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Dear Karen

BARNZ Submission on Revised Draft Information Disclosure Determination

As the final stage of its consultation process for the development of input methodologies under Part 4 of the Commerce Act, the Commission has released Consultation Update Papers together with Revised Draft Determinations in relation to Airport Services for both input methodologies and information disclosure. This letter forms BARNZ' response to the Information Disclosure Update Paper and Draft Determination.

As BARNZ understands it, the Commission is seeking comment on issues contained in the Commission's Summary Table, on technical drafting issues and on whether the Draft Determination gives effect to the Commission's draft decisions, as expressed in its May 2010 Reasons Paper and in its October 2010 Update Paper. The Commission has indicated it does not want to receive submissions on the substance of its draft decisions or on policy issues. BARNZ has accordingly limited its submission.

In line with its view that submissions should be focused on technical drafting issues, the Commission has decided that there is not any need for a formal cross-submission process. BARNZ acknowledges this view, but asks that the Commission remain open to reconsidering this position should any submissions go beyond the parameters set out by the Commission and extend into substantive issues.

BARNZ has structured its submission by grouping its comments under the same headings used by the Commission in its Update Paper, namely:

- General comments
- Historical Financial Information
- Quality Disclosures
- Forecast Total Revenue and Supporting Information

- Pricing and Related Disclosures
- Certification and Audit
- Miscellaneous definitional matters

1. General comments

In some schedules the purpose of the commentary box is not expressly stated. What information should and should not be included will be open to subjective interpretation and may vary significantly from airport to airport. This is particularly so in Schedules 2 and 3. The disclosures and notes in financial accounts prepared for GAAP reporting are numerous. BARNZ acknowledges that not all of the GAAP disclosures and comments are likely to be necessary for the purposes of Schedules 2 and 3, but this begs the question of just what does need to be included in the commentary box. An example which readily springs to mind is the question of gains and losses on derivative financial accounts – if not separately disclosed the accounts will fail to provide an accurate picture of operating costs for that year. Wellington Airport enjoyed a sizeable gain on derivative financial instruments in FY2009, which it showed as a stand-alone item in its Disclosure Financial Statement under the AAA. In FY2009 Auckland Airport undertook a significant management reorganisation, with these costs being transparently disclosed in the notes to its financial accounts. Without this information, the trend in operating expenses would have been distorted without users knowing why.

BARNZ suggests that it would be beneficial either for additional guidance to be added to the commentary box headings so that the type of information which should be disclosed is better identified; or for an over-arching provision to be added to the Determination to the effect that the commentary boxes must be used to disclose any additional information or explanation which is necessary to:

- (a) ensure that the information contained in the Report in question presents a true and accurate picture of the matters being disclosed; and
- (b) ensure that interested persons have sufficient information to assess whether the purpose of Part 4 is being met.

2. Historical Financial Information (Schedules 2 to 11 and 26)

Issue/Schedule	Comment
Topic 1 – used and useful assets – definition of significant asset for the purposes of schedule 26	Given that the Commission has recognised that disclosure of significant assets can be presented in a summarised form and be aggregated (which BARNZ agrees with) then 80% is much too low for the threshold in the significant asset definition. As shown in the attachment to BARNZ’ letter of 24 September 2010 on Schedule 27, an 80% threshold would likely only result in the disclosure of four significant aggregated assets at Auckland Airport, six significant aggregated assets at Christchurch Airport and seven significant aggregated assets at Wellington Airport. BARNZ recommends the Commission reconsider the 80% threshold and either:

	<ul style="list-style-type: none"> • Adopt a higher threshold (such as 90% or the \$5m threshold used for key capital expenditure projects); or • Add a proviso to the definition of significant assets that ‘The list of assets must provide interested parties with a reasonable understanding of the initial RAB. If disclosure of 80% of the total value of non-land assets in the initial RAB is not likely to achieve this, then additional disclosure should occur taking the total disclosure above 80% of the total value of non-land assets in the initial RAB’.
<p>Topic 3 – segmented regulatory profit Schedule (Schedule 8)</p>	<p>The Commission has removed the ‘eliminations/transfers’ column from the Report on Segmented Information, noting that this column would not have provided details about the transfer of assets between activities. BARNZ notes that the only information about the segmented asset base contained in Schedule 8 is line 30 which discloses the regulatory investment value, (although this is supplanted by Schedule 10 which breaks the assets down into key categories of land, sealed surfaces, infrastructure and buildings and plant and equipment). Importantly, however, there is no information on the roll-forward of segmented assets. While Schedule 8 discloses depreciation and revaluations, users will not be able to ascertain the degree to which the remaining difference between the current and previous segmented RIV is due to capital expenditure, allocation adjustments or asset disposals. In its 12 July Draft Determination Submission, BARNZ suggested adding a requirement to disclose the roll forward of assets by asset class in the same format as Schedule 5b(vii) for each of the three segments. As the Commission has not made a change to this effect, BARNZ assumes the Commission did not consider this necessary. BARNZ continues to consider that information on how each of the segmented asset bases has been rolled forward from year to year is important. It is particularly important for interested persons to understand how much capital expenditure has occurred with respect to each activity as well as the levels of asset transfers (which have in the past been extremely significant from year to year). BARNZ asks that the Commission reconsider the need for this information, even if the roll-forward information is limited to each of the three segmented activities as a whole and is not broken down by asset class as previously suggested by BARNZ. BARNZ has illustrated what a more limited set of disclosures on the segmented asset base roll forward could look like in its annotations to the Draft Schedules.</p>
<p>Topic 4 – safety, security and environmental expenditure. (Schedules 3, 5, 7, 11 and 19)</p>	<p>The Commission has removed the requirement to disclose this information. While BARNZ is both disappointed with the removal of this information (which forms an ever-increasing component of aeronautical costs to the industry as demonstrated by events in Yemen last week which will likely result in increased security requirements for cargo) and continues to believe the difficulties of disclosing the information have been significantly over-exaggerated by the airports, BARNZ is prepared to accept the Commission’s decision at this time. BARNZ does, however, ask that the Commission remain open to reconsider this category of costs going forward if, as BARNZ considers likely, the component for safety and security opex and</p>

	<p>capex continues to increase. This is particularly pertinent to safety and security capital expenditure which is considerable as the Airports are responsible for ensuring the physical design of the terminal meets passenger segregation requirements and also for constructing the space in which Avsec carries out its security functions.</p> <p>BARNZ also notes that the safety and security category is still present in Schedules 11 and 19 and presumably needs to be removed.</p>
<p>Topic 7 – disclosure of land valuation reports</p>	<p>The Commission has decided that airports should disclose valuation reports which relate to land which is used in full or part in the provision of specified airport services. This decision is given effect to in sub-clause 7.2 and is supported by BARNZ. However, BARNZ queries whether the reference in subclause 7.2 to ‘revaluing land under clause 3.6 of the IM determination’ is too narrow as revaluations also occur under subclauses 3.8(2)(e) and 3.13(2) and possibly subclause 3.12(3) and (4) (although reference is made to subclause 3.6). BARNZ suggests it may be better to refer to valuation reports ‘prepared for the purpose of valuing land in accordance with Schedule A of the IM determination’.</p>
<p>Topic 8 – Adjustments to initial RAB (Schedule 26)</p>	<p>BARNZ has previously submitted that, as the initial RAB is the foundation from which Information Disclosure will move forward, with changes in valuation, depreciation rates and asset allocation being measured and disclosed against the initial RAB, then it is crucial that interested parties have a full understanding of the initial RAB and of the adjustments made to the 2009 disclosed asset values to determine it. BARNZ therefore welcomes the Commission’s decision that airports should complete schedule 10(a) (report on asset allocations) for the disclosure years 2009 and 2010 as part of the transitional provisions. However, BARNZ notes that as the 2009 disclosure will be based on the initial RAB for 2009 after the adjustments to the AAA 2009 disclosed valuation, interested parties will still be unable to understand what adjustments were made to the asset base. The current AAA Information Disclosure Regulations do not require any breakdown of assets by segmented activities. Therefore interested persons will be unable to compare information in schedule 10(a) against previous disclosures to identify the assets held for future use which have been excluded and the impact of the MVAU valuation adjustment and the asset allocation adjustments on the segmented activities.</p> <p>If interested parties are not able to obtain a full understanding of the assets comprising the initial RAB (and what exclusions and allocation adjustments occurred to reach that asset base) then their ability to assess the efficiency and reasonableness of the asset base going forward will be severely compromised. In its July 2010 Information Disclosure Draft Determination Submission BARNZ identified a number of areas where it considered additional information on the adjustments made was required. While BARNZ continues to consider all this additional information is needed, the most significant omission is the absence of a breakdown of assets held for future use. BARNZ requests that the Commission incorporate a requirement for airports to disclose a breakdown of 90% of assets held for future use.</p>

Schedule 2 and 3 – commentary boxes	<p>In its July 2010 Submission on the Information Disclosure Draft Determination BARNZ suggested that gains or losses on derivative financial instruments should be disclosed separately so that interested persons would be able to monitor trends in operating expenses and identify efficiencies or increasing costs. Gains and losses on derivative financial instruments would mask the movement in operating costs. The Commission has not made this change. It is possible that an Airport might choose to use the commentary box to disclose such a matter, but this may vary from airport to airport. BARNZ therefore recommends that the Commission’s Determination includes either a general statement of principle as to what type of information should be disclosed in commentary boxes, or else provide more specific guidance in Schedules 2 and 3 as to the type of information to be included in the commentary boxes.</p>
Schedule 5(b)(viii) – Roll forward of assets held for future use	<p>In its submission on the Input Methodologies NZAA has submitted that the disclosure of assets held for future use should be compressed down to just two steps as showing the additional information might confuse interested persons. BARNZ strongly disagrees. The information set out in 5b(viii) will show the roll forward of assets held for future use and the composition of net holding costs in a very transparent and clear manner and BARNZ supports it in its current format. The NZAA proposal would only obfuscate the true cost or benefit of assets having been acquired in advance.</p>
Schedule 5(b)(ix) – cost of financing works under construction	<p>BARNZ considers that the costs of financing works under construction should represent the net cost, and if any revenue has been earned from the assets during the financing period or any revaluations have occurred, then these costs should be set off against the cost of finance. BARNZ therefore recommends that either line 90 refer to the ‘Net cost of financing works under construction’ or that there also be disclosure of net revenues (including revaluations) with a net cost of financing total.</p>
Schedule 11	<p>As noted above, the reference to safety and security costs has not been removed.</p>
Schedule 26b(iv) – disclosure of asset lives for existing assets	<p>Schedule 26b(iv) provides for Airports to disclose asset lives for significant assets – with significant assets being defined as the largest assets comprising 80% of the value of non-land assets. BARNZ does not consider that the proposed disclosure of asset lives (and hence depreciation rates) in Schedule 26 will be sufficient to provide interested persons with an appropriate level of understanding of the initial depreciation rates. On 14 May 2010 BARNZ and NZAA sent the Commission a joint letter containing the outcomes of an industry meeting where a joint view was reached by all parties. The consensus was that it was not considered necessary for the Commission to specify an appropriate range of standard asset lives. Instead each airport would disclose their current asset lives in sufficient detail to allow interested persons to understand the depreciation rates adopted and these would be used as the starting point with variations from those lives disclosed thereafter. The document provided to the Commission recorded the joint view of BARNZ and NZAA as follows:</p>

	<p>Each airport to disclose their own standard asset lives as used as the basis for an appropriate range of standard lives as well as current depreciation rates. <u>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.</u> Any change to airport standard to be disclosed at time of change as well as the impact of the change when it is material. (Emphasis added)</p> <p><u>If</u> it is the Commission’s intention to follow the joint industry views on depreciation, then BARNZ does not consider that this will be achieved via the current drafting of Schedule 26. In fact, given the Commission’s definition of significant assets as comprising 80% of the value of non-land assets, then the disclosed depreciation rates will be significantly fewer in number than under the AAA Information Disclosure, which is the opposite of the intention of the joint airport and airline proposal. The Airports accepted that the initial disclosure of depreciation rates should be in greater detail than currently occurs so as to provide a good knowledge base from which variations are then disclosed. The Commission has adopted the ‘disclosure of variations’ component of the proposal (in Schedule 5b(ii) and (iii)) but it has failed to ensure that there is an initial disclosure of a good knowledge base of opening standard depreciation rates. BARNZ submits that a separate requirement should be included in clause 15 of the Determination requiring Airports to disclose standard asset lives and current depreciation rates for the year ended 2009 in sufficient detail to enable interested persons to fully understand the depreciation rates and asset lives adopted by the Airport.</p>
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3. *Quality Disclosures (Schedules 12 to 15)*

<p>Topic 9 – Disclosure of aircraft parking stands in Schedule 13</p>	<p>The effect of the Commission’s revision of the layout and categories for disclosing aircraft parking stands has been to limit this disclosure to Air Passenger Services only. This means any stands used by freight aircraft or military aircraft would not be disclosed. BARNZ does not consider that this is appropriate. All available areas that are dedicated parking stands should be disclosed. BARNZ recommends either that the title ‘air passenger services’ be deleted from line 28 which would mean all parking stands would be allocated over lines 28 to 30 (as per BARNZ’ suggestion in its 12 July annotations to the Schedules), or else the Commission add a new line for ‘Other parking stands’.</p>
<p>Schedule 16 – Aircraft Statistics</p>	<p>The Commission has deleted the separate disclosure of military and diplomatic aircraft from Schedule 16a(iii) and has combined this, together with GA flights, into the ‘other’ category. BARNZ strongly opposes this change. Military aircraft in particular can be quite substantial in terms of MCTOW and comprise a significant number of movements over a year – particularly at Christchurch Airport where the Antarctic Operations depart from. BARNZ considers that military and diplomatic aircraft need to continue to be separately disclosed as per the June 2010 version of Schedule 16 released by the Commission.</p>

Schedule 16 – Terminal Access by movements	BARNZ suggested that domestic movements be limited to domestic jet movements for this measure. This was so the measure would be focussed on those aircraft type for which there is realistically a choice of means of terminal access. Turbo prop operations in New Zealand very rarely use airbridges, therefore it makes sense to confine the measurement of terminal access to those aircraft which would use airbridges if they are available – namely international operations and domestic jet operations.
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4. *Forecast Total Revenue and Supporting Information (Schedules 19 and 20)*

Topic 3 – proposed definition of price setting event	<p>The Commission has adopted the definition for price setting event suggested by NZAA, with amendments taking account of the matters raised by BARNZ. BARNZ supports the resulting definition of price setting event.</p> <p>However, the Commission has added a proviso that ‘a price setting event is deemed to occur on the date that a new price comes into effect’. Disclosure following a price setting event in clause 9 of the Determination is required to happen ‘within 20 working days following a decision to fix or alter prices as part of a price setting event’. BARNZ is concerned that a potential ambiguity may be created by the definition deeming the price setting event to occur on the day the prices come into effect and thus be a discrete event, whereas clause 9 treats a price setting event as a process. BARNZ supports disclosure following a price setting event being required to occur within 20 working days of the decision being made, and would not want to risk the clarity in clause 9 being undermined by the deeming proviso in the definition of price setting event. For the avoidance of doubt, BARNZ would not support an approach of disclosure 20 working days after the new prices come into effect. In BARNZ’ experience, the greatest public interest in charges is at the time the decision is made and that is when it should be disclosed.</p>
Topic 13 – pricing period starting year	<p>The Commission has made a number of changes with respect to the pricing period. As part of these it has amended Schedule 19 to set Year 1 of the 5 year forecasts at the pricing period starting year, which BARNZ supports. However, year 1 of the forecast asset base information is not specified in the same manner, instead starting from the year following the latest disclosure under the Determination. BARNZ is concerned that this could lead to situations where the starting years for both forecasts are different – which could well result in significant confusion for interested persons trying to compare the information between the two forecasts. BARNZ strongly considers that Year 1 should be defined in the same way for both Schedule 19a and Schedule 19b.</p>
Schedule 19b (iii) and (iv)	In line with the Commission’s decision that safety and security costs should not be disclosed, then lines 75 and 126 need removing.
Schedule 20 – forecast	In line with the Commission’s decision to not require disclosure of historical freight volumes (refer Topic 24 of Quality Disclosures) BARNZ assumes the Commission would similarly want to remove the requirement to forecast freight volumes in Schedule 20.

5. *Pricing and related Disclosures (Schedule 18)*

<p>Topic 1 – pricing statistics purpose, scope and terminology – average revenue disclosures</p>	<p>The Commission has moved to using average revenue statistics as a proxy for average prices. BARNZ does not support this change. The inclusion of revenue from leases, concessions and utilities in this measure means that the Commission’s proposals will not be a good proxy for average prices. Revenue from airline offices and lounges will be included within the revenue figure – even though not all airlines choose to lease this space and some airlines may have significantly more advantageous terms than other airlines. So too will revenue from space within the airside boundary leased by other parties such as Government Border Agencies and the Police. Effectively what the Commission is proposing to measure is a single airside till. This will not highlight areas where the airport is under-recovering or over-recovering from its customers for the service it provides. For example, it is BARNZ’ experience during consultation that the market rates for airside leased space are in the vicinity of half the required revenue the airports seek per sq metre from charges set under the AAA on airlines and passengers. The average revenue approach advocated by the Commission will not highlight these areas of under-recovery and potential cross subsidisation of leased space by airport charges. BARNZ strongly considers that the only revenue from leases which should be included in the measures proposed by the Commission in Schedule 18 is revenue from leases of operational space by airlines which must be ‘leased’ in order to be able to carry out an aircraft movement in the case of the airfield, or must be ‘leased’ in order to operate an Air Passenger Service in the case of the specified passenger terminal activity measures. This will mean that revenue from operational space which is a necessity would be included in the measure (such as the domestic baggage hall at Auckland Airport or counter use charges at all airports) but optional space such as offices and lounges, and space leased by third parties would not be included. BARNZ has therefore proposed a new definition be added of ‘net operating revenue from charges’ which excludes revenue from leases, rentals or concessions other than for leases, rentals or concessions paid by air transport operator which are essential for that (or other) air transport operators to be able to operate scheduled air transport services. BARNZ proposes that this definition would be used as the input for revenue in the various average revenue calculations.</p>
<p>Topic 1 – pricing statistics purpose, scope and terminology – disclosure of standard prices</p>	<p>Schedule 18 does not require disclosure of standard prices. Clause 9.3 requires an Airport to disclose its standard prices within 20 working days of a price setting event. However, there is no requirement for the annual disclosure of standard prices or for the disclosure of standard prices to be updated when they change but the change does not constitute a price setting event. For example, the annual alteration of a stepped charging regime, the annual resetting of a charge which is set by means of a wash up or the setting of a charge under a licence all do not constitute price setting events. BARNZ strongly considers that Airports should be required to disclose their standard charges each Disclosure Year as part of the Report on Pricing Statistics in Schedule 18. BARNZ notes that the current</p>

	AAA Information Disclosure Regulations require charges to be annually disclosed. This is not a significant regulatory burden on the Airport, but it does provide an important source of historical information for interested persons as well as a more up-to-date record of standard charges than the disclosure when prices were last set.
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6. Certification and Audit (Schedules 21 to 25)

Proposal by NZAA to remove the ‘all reasonable enquiry’ standard	<p>NZAA have submitted that Directors should simply be required to certify that to the best of their knowledge the disclosed information complies with the Determination. They consider the current proposed certification that <i>having made all reasonable enquiry, to the best of their knowledge ...</i> will create an onerous obligation on Directors to familiarise themselves with all the technical requirements and will prevent Directors from being able to rely on section 138(1) of the Companies Act 1993 and the case law created in relation to that section.</p> <p>BARNZ disagrees. Section 138(1) will inform what the standard of reasonable enquiry is for a Director to have made before making a certification with respect to disclosed information. The proposed wording of the Commission’s certification does not prevent the application of section 138(1) and, for its part, BARNZ does not consider it unreasonable for a Director, for example, to have to make enquiries of the company’s officers and staff to be satisfied that the Airport has in place robust mechanisms for collecting, preparing, reviewing and auditing the information, before certifying that the information complies with the Determination.</p>
Proposal by NZAA for there to be one generic form of certification	<p>NZAA have proposed that one generic form of certification be developed in place of the four separate (but similar) forms of certification in Schedules 21 to 24.</p> <p>BARNZ agrees with this suggestion, provided that the generic formula also includes space to list the information which is attached, and space to identify the clauses of the Determination under which the information is provided.</p> <p>BARNZ notes that if NZAA’s suggestion is adopted it will also be necessary for an additional paragraph to be added to the Certification where the disclosure relates to the pricing methodology, so that the Directors certify that the standard prices were derived from the disclosed pricing methodology.</p>

7. Definitional Comments

Allocator	Typo regarding floor ‘spare’
Cost of financing works under construction	As noted above, BARNZ suggests that this should either be disclosed to show, or be defined as, the net costs of financing work under construction.
Operational surplus/(deficit)	Query whether the subtraction of revaluations (c) is correct.

before interest	
Passenger aircraft landing charge	BARNZ was not able to see where this definition was used, and hence whether or not it is appropriate to limit it to passenger aircraft, as opposed to landing charge for all aircraft.
Passenger busy hour	The Commission has altered this definition in its revised draft determination. Previously it referred to busy hour in the <u>previous financial year</u> (which BARNZ understood as being the year for which disclosure was occurring). However, the current draft has altered the definition to the busy hour in the <u>previous disclosure year</u> , which is not the year for which disclosure is occurring. This would mean that the quality and capacity measures are not in fact reflecting the representative busy day for the disclosure year, but are instead measuring the throughput for this disclosure year on the date of the previous disclosure year's busy day. This would fail to provide any meaningful information and runs counter to the intention of the JWD which was for there to be disclosures each year of that year's representative busy day and busy hour. Most obviously, if the busy day in the 2010 disclosure year was Sunday 17 January, then it would be unlikely to be a representative busy day in the following year when (in this case) the 17 th would fall on a Monday. It was BARNZ' clear understanding that the busy day and busy hour measurements would relate to the year for which the results were being disclosed – in other words the <u>current disclosure year</u> .
Price Setting Event	As commented above, BARNZ notes that care needs to be taken to ensure that the provision which deems a price setting event to occur on the date the prices come into effect does not create ambiguity in relation to the timing of the obligation to disclose information following the decision to set prices.
RAB (tax value)	The final 'e' should presumably be 'f'
RAB value	Items c (revaluations) and g (cost allocation adjustments) could either be expressed + / - or could have a comment to this effect added to their definition (as the Commission has done with respect to lost and found assets).
Runway busy day	As discussed above, the reference should be to the <u>current</u> disclosure year, not the <u>previous</u> disclosure year.
Runway busy hour	As discussed above, the reference should be to the <u>current</u> disclosure year, not the <u>previous</u> disclosure year.
Significant assets	As discussed above, BARNZ considers that an 80% threshold is significantly too low when assets are able to be aggregated together. An 80% threshold will likely only result in between four and seven significant assets in total for each of the three airports, which will not provide interested persons with a sufficient understanding of the assets included in the asset base and their usefulness. BARNZ supports the disclosure threshold either being increased to 90% of fixed assets excluding land or else being set at the level of \$5 million for aggregated assets.
Total not directly attributable	The definition is missing the 'and total not directly attributable' part of the equation.

BARNZ trusts that the Commission finds these comments helpful. As always, if there is any matter that could be further clarified or where the Commission requires further information, please do not hesitate to contact the BARNZ office.

Yours sincerely

John Beckett
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