

Air New Zealand Limited
Submission to the Commerce Commission

on
Information Disclosure – Discussion Paper



AIR NEW ZEALAND

11 September 2009

Introduction

Air New Zealand (Air NZ) welcomes this opportunity to comment on the Commerce Commission's Information Disclosure Discussion Paper.

The ineffectiveness of the current information disclosure regime was recognised by Cabinet when determining the need for this new regime under Part 4 of the Commerce Act and was further highlighted in the Regulatory Impact Statement for Airport accompanying the Commerce Amendment Bill:

The key problem identified with the current regulatory regime for airports is the lack of a credible information disclosure regime to constrain the exercise of substantial market power by major airports in setting airport charges. This problem has been exacerbated by the lack of guidelines on both the desired outcomes from the regulatory regime, and on appropriate input methodologies (how to value assets, calculate the cost of capital, etc) to provide guidance on desired outcomes.

The clear intent of Parliament in enacting this amended regime under the Commerce Act was to ensure that sufficient information was available to enable robust challenge of monopoly powers should it be needed. Indeed the Select Committee, in reporting the Bill back to Parliament, noted:

We consider that the information disclosure regime currently provided for under the Airport Authorities Act is not effective because there are no detailed rules on how disclosed information must be compiled, and there is no monitoring and analysis by a regulator of the disclosed information.

Air NZ therefore considers the Commission's proposed approach of specifying clear methodologies for the provision of information in a range of detailed areas is completely consistent with the objectives of the Act and the intention of Parliament. Air NZ notes further that Parliament's intent that airport services be subject only to information disclosure at this time was predicated on the basis that an upgraded disclosure regime would be sufficient in meeting the objectives of Part 4 of the Commerce Act. It is therefore essential that this process of designing the information disclosure regime is effective in developing a robust framework which achieves that purpose. If the disclosure regime is deficient the subsequent review of the effectiveness of the regime required by the Act can have only one conclusion – a requirement to strengthen the regulatory regime further and potentially impose a much more heavy-handed regulatory approach. While Air NZ considers that a negotiate/arbitrate form of regulation is appropriate for this sector, imposing a more intrusive form of regulation than negotiate/arbitrate would not necessarily be in the interests of airports or consumers of airport services.

Air NZ is aware of and concurs with the BARNZ submission.

Air NZ's contact person in relation to this submission is:

Sean Ford
Procurement Manager Aeronautical
Email: sean.ford@airnz.co.nz
Tel: 0-9-336 3869

Air NZ's responses to the questions posed by the Commission are set out below.

Q.1) In your view, should the Commission's next steps in making information disclosure determinations for the regulated services be as outlined above? Please provide the reasons for your views. 6

Air NZ generally agrees with the Commission's proposed next steps in making information disclosure determinations for specified airport services.

Air NZ wishes to emphasise the importance of ensuring that the specified airport services determination is completed in line with the current statutory 1 July 2010 deadline and that the Commission not take up the potential additional 6 months. Current charges at the regulated airports are inconsistent with the input methodologies being developed by the Commission and it is imperative that this be made transparent as soon as possible. The Commission is required to undertake a review of the effectiveness of the disclosure regime in 2012 and having access to this historical information will be crucial to informing the review.

In para 24 the Commission notes its intention under Phase III to make the final draft determination available to "the relevant regulated suppliers for technical review." Air NZ considers that there would be value in also making the final draft determination in relation to specified airport services available to airlines for review.

Q.2) Do you agree that the term 'interested persons' is broad in its application and includes all persons that are interested in the activities of a regulated supplier? If not, please provide the reasons for your view, an alternative interpretation and why you consider this to be more appropriate. 11

Air NZ agrees with the Commission's view that the term "interested persons" is broad in application and includes all persons that are interested in the activities of a regulated supplier. Air NZ supports the Commission's analysis that it is an interested person due to its use of disclosed information in fulfilling its statutory obligations.

Q.3) Do you agree that pre-prescribed performance indicators will assist interested persons in the assessment as to whether the purpose of Part 4 is being met? If not, please provide the reasons for your view, an alternative approach and why you consider this to be more appropriate. 14

Pre-prescribed performance indicators will assist interested persons in the assessment as to whether the purpose of Part 4 is being met. Prescribing performance indicators prior to disclosure will ensure that interested persons are able to make meaningful comparisons across time and between regulated suppliers.

Q.4) Do you agree that these principles are consistent with the purpose of information disclosure which is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met? If not, please provide the reasons for your view, alternative principles and why you consider these are better aligned to the purpose of information disclosure. 18

Air NZ agrees that the Economic and Implementation principles outlined in section 2.4 of the Discussion Paper are consistent with the purpose of information disclosure as discussed by the Commission.

Q.5) What other areas of performance, if any, do you think the Commission should consider when assessing whether the purpose of Part 4 is being met? Please provide the reasons for your view. 23

The Commission has highlighted the following areas of performance:

- Innovation and investment
- Quality
- Prices
- Profits; and
- Efficiency.

Air NZ considers that these are the key areas to consider when assessing whether the purpose of Part 4 is being met.

Q.6) Do you agree that an indicator relating to investment is required? If not, please provide the reasons for your view. 24

Given the specific objective of ensuring suppliers have incentives to innovate and invest under Part 4, an indicator relating to investment is required.

Q.7) Do you believe that a capital expenditure ratio is an appropriate indicator? If not, please provide the reasons for your view, an alternative and explain why you consider this to be preferable. 24

Air NZ agrees that a capital expenditure ratio is an appropriate indicator of investment.

Air NZ also agrees with the Commission's view that this indicator will need to be considered in light of other factors, such as trade-offs with operational expenditure, asset age and demand, given the impact of these factors on capital expenditure requirements.

Air NZ notes that in the airports context, it may be useful to exclude land assets from the asset base when determining the denominator for the capital expenditure ratio. Given that a significant portion of an airport asset base will be land, and that this asset once established does not require further expenditure (or indeed is not depreciated) inclusion of it in the capital expenditure ratio may distort the picture.

Q.8) Do you have any views on the Commission's proposed treatment of capital expenditure ratios under information disclosure? If so, please provide the reasons for your views. 25

Air NZ considers the Commission's proposed treatment of capital expenditure ratios to be sound. Transparency as to replacement versus growth capital expenditure will

be of value so as to ensure that regulated suppliers are investing in line with market demand and that appropriate expenditure is occurring in a manner which best provides for market growth.

Q.9) Do you agree that the disclosure of an AMP is an appropriate means of demonstrating innovation and investment? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.26

Air NZ agrees that the disclosure of an AMP is an appropriate means of demonstrating innovation and investment and that the information the Commission is proposing be disclosed is information that should be readily available as part of normal planning processes. Air NZ considers that AMP's should be made available to all interested persons.

Q.10) Do you have any views on appropriate indicators for measuring innovation? If so, please provide the reasons for your views. 27

As the Commission rightly points out, an important aspect of dynamic efficiency is the discovery, use and transmission of ideas and new information, i.e. innovations. One means of measuring this would be through a productivity indicator such that a regulated supplier is able to demonstrate an increase in throughput without having a corresponding increase in physical capacity, e.g. in the airports context where an innovative approach had resulted in the peak processing capacity of a terminal being enhanced with low capital expense.

In the airports context such innovations will require input and action by a number of different parties/organisations at the airport and may in fact not be an airport initiative at all, e.g. Air NZ's enhanced domestic processing (funded by Air NZ) has significantly increased the processing capability of domestic terminals around the country.

Q.11) Do you have any views on appropriate indicators for measuring quality? If so, please provide the reasons for your views. 28

Air NZ agrees with the Commission's view that developing quality indicators can be problematic and different sectors will require different quality measures to be meaningful. Objective qualitative measures relating to service quality will provide far more robust information than customer perception/type surveys.

Contrary to the Commission's assertion in para 129 that "survey data is more likely to be a good indicator of service quality for specified airport services" than interruption statistics, Air NZ considers that service interruption statistics will be a key indicator of quality at airports. For example, airline customers rely on the quality of a range of airport services such as baggage handling systems, IT and communications networks and airbridges. Interruption to any of these services can have a significant impact on airline operations, including commercial loss, and are therefore of key interest.

Nevertheless, there will be a range of issues where a survey approach will provide useful information, e.g. passenger perceptions of toilet/facility cleanliness, seating availability etc.

Q.12) Do you have any views on appropriate indicators for measuring profits? If so, please provide the reasons for your views. 29

Air NZ agrees with the Commission's proposed approach to develop a Return on Investment indicator for measuring profits. Such an indicator will be instrumental in demonstrating whether a supplier is achieving profits consistent with Part 4 of the Commerce Act.

Q.13) Do you have any views on appropriate indicators for measuring pricing efficiency? If so, please provide the reasons for your views. 30

Air NZ agrees with the Commission's preliminary view that the most effective measure of pricing efficiency for each regulated service should be presented as the key indicator, with sufficient information made available to allow assessment of efficiency for other consumer groups.

Q.14) Do you have any views on the appropriate cost based indicators to assess whether regulated suppliers have taken action to minimise costs? If so, please provide the reasons for your views. 30

Air NZ considers that the most appropriate cost based indicators to use are those illustrating a supplier's performance over time against an output relevant to the service provided, e.g. per passenger or seat for specified terminal activities.

Q.15) Do you have any views on the Commission's proposed treatment of operational expenditure ratios under information disclosure? If so, please provide the reasons for your views. 32

Air NZ considers that operational expenditure ratios based on outputs, rather than assets, would provide a better view as to whether regulated suppliers are achieving efficiencies. These would indicate over time whether suppliers are achieving economies of scale in providing services/facilities.

Q.16) Do you have any views on the Commission's proposed treatment of capacity utilisation ratios under information disclosure? If so, please provide the reasons for your views. 33

Air NZ agrees that capacity utilisation ratios will provide an indication of whether regulated suppliers are appropriately installing and utilising capacity in line with demand. Air NZ also agrees with the Commission's proposed approach of looking at a range of ratios.

Q.17) Do you agree that profitability should be measured using an ROI measure? If not, please detail the measure that is appropriate and explain how that measure would better meet the purpose of information disclosure? 36

Air NZ agrees that profitability should be measured using a ROI measure.

Q.18) Do you agree that revaluations and depreciation in the Regulatory Profit should be the same value as that which is used in rolling forward the RAB value? If not, please detail how depreciation and revaluations should be treated and how this treatment is consistent with the FCM concept. 38

Revaluations and depreciation should be consistent as between the Regulatory Profit and the roll-forward of the RAB value.

Air NZ agrees with the Commission that it is essential that regulatory profit reflect all returns earned by a supplier of regulated services, including those caused by changes in asset values (both positive and negative).

Q.19) Do you agree that the value of capital contributions and vested assets (net of any consideration) should be recognised as income in the ROI? If not, please explain how the value of the returns earned from vested assets and capital contributions should be treated and why you consider this to be preferable. 39

Air NZ agrees that the value of capital contributions and vested assets (net of any consideration) should be recognised as income in the return on investment. Failure to do so will result in the returns achieved by a regulated supplier being in excess of what is required to maintain financial capital.

Q.20) Do you agree that lost and found assets should not be treated as income and expense? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 39

Air NZ accepts that genuinely lost and found assets should not be treated as income and expense. However, care needs to be taken to ensure that such assets are genuinely “lost” or “found”. This highlights the need for all parties to have a sound understanding of what the RAB consists of.

Q.21) Do you agree that a ROI comparable to a vanilla WACC and a post-tax WACC should be disclosed? If not, please provide the reasons for your view. 40

Air NZ agrees that ROI should be expressed on both a vanilla and post-tax WACC basis.

Q.22) Do you agree that half the value of the net new capital investment should be reflected in the RIV value? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 42

Air NZ agrees that half the value of the net new capital investment should be reflected in the RIV value as a pragmatic approach to dealing with the commissioning of new assets throughout a year. Such an approach would be consistent with the approach presently adopted by airports in financial modelling.

Q.23) Do you agree that assets acquired from or sold to another regulated supplier or business unit should be included in the RIV to the extent that the profit relating to those assets is recognised in the regulated supplier's regulatory profit? If not, please detail how asset acquired from or sold to another regulated supplier or business unit should be treated and why you consider this to preferable. 42

Air NZ agrees that assets acquired from or sold to another regulated supplier of business unit should be included in the RIV to the extent that the profit relating to those assets is recognised in the regulated supplier's regulatory profit.

Q.24) Do you agree that it is appropriate to treat assets acquired from or sold to another regulated supplier that doesn't relate to merger or acquisition activity as above? If not, please explain how these should be treated and why you consider this to be preferable. 42

Air NZ assumes that the Commission is referring here to its proposal that assets acquired from or sold to another regulated supplier be transferred at their rolled-forward RAB value, with regulated businesses bearing upside or downside risks.

Air NZ notes that this situation is not relevant to the airports sector.

Q.25) Do you agree that an adjustment to RIV for working capital is not necessary given its likely materiality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 42

Air NZ agrees that an adjustment to the RIV for working capital is not necessary.

Q.26) In your view, how should the capital costs associated with the use of regulated assets to provide regulated and unregulated services be attributed? Please provide the reasons for your view. 43

The Discussion Paper identified two options by which capital costs associated with the use of regulated assets to provide both regulated and unregulated services can be attributed:

- Regard the whole asset cost as a regulated asset but recognise the benefit it confers on the unregulated services by allocating a share of the unregulated revenue, as an imputed revenue value; or
- Adjust the RAB value, and associated depreciation and revaluations, reflecting the value of the portion of assets that provide unregulated services.

Air NZ submits that where a common set of assets provide a basket of (regulated and unregulated) services, the first approach will more closely approximate the outcome of a competitive market. In approaching a decision about whether or not to invest in a particular asset, an asset owner will consider the overall return they expect to receive on that asset from provision of all services and activities associated with it, not simply part of it.

Air NZ refers the Commission to the BARNZ response to this question for a more detailed discussion of this issue.

Q.27) Do you agree that the Commission should consider GAAP as the starting point, but modify the disclosures where required to meet the purposes of information disclosure under the regulatory regime? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 50

Air NZ agrees that the Commission should consider GAAP as the starting point but modify disclosures where required to meet the purposes of information disclosure under the regulatory regime. Air NZ considers the purposes of information disclosure to be significantly different from the purpose of GAAP.

Q.28) Do you agree that where the sale of the asset is made to an unregulated entity or business unit, then the regulatory profit should be adjusted for gains or losses on sale? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 51

Where the sale of an asset is made to an unregulated entity or business unit, the regulatory profit should be adjusted for gains or losses on the sale. However, care will need to be taken to ensure that where any such sale occurs that this does so under an “arms length commercial” basis with the gain or loss reflecting the true value of the sale.

Q.29) Do you agree that pass-through revenue and the associated distribution should be transparently disclosed in the regulatory profit statement? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 52

Air NZ agrees that pass-through revenue and the associated distribution should be transparently disclosed.

Q.30) Do you agree that pass-through costs should be separately disclosed? If not please provide a detailed explanation as to why it shouldn't be separately disclosed. 52

Air NZ agrees that pass-through costs should be separately and transparently disclosed.

Q.31) Do you agree that insurance expenses should be included in the calculation of Regulatory Profit only where these are paid to an insurance entity? If not please, provide a detailed explanation as to why insurance should or shouldn't be disclosed, including a reference to the materiality of the insurance costs. 53

Air NZ does not have a view either way on this issue.

Q.32) Do you agree that merger and acquisition expenses should be included in Regulatory Profit? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 53

To the extent that airports might participate in mergers or acquisitions, expenses related to these transactions should be separately disclosed. There is a question as to why these expenses should be allocated to the regulatory component of a business when they are ownership expenses.

Q.33) Do you agree that financing information should not be required due to the difficulty in meaningfully allocating the portion that relates to the regulated business? If not, please provide details on how information on financing can be meaningfully allocated to regulated business units. 54

While noting the difficulties outlined by the Commission in meaningfully allocating financing information across a regulated supplier, Air NZ has some concerns with the Commission's proposal that financing information not be required.

As outlined in BARNZ's response to this question in its submission there are occasions when a regulated supplier may be able to access financing at a rate lower than allowed for in its cost of capital calculation. As a consequence, the regulated supplier will be over-compensated for the cost of borrowing. This would be contrary to the objectives of Part 4.

Q.34) Are there any additional means for which an assessment of financial viability could be made? If so, in light of the regulatory provisions, please provide details of how the assessment can be made. 54

The Commission, in its Input Methodologies Discussion Paper, raised the question of financeability in the context of its discussion on the regulatory cost of capital (paras 8.34-8.38). In that discussion the Commission referred to the investment grade credit rating as a potential indicator of sound financial structure. Air NZ considers this to be a reasonable indicator of financial viability consistent with a regulated supplier having the means to continue to invest and innovate, in line with the objectives of Part 4.

Q.35) Do you agree that regulated suppliers should use the leverage assumption and cost of financing assumptions outlined in the cost of capital input methodology in preparing the deductible interest and interest tax shield calculation? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 54

Air NZ considers that actual leverage and cost of financing should be used in preparing the deductible interest and interest tax shield calculation for disclosure purposes so as to ensure that disclosures are consistent with actual performance.

Q.36) Do you agree that disclosure of related party transactions should at least be consistent with GAAP and also include transactions between business units? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 56

Air NZ agrees that disclosure of related party transactions should be at least consistent with GAAP and also include transactions between business units. Air NZ agrees with the Commission that GAAP reporting would not necessarily assist with identifying

whether monopoly rents are being shifted to unregulated business units and would as a consequence undermine the disclosures.

Q.37) Do you agree that transactions with related parties, including transfer pricing information, should be disclosed? If so, please provide details of how this information should be disclosed. If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 56

Air NZ agrees that transactions with related parties, including transfer pricing information, should be disclosed.

Q.38) Do you agree that reconciliation between consolidated statutory reporting and regulatory reporting should be required for the purpose of monitoring compliance? If not, please provide that reasons for your view, an alternative to monitoring compliance and why you consider this to be preferable. 57

Reconciliation between consolidated statutory reporting and regulatory reporting will be essential to meeting the objectives of information disclosure. Lack of transparency has been a source of frustration in terms of understanding past airport disclosures, both between statutory and regulatory disclosures and when trying to compare airport performance over time.

Q.39) In your view, what form should the consolidation and reconciliation disclosures take? Please provide the reasons for your view. 57

The consolidation and reconciliation disclosures should be publicly available so as to ensure that all interested persons have the ability to assess whether the purpose of Part 4 is being met.

Q.40) Do you agree that financial information should be disclosed by way of a Regulatory Profit Statement, Regulatory Asset Statement, Regulatory Tax Calculation, Forecast Statement and Consolidation Statement? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 60

Air NZ agrees that financial information should be disclosed by way of a Regulatory Profit Statement, Regulatory Asset Statement, Regulatory Tax Calculation, Forecast Statement and Consolidation Statement, as outlined by the Commission.

Q.41) Do you agree that if the initial RAB value is established by updating a base valuation, then supporting disclosure of the methodology and assumptions will be required for transparency? If not, please provide the reasons for your view. 64

If the initial RAB value is established by updating a base valuation, disclosure of the methodology and assumptions supporting that update will be essential to ensuring interested persons have sufficient transparency of the RAB. Given the importance of the RAB as an element in the Return on Investment indicator and as an input when calculating “required revenues” under the building block approach, it is vital that there is absolute transparency as to how the RAB has been determined.

Q.42) Do you agree that disclosures relating to the roll forward of the RAB should be sufficiently transparent so as to show the roll-forward calculation? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 65

Air NZ agrees that disclosures relating to the roll forward of the RAB should show the roll-forward calculation.

Lack of transparency of the drivers of changes to assets has been a key frustration in assessing airport disclosures under the current Airport Authorities disclosure regime.

Q.43) Do you agree that the distinction between system fixed assets and nonsystem fixed assets under an indexed or un-indexed historic cost rollforward approach is not required for the on-going purpose of information disclosure? If not, please provide the reasons for your view. 66

Air NZ agrees that there is no need to distinguish between system fixed and nonsystem fixed assets for the on-going purpose of information disclosure.

Q.44) Do you agree that if shared asset costs were to be excluded from the RAB this should be done by way of an adjustment to the final RAB value, depreciation and revaluations? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 66

If the Commission adopts this approach rather than the alternative option of recognising the benefit shared assets confer on the unregulated services in the form of an imputed rental value, then these shared asset costs should be excluded by way of an adjustment to the final RAB value, depreciation and revaluations.

Q.45) Do you agree that the treatment of leases consistent with GAAP is the appropriate approach under information disclosure? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 67

Air NZ agrees that, for pragmatic reasons, treatment of leases consistent with GAAP is the appropriate approach under information disclosure.

Q.46) Do you agree that the level of prescription of information disclosed for assets acquired from or sold to another regulated supplier or business unit should be consistent with the information disclosed in the initial RAB and be sufficiently detailed to provide transparency? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.67

Air NZ agrees that the level of prescription of information disclosed for assets acquired from or sold to another regulated supplier or business should be consistent with the information disclosed in the initial RAB and be sufficiently detailed to provide transparency.

Q.47) What do you consider to be the implications of the two approaches for recognising the cost of finance during construction, being either application of an FDC allowance, or application of GAAP? Which approach do you prefer, and why?
69

Air NZ agrees with the Commission's preliminary view that compensation for financing costs occurring during construction should be provided for at the time of commissioning. This is consistent with competitive market practice and with ensuring that consumers are only paying for assets in use and avoids the potential for double recovery.

Air NZ notes that adopting an approach of capitalising financing costs in line with GAAP would provide some incentive for regulated suppliers to attribute debt to investments which could result in inflated asset values.

Air NZ therefore considers that a multiplier approach is potentially more objective, albeit that the multiplier calculation must be fully transparent. Air NZ refers the Commission to the BARNZ response to Q. 47 for a more detailed discussion of this question.

Q.48) Do you agree that RAB information should be disclosed by way of a Regulatory Valuation Roll-Forward Report, Annual Valuation Roll-Forward by Asset Class Report, Asset Transactions with Other Regulated Suppliers Report and Initial RAB Report? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 72

Air NZ agrees with the Commission's proposal that RAB information should be disclosed by way of the following reports:

- Regulatory Valuation Roll-Forward Report
- Annual Valuation Roll-Forward by Asset Class Report
- Asset Transactions with Other Regulated Suppliers Report
- Initial RAB Report

Q.49) Do you agree that the requisite quality, quality targets and actual quality are appropriate measurements of quality for the purposes of information disclosure? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 77

Air NZ agrees that the requisite quality, quality targets and actual quality are appropriate measurements of quality for the purposes of information disclosure.

Air NZ notes the Commission's intent that "requisite quality" be determined by way of supplier consultation with consumers. The Commission, in the Input Methodologies Discussion Paper, addressed the issue as to exactly who are "consumers" of specified airline services, namely airline passengers and airlines. In the airports context it may be necessary for airports to engage with other stakeholders at the airport, e.g. government agencies working on site, to ensure that appropriate quality levels are targeted.

Air NZ also notes the need for transparent, robust and effective consultation processes to ensure that the requisite quality standards are indeed reflective of consumer demand.

Q.50) Do you agree that requisite quality should be disclosed by suppliers of regulated services through the AMP so that they can choose the best way to establish and disclose the requisite level of quality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 78

Air NZ agrees that requisite quality should be disclosed through the AMP and that suppliers should be able to choose the best way to establish and disclose this, subject to suppliers being able to demonstrate a sound and robust rationale for their choice.

Q.51) Do you agree that the Commission should assess the process by which suppliers engage with their consumers to assess requisite quality, how target quality has been determined based on requisite quality information and how the supplier has performed against target quality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 79

Air NZ agrees that the Commission should assess the engagement process adopted by suppliers to determine requisite quality, how target quality has been determined and how the supplier has performed against those standards. As noted in response to Q49 assessment of consumer engagement processes will be crucial to determining whether requisite quality and target quality measures adopted by suppliers are indeed reflective of consumer demand.

Q.52) Do you agree that suppliers of regulated services should be required to engage with their consumers and disclose how they engage or plan to engage with consumers, what service offers or commitments they make to consumers, how they make decisions about requisite quality standards, what types of contractual or other arrangements, if any, they enter into in relation to quality and how they plan to deliver requisite quality in terms of medium term service delivery? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 79

Supplier engagement with consumers will be a crucial part of determining requisite quality and Air NZ agrees that suppliers should be required to disclose how they engage or plan to engage with consumers, and on the other matters indicated above.

Q.53) Do you agree that quality information should be audited? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 80

Air NZ agrees that quality information should be audited. As noted by the Commission, there is some complexity in auditing quality data and as such the choice of an appropriate auditor will be key.

Q.54) Do you agree that the aspects of quality most relevant to suppliers of regulated services should include reliability, supply quality-other and customer service? If not,

please provide a reason for your view, an alternative and why you consider this to be preferable. 84

Air NZ agrees that these are the aspects of quality most relevant to supplier of regulated services.

Air NZ notes however that contrary to the Commission's preliminary view outlined in para 388, consumers of airport services do view supply interruptions as a key measure of quality. Interruption to supply of baggage systems, IT links, and physical infrastructure such as airbridges can have significant impact on airline operations, leading to impacts on on-time performance and/or resulting in large cost imposts on airlines.

Q.55) Do you agree that statistics information should include asset information, demand and capacity information? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 86

Air NZ agrees that statistics information relating to asset information, demand and capacity information is required. This data will be key to assessing whether a supplier is providing services and facilities in line with demand, and undertaking appropriate investment to maintain and expand those services and facilities.

Q.56) Do you agree that suppliers of regulated services should apply a recognised AMP standard? If so, what is the appropriate standard that should be applied? Please provide the reasons why you consider it to be preferable? 91

Air NZ agrees that it would be appropriate for suppliers to apply a recognised AMP standard. However it may not be necessary for the Commission to mandate any one standard as there may not be a single standard which is singly applicable and appropriate in the New Zealand context.

Q.57) Do you agree that AMPs should cover at least a ten-year forecast period? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 92

Air NZ agrees that AMPs should cover at least a ten-year forecast period. Most airports have adopted the practice of developing Masterplans which focus on 20-30 year forecasts and these would provide a useful basis for the AMPs. However, it should be noted that AMPs will inevitably provide more certainty and detail around shorter timeframes e.g. 3-5 years, with forecasts beyond that time leading to an AMP at a much higher level of detail.

Q.58) Do you agree that the AMPs should be certified by Directors that they are compliant with the requirements and that the AMP describes actual process and practices implemented by the business? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.92

Air NZ agrees with the Commission's proposed certification requirements for AMPs.

Q.59) Do you agree that the Commission should review investment and innovation, quality and energy efficiency, demand side management and loss reductions as part of the AMP review process for Electricity Distribution Lines Businesses? If not, please provide a reason for your view, an alternative and why you consider this to be preferable. 94

NA

Q.60) Do you agree that an AMP should include details of the background and overall approach to, and objectives of, a regulated supplier's asset management and planning processes? If not, please provide reasons for your view. 96

Air NZ agrees that these are appropriate matters to include in an AMP.

Q.61) Do you agree that an AMP should include details of the assets covered by the plan? If not, please provide reasons for your view. 96

Air NZ agrees that an AMP should include details of the assets covered by the plan.

Such details, particularly in the airports context, should include maps and plans showing the location of the specific assets.

Q.62) Do you agree that an AMP should include details of the regulated suppliers' plans for asset growth and their methods for reaching asset - related growth decisions? If not, please provide reasons for your view. 98

Air NZ agrees that these matters should be included in an AMP.

Q.63) Do you agree that an AMP should include details of the regulated suppliers plans for maintenance and renewal of assets over the planning period? If not, please provide reasons for your view. 99

Air NZ agrees that plans for maintenance and renewal of assets over the planning period should be included in an AMP.

Q.64) Do you agree that an AMP should include details of risk policies, assessment, analysis and mitigation methods, and details of emergency response and contingency plans? If not, please provide the reasons for your view. 99

Air NZ agrees that risk policies, assessment, analysis and mitigation methods and details of emergency response and contingency plans should be transparent to consumers, albeit that these should not be required to be disclosed if disclosure would create a security risk.

To some extent it may be sufficient for AMPs, rather than replicating fully these policies etc., to simply summarise them and provide details of where interested persons may access the full document.

Q.65) Do you agree that an AMP should include a regulated supplier's assessment of its performance against its own financial and service level targets as they relate to asset management planning? If not, please provide the reasons for your view. 101

Air NZ agrees that an AMP should include self-assessment of performance against financial and service level targets. Air NZ also considers there is considerable value in interested persons being able to conduct their own analysis of actual versus forecast expenditure.

Q.66) Do you agree that all regulated suppliers should disclose and publish their pricing methodologies? Please provide the reasons for your view. 107

Air NZ agrees that all regulated suppliers should disclose and publish their pricing methodologies. Disclosure of the pricing methodologies will assist interested persons in assessing the extent to which prices are promoting the efficiency objectives of Part 4.

Q.67) Do you agree that regulated suppliers should disclose prices? If not, please provide the reasons for your view. 107

Air NZ agrees that regulated suppliers should disclose prices. In addition regulated suppliers should be required to disclose any variations to those standard prices, as may be agreed with individual customers as well as any rebate and/or incentive schemes which should be similarly available to all customers.

Q.68) Do you agree that regulated suppliers should be required to disclose the terms and conditions of supply and that the scope of disclosures should be limited to terms and conditions for the supply of regulated services? If not, please provide the reasons for your view. 108

Air NZ agrees that regulated suppliers should be required to disclose the terms and conditions of supply, and that these should be limited to terms and conditions for the supply of regulated services.

Q.69) Do you agree that that disclosure of policies will assist in achieving the stated purposes? If not, why not, and what information do you suggest would provide meaningful information? 109

Air NZ agrees with the Commission's intent of ensuring there is full transparency of issues potentially impacting on the profitability or financial viability of a regulated supplier. Of the policies discussed by the Commission in section 9.3.2 of the Discussion Paper, profit distribution, sponsorship and insurance would appear to be the most relevant for disclosure.

Q.70) Do you agree that publicly disclose should require a notice in the Gazette of that disclosure? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 114

Air NZ questions whether requiring a notice in the Gazette of the fact of a disclosure is the appropriate mechanism for alerting interested persons that a disclosure has been made.

An alternative mechanism would be for regulated suppliers to maintain a register of interested persons who are notified when a disclosure is made. This would place the onus on an interested person to declare their interest and provide for a more efficient notification process.

Q.71) Do you agree that the Annual, AMP and pricing methodology disclosures should be publicly disclosed? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 114

Air NZ agrees that Annual, AMP and pricing methodology disclosures should be publicly disclosed.

Q.72) Do you agree that prices disclosures should also be notified to each consumer by whom the charge is payable? If not, please provide the reasons for your view. 114

Air NZ agrees that prices disclosures should be readily available to all users of regulated services. In the airports sector Air NZ notes that there is potentially logistical difficulties in requiring notification to “each consumer by whom the charge is payable”. While it is appropriate that airports notify all airline users of the prices payable, where charges are levied on passengers and airlines essentially act as the airport’s collection agent, this is likely to create difficulties particularly if notification is required when a price is established. Passenger charges collected on the ticket are generally identified separately at the time of booking through

Q.73) Do you agree that templates should be used where appropriate and that disclosures should be made available to the Commission in Excel format with relevant formulae in place? If not, please provide the reasons for your view. 114

Air NZ agrees that templates should be used where appropriate and that disclosures should be available to all interested persons in Excel format with relevant formulae in place. This will assist interested persons in carrying out their own analysis of the disclosure.

Q.74) Do you agree with the proposed timing for disclosures? If not, please provide the reasons for your view. 115

Air NZ considers that allowing disclosure up to five months after the regulatory year end date is too long a period and recommends a period of 3 months, in line with financial reporting requirements for listed companies.

Q.75) Do you agree with the proposed regulatory year end dates? If not, please provide the reasons for your view. 115

Air NZ notes that while WIAL has a financial year ending on 31 March, both AIAL and CIAL have financial years ending on 30 June. In this case and given the

Commission's intent to have regulatory years aligned to commonly used financial years, it may therefore be desirable for specified airport service suppliers to have regulatory years ending on 30 June.

Q.76) Do you agree that regulated suppliers should continue to disclose information and retain disclosed information and information supporting the disclosed information for a period of at least seven years? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 116

Air NZ agrees that disclosed information and information supporting the disclosed information should be retained by a regulated supplier for at least seven years.

Q.77) Do you agree that Director certification should be required for the Annual, AMP and pricing methodology disclosures to certify that the information being disclosed complies with the relevant requirements? If not, please provide the reasons for your view. 117

Air NZ agrees that Director certification should be required for the Annual, AMP and pricing methodology disclosures to certify that the information being disclosed complies with the relevant requirements.

Q.78) Do you agree that audit reports should be required for Annual Disclosures? If not, please provide the reasons for your view, an alternative to obtaining independent assurance and why you consider this to be preferable. 119

Air NZ agrees that audit reports should be required for Annual Disclosures. The choice of auditor for disclosures should be consistent with the information being disclosed, i.e. the utility of having a financial auditor audit non-financial aspects of the disclosures would be questionable.

Q.79) Do you agree that audit reports should not be required for AMP, pricing methodology, prices or contract disclosures? If not, please provide the reasons for your view. 119

Air NZ considers that there needs to be some form of independent assurance that the AMP, pricing methodology, prices and contract disclosures are accurate, thorough and complete. Whether this takes the form of a formal audit report or some other assurance mechanism is however open to debate.

Q.80) Do you agree that the form of audit reports should be flexible enough to allow for any changes in the New Zealand Auditing Standards without requiring an amendment to the requirements? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 119

Air NZ agrees that the form of audit reports should be flexible enough to allow for any changes in the New Zealand Auditing Standards without requiring an amendment to the requirements.

Q.81) Do you agree that audit reports should include a statement as to whether the disclosures comply with the requirements and include explanations of any material non-compliance? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 119

Air NZ agrees that audit reports should include a statement of compliance including explanation for any material non-compliance with the requirements.

Q.82) Do you consider it appropriate for there to be different assurance requirements for different types of information and what do you think they should be? Please provide the reasons for your view. 120

As noted previously Air NZ does consider it appropriate for there to be different assurance requirements for different types of information. Air NZ agrees that Table 13 of the Discussion Paper - “Expected Standard of Assurance” – provides an appropriate level of assurance across the different information types.

Q.83) Do you agree that audit reports should be addressed to interested persons and contain a statement that acknowledges the auditor’s duty of care to the Commission? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 120

Air NZ agrees that audit reports should be addressed to interested persons and contain a statement that acknowledges the auditor’s duty of care to the Commission.

Q.84) What do you consider to be an appropriate level of independence for auditors? Please provide the reasons for your view. 120

Air NZ agrees with the Commission’s proposed requirements for independent auditors as discussed in paras 540-541.

Q.85) Do you agree a statutory declaration should be attached to all information made available to the Commission under any disclosure requirement? If not, please provide the reasons for your view. 120

Air NZ agrees with the Commission’s proposal that a statutory declaration be attached to all information made available to the Commission verifying that the information provided to the Commission is a true copy of the information made available to the public.

Q.86) – Q.136)

Not relevant.

Q.137) Are there any additional characteristics of specified airport services that would affect how the information disclosure regime for specified airport services should be applied? If so, please give examples of how components of the information disclosure regime should be customised in light of the characteristics identified. 179

The Commission has identified in section 14.2 of the Discussion Paper a number of characteristics unique to the airports sector and relevant to the information disclosure regime. Air NZ agrees with the Commission that these characteristics are important factors in developing information disclosure for the airports sector.

Air NZ does however question the Commission's characterisation of regulation under the Airport Authorities Act as including "provisions to address competition concerns and enhance the countervailing market power of airlines." As the Commission notes airports are required before changing prices, or at least every five years, and in respect of significant capital expenditure to consult with substantial users. Air NZ's experience is that this consultation requirement does not address competition concerns or enhance any countervailing power airlines may have. Indeed, recent court judgements have highlighted the inadequacy of the Airport Authorities Act for dealing with commercial disputes around charges. For this reason, Air NZ believes information disclosure under Part 4 of the Commerce Act has the potential to positively influence appropriate commercial behaviour by airports.

Air NZ also considers that the segmentation of airport businesses, as required for disclosure purposes under the current airports regulatory regime, has a bearing of the design of the new information disclosure regime under the Commerce Act. Air NZ agrees with the Commission's preliminary view that disclosure of these individual segments should continue.

A further characteristic of the regulated airports sector which should be considered is the fact that airlines as the major players interfacing with the airports have a keen interest in ensuring that airports provide efficient services and facilities at a high quality. Efficient and sustainable airline operations are dependent on airports providing the right services and facilities at an efficient level.

Q.138) Do you agree that the performance indicators outlined in Table 23 are sufficient for the purpose of information disclosure under Part 4 for specified airport services? If not, please provide detailed examples of what performance indicators would better serve the purpose of information disclosure for specified airport services and the reasons for your view. 181

Air NZ agrees that the performance indicators outlined in Table 23, applied to each of airfield activities, specified passenger terminal activities, and aircraft and freight activities, will provide sufficient information to meet the purpose of information disclosure. Air NZ submits that it may also be desirable to adopt an indicator of operational expenditure per unit of output, e.g. per passenger for terminal activities, and per landed tonne for airfield activities.

Q.139) What do you consider to be the appropriate denominator for the capital expenditure growth ratio? Please provide the reasons for your view. 181

Air NZ considers the appropriate denominator for the capital expenditure growth ratio to be the RAB excluding land, given that land is a non-depreciating asset which for the airports will be a reasonably static asset in terms of size.

Q.140) What do you consider to be the appropriate denominator in the average price per unit performance indicator? Please provide the reasons for your view. 181

The appropriate denominator in the average price per unit performance indicator will vary between the activities, e.g. for the airfield it should be per landed tonne, for the terminal per passenger, and for aircraft and freight per tonne of freight handled?

Q.141) What do you consider to be the appropriate calculation for the capacity utilisation performance indicator? Please provide the reasons for your view. 181

Air NZ considers there are a variety of indicators appropriate for calculating capacity utilisations. Air NZ refers the Commission to the BARNZ response to Q141 of the Information Disclosure Discussion Paper for a more detailed overview of this issue.

In general, Air NZ considers that appropriate calculations would include:

Number of aircraft movements per busy hour

Notional maximum number of aircraft movements on runway

Number of arriving busy hour passengers (international)

Sustainable peak busy hour arriving processing capacity (international)

Number of arriving busy hour passengers (domestic)

Sustainable peak busy hour arriving processing capacity (domestic)

Number of departing busy hour passengers (international)

Sustainable peak busy hour departing processing capacity (international)

Number of departing busy hour passengers (domestic)

Sustainable peak busy hour departing processing capacity (domestic)

Q.142) What do you consider to be the appropriate method for calculating a customer perception performance indicator? Please provide reasons for your view. 181

BARNZ and the NZ Airports Association have produced a joint working document to inform the work of the Commission on this point. In this, the parties noted that customer perceptions were most appropriately collected via survey, and that this could be done either by the airport itself or through a third party, e.g. the ACI ASQ survey.

The indicator could then be developed through assessing the results of the survey across the categories measured.

Q.143) Do you agree that specified airport service suppliers should disclose the level of revenue they are earning from property rent and lease income and that this, along with disclosure of the extent to which downstream services are provided by the airport company or its contracted suppliers, will be sufficient for interested persons to understand the affects of the different business activities on the performance of the

regulated business unit? If not, please provide examples of disclosures that will allow interested persons to gain this understanding. 181

Air NZ agrees that disclosure of the level of revenue being earned from property rent and lease income will provide interested persons with a clear indicator of the affects of the different business activities on the performance of the regulated business unit. Air NZ notes that airports levy a variety of charges across a range of activities on-airport and transparency regarding these various revenue streams will be important.

Q.144) Are there any additional operating expenditure categories that would assist in meeting the purpose of information disclosure for specified airport services? If so, please provide details of how the proposed operating expenditure categories would assist the purpose of information disclosure. 183

The Commission has indicated its view that operating expenditure should be disclosed in the following categories:

- General management, administration and overheads
- Asset management and operations
- Asset maintenance
- Other expenses

Air New Zealand agrees that disclosure under these categories, in line with the guidance given as to the make-up of those categories is appropriate and will be transparent and enable comparability between regulated suppliers. Air NZ also agrees that there is no need to make provision for pass-through costs.

Q.145) Are there any additional capital expenditure categories that would assist in meeting the purpose of information disclosure for specified airport services? If so, please provide details of how the proposed capital expenditure categories would assist the purpose of information disclosure. 184

Air NZ agrees with the Commission’s preliminary view that capital expenditure be disclosed under the following categories:

- Capacity growth
- Reliability, safety and environment
- Security requirements; and
- Asset replacement and renewal

The Commission notes that it does not believe it necessary to include an “asset relocation” category given that airports would not normally be required to relocate assets by a third party. Air NZ considers that it would be desirable to include an “asset relocation” category given that there have been a number of occasions where airports have relocated assets when undertaking (re)developments within their current site.

Q.146) Are there any additional asset categories that would assist in meeting the purpose of information disclosure? If so, please provide details of how the proposed asset categories would assist the purpose of information disclosure. 184

The Commission has identified the following asset categories:

- Land
- Sealed Surfaces
- Infrastructure
- Buildings
- Vehicles, plant and equipment

Air New Zealand considers that these categories are appropriate.

Q.147) Do you agree that if a cost of capital input methodology has not been established for specified airport services that the Commission should issue the required financing assumptions for use in information disclosure? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable. 185

As outlined in its submission on the Commission's Input Methodologies Discussion Document Air New Zealand considers it vital that the Commission establish a cost of capital input methodology for assessing airport disclosures. Failure to do so will result in interested parties being unable to determine whether airports' information disclosure is meeting the purpose of section 52A, as required under section 53A. Furthermore failure to establish a cost of capital input methodology will result in considerable uncertainty for suppliers as they will be unable to assess the likely outcome of the Commission's annual analysis required under section 53B(2)(b), or indeed the likely outcome of the Commission's review required under section 56G.

If a cost of capital input methodology has not been established, required financing assumptions will be an absolute requirement if the information disclosure is to have any relevance whatsoever.

Q.148) Do you agree that the key aspects of quality for specified airport services should include customer service, reliability and capacity/utilisation? If not, please provide the reasons for view, an alternative and why you consider this to be preferable. 186

Air NZ agrees that the key aspects of quality for specified airport services include customer service, reliability and capacity/utilisation.

Air NZ agrees with the Commission that given the focus of other organisations on this aspect, safety should not be required to be disclosed. It is noted that the airports operate in a comprehensively regulated environment in the safety sense.

Q.149) Do you agree that there will need to be a balance between having complex and potentially costly quality indicators versus more simplistic quality indicators that may address the quality of both regulated and unregulated services? Please provide reasons for your view. 186

Air NZ agrees that the development and reporting of quality indicators is a complex issue, particularly in relation to distinguishing between regulated and unregulated services. As the Commission rightly notes, the complementary nature of airport services means that customer perceptions will tend to be based on an overall airport experience rather than one focussed on simply the regulated parts of the airport business. Given this Air NZ sees merit in the Commission's intention to achieve a balance between having complex and potentially costly quality indicators versus indicators that may address the quality of both regulated and unregulated services.

Q.150) Do you agree that passenger perception surveys should be used to measure customer service and supply quality for specified airport services? If not, please provide the reasons for your view. 188

Air NZ agrees that passenger perception surveys are one of a range of mechanisms that can be used to measure customer service and supply quality. These should be used in conjunction with other mechanisms such as quantitative measures of reliability of supply, and capacity and utilisation, etc.

Q.151) Do you agree that the ACI ASQ survey is an appropriate survey for collecting passenger perceptions for specified airport service? If not, please provide details of why the ACI ASQ survey is not appropriate and details of why an alternative survey would be more appropriate. 188

Air NZ agrees that the ACI ASQ survey is an appropriate survey for collecting passenger perception for specified airport services.

Air NZ does note however that mandating the ACI ASQ survey as a means for collecting this information may not be desirable given that this may potentially evolve to a point where it is no longer relevant or cost effective. Alternative surveys providing similar data, where this is robust and independent should also be allowed.

Q.152) Do you agree that the identified measures are appropriate for measuring passenger perceptions of quality? Are there any additional measures that would assist in the measurement of quality for specified airport services through passenger perceptions? If so, please provide the reasons for your view. 188

Air NZ agrees that the measures identified at paragraph 801 are appropriate.

In addition, Air NZ refers the Commission to the BARNZ response to this question.

Q.153) Do you agree that reliability of services should be disclosed and that the disclosures should be enhanced to identify the cause of the disclosure? If not, please provide the reasons for your view. 188

Air NZ agrees that reliability of services should be disclosed. Air NZ also considers that identification of the causes of any interruptions to service, and concrete action to address these is desirable.

Air NZ refers the Commission to the BARNZ response to this question for a more detailed discussion of the proposed measures developed by BARNZ and the NZ Airports Association to address these issues.

Q.154) Are there any additional services that should require disclosure of interruption information? If so, please provide of the reasons why the additional categories are important to the purpose of information disclosure. 188

Please refer to the BARNZ response to this question for a detailed discussion of this question.

Q.155) Do you see the disclosure of the effect of interruptions on consumers as an important measure of quality for specified airport services? If so, please provide details of how this could be measured and the reasons for your view. 189

Disclosure of the effect of interruptions on consumers is an important measure of quality for specified airport services.

As noted above, BARNZ and the NZ Airports Association have considered this issue. Please refer to the BARNZ response to this question for a detailed discussion.

Q.156) Do you agree that capacity and utilisation of capacity is a key supply quality issue for specified airport services? Please provide the reasons for your view. 190

Air NZ agrees that capacity and utilisation of capacity is a key supply quality issue for specified airport services.

Capacity and utilisation of capacity indicators will provide transparency as to whether regulated suppliers are investing in facilities (s 52A(1)(a)) and that this investment is in line with demand (s52A(1)(b)).

Q.157) Do you agree that capacity and utilisation should be measured at the above points? If not, please provide details of where capacity and utilisation should or should not be measured and the reasons for your view. 190

Please refer to the BARNZ response to this question.

Q.158) Do you agree that it may not be appropriate to measure capacity by comparing peak demand and service capacity and that it may be more appropriate to consider the duration of capacity constraint or near-full constraint? If not, please provide the reasons for your view. 190

Air NZ agrees that it is not appropriate to measure capacity by comparing peak demand and service capacity and that instead consideration of duration of capacity constraint or near-full constraint is more appropriate. The nature of airport operations means that making investment decisions to cater for peak demand will inevitably result in over-provision of facilities, impacting on the sustainability of the operation.

Please refer to the BARNZ response to this question for further detail.

Q.159) Do you agree that a description of the assets and their capacity should be disclosed? If not, please provide the reasons for your view. 191

Air NZ agrees that a description of assets and their capacity should be disclosed.

Q.160) Do you agree that demand disclosures for specified airport services should include disclosure of international and domestic volumes for passenger, freight and aircraft movements? If not, please provide details of what should or should not be disclosed and the reasons for your view. 191

Air NZ agrees that demand disclosures for specified airport services should include disclosure of international and domestic volumes for passengers, freight and aircraft movements. Given the linkage between airfield revenues and landed tonnes (MCTOW) Air NZ believes there should also be disclosure of landed MCTOW, consistent with the charging framework (pricing methodology) which an airport has adopted.

Q.161) Do you agree that pricing statistics disclosures for specified airport services should compare total revenue to units handled? If not, please provide the reasons for your view. 191

Air NZ agrees that pricing statistics disclosures for specified airport services should compare total revenue to units handled.

Q.162) Do you agree that pricing statistics for specified airport services should not assess prices at a consumer level? Please provide the reasons for your view. 191

Air NZ agrees that, given the variety of consumers of specified airport services, there would be limited value in assessing prices at a consumer level. However Air NZ does consider there would be value in assessing total revenues across a variety of outputs. For example, it would be desirable to understand the prices associated with a domestic turbo-prop operation, a domestic jet operation and an international operation at each airport.

Q.163) Do you agree that separate disclosure of segmented aircraft and freight activities, airfield activities and specified terminal activities are important to assess regulated supplier performance for specified airport services? Please provide the reasons for your view. 192

Air NZ agrees that separate disclosure of segmented aircraft and freight, airfield and specified terminal activities is important to assess regulated supplier performance for specified airport services.

The different segments utilise quite separate and distinct assets and cost bases and also cater for distinct consumer groups. As a consequence, the airports' charging structures also generally provide for different and discrete charges for each of the activities. Current disclosure is based on separate disclosure of the different segments

and as such there should not be any issues for airports to comply with continued separate disclosure.

Q.164) Do you agree that the above mentioned disclosures from the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 are not required for the purposes of information disclosure under Part 4? If not, please explain how they would assist with the purpose of information disclosure. 196

The Commission is proposing that the following disclosures are not required for the purposes of information disclosure under Part 4:

- Some GAAP disclosure
- Financing and financial instruments
- Cash flow
- Equity
- Derivatives and their fair value adjustments
- Working capital
- WACC information

Air NZ agrees with the Commission's view in respect of:

- Some GAAP disclosure
- Financial instruments
- Cash flow
- Equity
- Derivatives and their fair value adjustments
- Working capital

However Air NZ is firmly of the view that financing and WACC information should be required to be disclosed. Disclosure of this information will be a key contributor towards interested persons being able to assess whether the purpose of Part 4 is being met.

The actual cost of finance will play a key role in determining whether a regulated supplier has incentives to innovate and invest (s 52A(1)(a)) and whether it is limited in its ability to extract excessive profits (s 52A(1)(d)). A supplier which is able to access debt funding at rates below its calculated WACC will be overcompensated for investment, resulting in excessive profits and therefore incentives to over-invest.

While Air NZ acknowledges that the regulated airports do not have to apply a WACC input methodology developed by the Commission, it is imperative that interested persons continue to have visibility of the WACC calculation being applied by airports in assessing their returns. Again this is required in order to properly assess whether the objectives of Part 4 are being met.

