reporting deadline of 30 September 2011. If WIAL considers that this deadline is not achievable we will contact the Commission immediately.

5. Information Required from Airlines for Annual Service Quality Information Disclosures

In order to achieve full compliance with the Determination for future annual disclosures (year ending 2012 and beyond) WIAL requires information from its airlines in respect of interruptions and on time departure delays.

WIAL has been corresponding with the airlines in order to establish the necessary processes but have not yet been successful in obtaining such information from its airlines. The response received from airlines to date can be described as:

- Larger airlines (Air NZ, Qantas, Pacific Blue) – have indicated that they are willing to provide the information but little progress achieved in provision to date.
- Larger airlines (Jetstar) – advised that permission is required from Australian head office before information can be provided.
- Smaller regional commuter airlines – only one airline has acknowledged WIAL's request for information. They have advised that they do not have sufficient resource to provide this information and see little benefit for them in doing so.

WIAL fully expects that it will resolve the majority of these issues before the publication of disclosure information for the year ending 31 March 2012 is required, however, there may be exceptions where airlines refuse to provide information. If the exceptions are limited to the smaller regional commuter airlines the impact on the information published by WIAL will be immaterial.

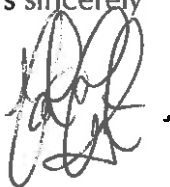
However, the certification requirements for the information disclosure do not refer to materiality and consequently we consider that WIAL's directors and auditors will be unable to certify compliance with the Determination requirements. To avoid this situation WIAL may be required to seek future exemptions from the Commission in respect of the relevant disclosures that require this information. The exemptions sought would be restricted only in respect of the input information that WIAL was unable to secure.

We provide this comment at the present time for the Commission's information and will correspond further on this later in 2011.



I am happy to provide further information or clarification should this be required and can be contacted on 04 385 5105 or martin.harrington@wellingtonairport.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Martin Harrington', with a small dot at the end.

Martin Harrington
Chief Financial Officer

