

**SUBMISSION ON  
COMMERCE COMMISSION  
INFORMATION DISCLOSURE  
DISCUSSION PAPER**

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**PUBLIC VERSION**

**CONFIDENTIAL INFORMATION OBTAINED DURING CONSULTATION WITH AIAL HAS  
BEEN DELETED**

### ***BARNZ's Experience with the current Airport Information Disclosure Regulations***

The Board of Airline Representatives of New Zealand (Inc) (BARNZ) is an incorporated society representing all scheduled international and domestic airlines operating to and within New Zealand. A list of BARNZ members is contained in Attachment 1 to this submission.

BARNZ' involvement with the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 (Airport Information Disclosure Regulations) began in 1998 when the Ministry of Transport was consulting interested parties during the development of these Regulations.

Since the airports commenced annual disclosures, each year BARNZ has carried out monitoring of the Disclosure Financial Statements of the three specified airports. This work includes reviewing the information disclosed by the airports, seeking clarification from the airports where this is required, maintaining a spreadsheet which records and analyses the results over time, including calculating key performance measures, and the preparation of annual monitoring reports. BARNZ provides these reports to the Ministry of Transport each year, together with a letter identifying what BARNZ considers to be the salient points emerging from that year's disclosure.

To BARNZ' knowledge, the Association is the only body undertaking regular monitoring of the information disclosed by the airports under the Airport Information Disclosure Regulations.

In addition, in 2003 BARNZ undertook a detailed review of the information disclosed and prepared a report which it provided to the Ministry of Transport entitled 'Do The Airport Authorities (Airport Companies Information Disclosure) Regulations Guard Against The Possibility Of Monopoly Pricing?' This report concluded that the Airport Information Disclosure Regulations were inadequate and did not guard against the possibility of monopoly pricing, as was their intention when promulgated.

BARNZ is therefore well placed to be able to comment meaningfully on the type of information which interested parties require in order to undertake meaningful monitoring and analysis of the performance of regulated suppliers.

### ***Inadequacies with the current Airport Information Disclosure Regulations***

The ineffectiveness of the current information disclosure regime for airports was one of the key factors behind the Government's decision to include airports within Part 4 of the Commerce Act.

The paper by the Ministers of Commerce and Transport to Cabinet summarised the inadequacies of the current Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 (Airport Information Disclosure Regulations) as follows:<sup>1</sup>

The information disclosure regime is ineffective. The absence of guidelines or methodologies limits transparency about regulatory issues and disclosed information tends to be largely of the nature of general purpose financial statements. They do not provide a robust basis for assessing whether there is monopoly pricing. In addition even if there were meaningful disclosure, no government agency actively monitors the information;

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<sup>1</sup> Paper to Cabinet by Ministers of Transport and Commerce, November 2007, para 19.

These shortcomings were expanded upon in the Regulatory Impact Statement for Airports accompanying the Commerce Amendment Bill which summarised the inadequacies of the current regime in the following terms:<sup>2</sup>

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 regulatory outcomes.

The Regulatory Impact Statement went on to specifically refer to:<sup>3</sup>

- The ineffectiveness of the current disclosure regime to guard against the possibility of monopoly pricing and to better inform the consultation process
- The lack of requisite guidance around what information is required to facilitate effective negotiations or consultations on charges
- The information provided being generally insufficient to help determine whether excessive prices are being charged and whether airports are over-recovering or not
- The lack of any clear requirement being specified in respect of the appropriate input methodologies that should be used by airports relating to crucial components in assessing charges (such as how the value of the asset base is calculated, how asset revaluation gains are treated and how common costs are allocated).
- The lack of monitoring or reporting of disclosed information at departmental or regulator level.

BARNZ agrees that the current Airport Information Disclosure Regulations suffer from all of the above shortcomings. As long ago as 2003 BARNZ identified that the Airport Information Disclosure Regulations were inadequate and did not guard against the possibility of monopoly pricing, as was their intention when promulgated. BARNZ particularly considered insufficient information was required to be provided with respect to asset values, which are one of the most crucial components in determining charges and in judging whether or not an airport company is over-charging.<sup>4</sup>

### ***Commission's Preliminary View Will Address These Shortcomings***

BARNZ is therefore pleased that the preliminary views of the Commission as to the likely content of information disclosure requirements under Part 4 of the Commerce Act (including the Commission's monitoring role) address the shortcomings in the current information disclosure requirements which have long concerned BARNZ, and which were recognised by the Government during its review of the Airport Information Disclosure Regulations.

From BARNZ' perspective, the key improvements within the framework outlined by the Commission for disclosure under Part 4 are:

- Clearer rules regarding the allocation and valuation of the asset base, including the treatment of any revaluations
- Clearer rules regarding the allocation of common costs and common assets

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<sup>2</sup> Commerce Amendment Bill Regulatory Impact Statement: Airport Regulation page 34.

<sup>3</sup> Ibid, pages 34 – 37.

<sup>4</sup> BARNZ, Report to the Ministry of Transport entitled 'Do The Airport Authorities (Airport Companies Information Disclosure) Regulations Guard Against The Possibility Of Monopoly Pricing?', March 2003.

- Improved disclosure of changes in the composition and value of the asset base over time
- Clearer information regarding actual and forecast capital expenditure (including plans, likely costs, triggers for projects, actual investment and reconciliations of differences between forecast and actual capital expenditure)
- Information relating to asset capacity and utilisation, including more meaningful information about demand
- More meaningful quality and reliability measures and targets
- More detailed and meaningful disclosure of pricing methodologies

The purpose of information disclosure as set out in s53A is to ensure sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met. The purpose of Part 4, which is set out in s52A, is to promote the long term benefit of consumers by promoting outcomes consistent with those in competitive markets such that suppliers of regulated goods or services:

- Have incentives to innovate and invest
- Have incentives to improve efficiency and provide services at a level that reflects consumer demands
- Share the benefits of efficiency gains with consumers
- Are limited in their ability to extract excessive profits.

For its part, BARNZ considers that the information which the Commission has identified as needing to be disclosed is essential for interested persons to make a meaningful assessment as to whether the objectives identified within s52A are being met. For instance, without clear rules regarding the allocation and valuation of assets, the treatment of revaluations and the allocation of common costs and assets, interested persons will not be able to assess whether excessive profits are being extracted – which was a key shortcoming of the Airport Information Disclosure Regulations. Similarly, information regarding quality and reliability measures and targets is necessary to determine if services are being provided at a level that reflects consumer demands. In fact, every one of the key areas identified above in which the Commission’s proposals will improve information disclosure, directly feeds into one or more of the objectives contained within s52A and thus directly contributes to enabling interested persons to assess whether the purpose of Part 4 is being met.

In their submissions on the Input Methodologies Discussion Paper, the airports submitted that where information disclosure is the only form of regulation applying to a firm or firms, then the information disclosure requirements developed by the Commission under Part 4 of the Commerce Act should be limited to requiring airports to disclose the pricing decisions the airport made and the methodologies it chose to use when exercising its power to set charges as they think fit under the Airport Authorities Act and the financial results.

BARNZ disagrees. The airports’ submissions that the Commission’s power is limited to requiring disclosure of airport decisions would not result in certainty for consumers or allow interested persons to assess whether the objectives in s52A are being met. It is completely contrary to both the legislative framework contained within Part 4 of the Commerce Act and to the intention of Cabinet and Parliament when including airports within Part 4 of the Commerce Act, which was to have detailed input methodologies and detailed information disclosure requirements developed by the Commission with respect to specified airport services.

## CHAPTER 1: INTRODUCTION

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

BARNZ is broadly in support of the structure outlined by the Commission for the development of information disclosure of first developing principles for all regulated sectors simultaneously and in the same process (Phase 1), followed by separate work streams (but following a common set of phases) for each sector on specific topics and technical drafting (Phases 2 and 3).

However, BARNZ emphasises the importance of the Commission ensuring that consistent principles are applied to all sectors during Phases 2 and 3, and also that the practice of developing detailed and sector specific information disclosure requirements in separate work-streams does not lead to inconsistencies between sectors in the terms of the principles being applied.

BARNZ is pleased that the Commission has indicated its preliminary intention to complete a final determination of information disclosure requirements for airports by 1 July 2010. BARNZ considers that it is vital the regulatory regime for airports be in force by 1 July 2010, and that the timeline not be extended under s52U. This is because:

- Airports are only subject to information disclosure regulation, therefore in the absence of the information disclosure requirements being specified under the Commerce Act, there is minimal regulation of airport charges.<sup>5</sup>
- The charges currently applying at the three regulated airports are all inconsistent with the principles identified by the Commission as appropriate in its previous work under Parts 4 and 4A, as well as with the Commission's preliminary views as articulated in the Input Methodologies Discussion Document. Airlines and passengers are currently paying charges which are significantly above economically efficient levels.
- The three airports will be consulting over charges for regulated airport services during 2010 (in the case of CIAL) and 2011 (in the case of AIAL and WIAL).
- The review under s56G of how effectively information disclosure regulation is promoting the purpose in s52A in respect of specified airport services is directed to occur '*as soon as practicable after any new price for a specified airport services is set in or after 2012*'. An integral component of the s56G review is a review by the Commission of the information that has been disclosed by the suppliers of specified airport services.

For all of these reasons it is imperative that the regulatory regime for airports be in place as soon as practicable.

BARNZ therefore does not favour a two step approach (where parts of the information disclosure requirements that require significant work are deferred beyond the initial determination) in the case

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<sup>5</sup> The New Zealand Courts have held the Airport Authorities Act 1966 does not provide any restriction on the charges that may be set by an airport, and, in particular, does not create any obligation that airports price as if they were operating in a competitive market or that airports cannot recover monopoly rents. Refer *Air NZ Ltd v Wellington International Airport Ltd* [2009] NZCA 259 29 June 2009, particularly at paragraphs 36 and 98.

of regulated airports, although BARNZ has accepted that input methodologies relating to the cost of capital for airports could be developed after 1 July 2010.<sup>6</sup>

BARNZ considers that when the Commission is undertaking any technical reviews<sup>7</sup> in Phase III, it should provide the opportunity for interested parties which have participated in the Commission's consultation processes, to review the final draft determination and provide feedback on any technical drafting issues. The way paragraph 24 is written suggests that this opportunity would only be accorded to regulated suppliers. For its part, BARNZ would appreciate the opportunity to review the final draft determination with respect to the information disclosure requirements for airports and provide feedback on technical drafting issues.

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<sup>6</sup> Refer BARNZ Submission on Commerce Commission Input Methodologies Discussion Paper, response to question 133.

<sup>7</sup> The Commission has described a technical review as a short process where regulated suppliers are able to review the final draft determination and provide feedback on any technical drafting concerns. Refer Information Disclosure Discussion Paper, para 24.

## CHAPTER 2: STATUTORY FRAMEWORK AND REGULATORY PRINCIPLES

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

BARNZ agrees that the term ‘interested persons’ is broad in its application and includes all persons that are interested in the activities of a regulated supplier. BARNZ considers that the term should be given its natural and ordinary meaning, and not be artificially constrained.

It is noteworthy that the drafters of the legislation have chosen to use the phrase ‘interested persons’ in s53A when specifying the purpose of information disclosure regulation, rather than the term ‘consumers’, which was used in s52A when setting out the purpose of Part 4. BARNZ considers this was deliberate, and the phrase ‘interested persons’ has a potentially significant wider ambit.

Who interested persons are is relative and depends upon the context of the regulated service. Interested persons will differ from case to case. For instance, in the airport context interested persons will include aeronautical specific parties such as Government Border Agencies, security regulators, airlines, passengers, freight forwarders, travel agents, duty free retailers, taxi drivers, quarantine waste disposal operators, flight caterers and aviation fuel suppliers. In addition, there will be those types of interested parties that are interested in all regulated sectors across the board such as the Commerce Commission, relevant Government departments, Ministers and officials, business analysts, investors and the media.

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

BARNZ agrees that prescribed performance indicators will assist interested persons in the assessment as to whether the purpose of Part 4 is being met. However, BARNZ also considers it is necessary for the information required to be disclosed annually by regulated suppliers to be sufficiently detailed such that interested persons are able to carry out their own analysis in relation to matters of particular interest to them, beyond the prescribed indicators. BARNZ notes that the Commission has acknowledged the need for sufficient information to be disclosed for this purpose in paragraphs 101, 116 and 142.

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

BARNZ considers that the Commission’s discussion of the principles of information disclosure contained in section 2.5 of the Discussion Paper is consistent with the purpose of information disclosure as per s53A and the purpose of Part 4 as per s52A.

## CHAPTER 3: MONITORING PERFORMANCE

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

BARNZ considers that the areas of performance identified by the Commission in section 3.3 of the Discussion Paper are the key performance areas which the Commission (and interested persons) will need to consider when assessing whether the purpose of Part 4 is being met, namely:

- Innovation and investment (s 52A(1)(a))
- Quality (s 52A(1)(b))
- Prices (s 52A(1)(c))
- Profits (s 52A(1)(d))
- Efficiency (s 52A(1)(b)), comprising the three dimensions of allocative, productive and dynamic efficiency.

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

BARNZ agrees that an indicator relating to investment is required. Ensuring suppliers have incentives to innovate and invest is one of the four key regulatory objectives specifically identified in s52A(1). Therefore an investment indicator is a key piece of information required in order for interested persons to assess whether the purpose of Part 4 is being met.

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

BARNZ agrees a capital expenditure ratio is one indicator of whether investment is occurring. BARNZ notes that the results will need to be considered over time, rather than just in any given year, as infrastructure investment is often lumpy. A low ratio in any one year may not necessarily be indicative of insufficient investment.

BARNZ also notes that the capital expenditure ratio needs to be considered in conjunction with other measures such as quality and reliability performance indicators, capacity and utilisation measures and the level of profit being earned by the regulated supplier. It is only when considering all of these aspects (level of investment, quality, reliability, capacity available, current levels of utilisation and the return on investment) that a more complete picture will be ascertained as to whether suppliers are undertaking appropriate investment in a timely fashion and at the quality and level required by users, and hence have appropriate incentives to invest.

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

BARNZ agrees that the separation of capital expenditure into renewal expenditure and growth initiatives will provide useful information to interested persons.

BARNZ considers that as part of the wider information disclosure requirements or AMP suppliers should also be required to separately prepare and disclose the capital expenditure ratios for each main asset type applicable to the industry. This would apply for the capital expenditure ratio, renewal ratio and capital expenditure growth ratio. These separate capital expenditure ratios would be in addition to (or as supporting information for) the key performance indicator of the overall capital expenditure growth ratios. If capital expenditure growth ratios are only disclosed for the entire asset base then it becomes difficult for interested parties to assess whether expenditure is occurring in the areas where it needs to. The information would be too high level to provide any real insight.

BARNZ agrees with the Commission's preliminary view that other capital expenditure ratios such as capital expenditure per consumer, units supplied, maximum demand, capacity and other statistics should also be made available to interested persons. It will be important for the Commission to ensure that the financial information and statistics disclosed within the information disclosure requirements are sufficient to enable interested persons to apply any other pertinent capital expenditure ratios.

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.<sup>26</sup>

BARNZ agrees that AMPs are a useful and appropriate means of demonstrating innovation and investment, and that they should be prepared by regulated suppliers and made available to the Commission and interested persons.

BARNZ notes that in their submissions on the Commission's Input Methodologies Discussion Paper the airports have all opposed AMPs being included within the information disclosure requirements on the grounds that where information disclosure is the only form of regulation, it is limited to an *ex post* assessment of historical outcomes.

BARNZ does not agree with this view. AMPs are specifically included within the information listed in s 53C(2)(h) which may be required to be disclosed under information disclosure. There is no provision exempting firms that are only subject to information disclosure regulation from the possibility of being required to disclose AMPs. BARNZ considers that forward looking plans and forecasts and AMPs are able to be (and should be) required to be developed and disclosed as part of the information disclosure requirements for all regulated firms.

The NAMs International Infrastructure Management Manual describes the purpose of an AMP as follows:<sup>8</sup>

An AM plan is a written representation of intended AM programmes for ... infrastructure networks based on the controlling organisation's understanding of customer requirements, existing and projected network, and asset condition and performance.

A properly prepared AM plan can greatly improve an organisation's ability to meet goals and objectives in a way that serves customers. AM plans act as a vehicle for communication with customers and other parties with an interest in an organisation's AM activities.

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<sup>8</sup> International Infrastructure management Manual – Version 3.0, 2006, page 2.39.

None of the three regulated airports currently has a comprehensive AMP. While all three regulated airports have Master Plans, these are strategic documents focusing on long term planning, and do not contain the processes, asset data, information, asset management practices, service levels and measures of capacity and utilisation found within properly prepared AMPs. BARNZ considers that AMP preparation and disclosure would deliver substantial benefits to both the airports in terms of improved governance, decision making and risk management, and to airlines, passengers and other interested persons in terms of enhanced service management and improved accountability.

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

Improvements in the 'theoretical maximum capacity per relevant unit of key asset' is one possible indicator of innovation and improved efficiency (i.e. maximum possible throughput per km of electrical line or gas pipeline or per 100 m sq of terminal space).

However, BARNZ notes that innovation can occur within many aspects of the regulated services. As such, no one indicator is likely to reflect all possible innovations. For example, a recent collaborative innovation between BARNZ and AIAL was the installation of Ground Power Units at the international contact stands (i.e. the aircraft stands adjacent to the international terminal). These Ground Power Units enable airlines to use electricity to power the aircraft and provide pre-conditioned air while at the gate, rather than running fuel driven Auxiliary Power Units. The use of electricity rather than fuel results in considerable fuel savings for airlines and environmental benefits for the surrounding environment in terms of reduced fuel usage, reduced emissions and reduced noise. AIAL, BARNZ and Genesis were awarded the CILT NZ Award for Public Transport Innovation 2007. However this innovation would be unlikely to be captured within any indicator measuring improved throughput.

In addition, many innovations will be collaborative efforts between suppliers and users, or may even be innovations entirely driven by users of the regulated services. The installation of Ground Power Units discussed above was a collaborative effort between airlines and AIAL. Another recent high profile innovation at airports was Air NZ's domestic kiosk check-in project, following which the volume of passengers able to be processed through the domestic terminal check-in areas at the specified airports significantly increased with average dwell time of passengers in the check in area dramatically reducing. This project was entirely implemented and funded by Air NZ, which was in fact charged an additional premium rental by some airports for the right to install these kiosks. Similar initiatives by other airlines to use kiosks or the internet to check-in passengers have also improved the efficiency of check-in areas, and increasing use of the internet by travellers will result in continued efficiency improvements in this area. Likewise, facilitation improvements by Government border agencies such as the recently announced Trans Tasman 'Smartgate' project will increase the volume of passengers able to be processed through customs, MAF and Avsec areas. All of these improvements are either wholly or partly attributable to users or other service providers and are not necessarily the result of innovation by the regulated supplier.

The difficulties of measuring innovation, the variety of areas in which it can occur, and the fact that innovative measures will often be a collaborative effort between regulated providers and users of regulated services, mean that there is unlikely to be any one indicator which can be used to accurately measure innovation.

BARNZ therefore considers the most appropriate means of disclosing innovation in the airport context is through a combination of:

- Measurement of the theoretical maximum capacity per relevant unit of key asset.
- Disclosure within the AMP by the regulated supplier of innovations which were introduced during the previous year and an outline of planned future innovations (including reference to any collaboration with users or stakeholders).

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

Objective quantitative measures of quality are considered far more relevant and reliable by BARNZ than qualitative perceptions. The clearest instance of an objective quantitative measure of quality is in the form of reliability and interruption statistics. While qualitative surveys can indicate broad trends or views, BARNZ does not consider these provide as accurate a reflection as quantifiable objective measures of quality.

For instance, with respect to quality of toilet amenities within airport terminals, a quantifiable measure would be toilets per 1000 passengers, or whether swabs from a sample of toilets were within acceptable bacteria counts. On the other hand, a qualitative measure would be passenger perceptions as to whether toilets were clean and comfortable on a scale of one to five. Likewise, with respect to the comfort of gate lounges, a quantifiable measure would be the number of passengers per 100 sq m of lounge space or the number of available seats as a ratio to the maximum capacity of the lounges. A qualitative measure would be passenger perceptions as to whether lounges were clean, comfortable and spacious on a scale of one to five.

BARNZ acknowledges that surveys can provide a broad indication of the perception of quality by consumers. Therefore, while BARNZ considers objective quantitative measures of quality are more relevant and accurate, BARNZ accepts that a mixture of objective quantitative measures of quality and qualitative surveys of the perception of quality by consumers is likely to provide the most complete means of measuring quality.

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

BARNZ considers the Commission's proposed return on investment performance indicator is appropriate. BARNZ' detailed views are discussed in its responses to questions 17 through 26 posed by the Commission in Chapter 4 of its Information Disclosure Discussion Paper.

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

BARNZ 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, and that sufficient information should be made available within the information disclosure statements so that interested persons can assess other measures of efficiency as required.<sup>9</sup>

<sup>9</sup> Information Disclosure Discussion Paper, refer para 142.

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

BARNZ considers that the most appropriate cost based indicator to use to measure the efficiency of suppliers as against other suppliers, and over time relative to the firm's own costs, is a measurement of costs per unit of output that is most relevant to the regulated service. For example, in the case of specified passenger terminal activities, costs per passenger are most relevant. In the case of airfield activities, costs per aircraft movement or per 1000 landed tonnes, are the most relevant measures of costs.

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

BARNZ is not sure that a ratio of operating expenditure over the asset base is a key performance indicator which will assist interested persons in assessing whether the s52A purpose is being met. BARNZ does not see that this ratio will be an accurate indication of whether efficiency has improved or whether the benefits of efficiency gains have been passed on to consumers.

For its part, BARNZ sees costs per unit of output as significantly more important in indicating whether or not efficiency has improved and whether the benefits of efficiency gains are being passed on to consumers.

BARNZ is pleased to see the Commission's preliminary view that that other operational expenditure ratios such as operational expenditure per customer, units supplied, maximum demand, capacity and other statistics should be made available to interested persons, albeit not as key performance indicators.<sup>10</sup>

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

BARNZ agrees that assessment of capacity utilisation over time can be an indicator of efficiency over the longer term.<sup>11</sup> BARNZ agrees that the information required to determine capacity utilisation should be readily available to regulated suppliers that are acting efficiently, as it is required to ensure capital expenditure is undertaken at the appropriate time.<sup>12</sup>

BARNZ' specific comments on capacity utilisation ratios in relation to regulated airport services are discussed in its responses to question 141 posed by the Commission in Chapter 14 of the Information Disclosure Discussion Paper which addresses specified airport services.

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<sup>10</sup> Information Disclosure Discussion Paper, refer para 151.

<sup>11</sup> Information Disclosure Discussion Paper, refer para 153.

<sup>12</sup> Information Disclosure Discussion Paper, refer para 157.

## CHAPTER 4: RETURN ON INVESTMENT (ROI)

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

BARNZ agrees that profitability should be measured using an ROI measure as this provides interested parties with a relatively straightforward and transparent way of assessing whether profits are broadly in line with a normal economic return over time and whether financial capital is being maintained.

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

BARNZ agrees that revaluations and depreciation in the Regulatory Profit should be the same value as that which is used to roll forward the RAB value.

BARNZ agrees that it is important the return on investment indicator accurately reflects all returns on capital earned by the supplier of regulated services, including those caused by changes in asset values, and that using a measure of profitability that does not include asset revaluations would present a misleading picture of performance.<sup>13</sup>

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

BARNZ agrees that the value of capital contributions and vested assets (net of any consideration) should be recognised as income in the Return on Investment. If the value of vested assets and capital contributions are not recognised as income, but are included in the RAB on which a return is earned, then the returns earned by the regulated supplier would likely exceed the financial capital maintenance rule. This issue was raised by BARNZ with respect to vested assets in its response to questions 61 and 147 in its submission on the Input Methodologies Discussion Paper.

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

BARNZ accepts that genuinely lost and found assets should not be treated as income and expense. However, a strict assessment needs to be undertaken to ascertain that such assets are genuinely 'lost and found' and are not already reflected within the value of another asset. For instance, the value of underground infrastructure assets may already be reflected in the value of the land.

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<sup>13</sup> Information Disclosure Discussion Paper, refer para 169 - 172.

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

BARNZ expressed its preference in question 109 of the Input Methodologies Discussion Paper for the Commission to use a post-tax WACC. If the Commission decides to use a vanilla WACC, then BARNZ agrees that a post-tax WACC should also be disclosed.

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

BARNZ agrees with the Commission's preliminary view that, for the purpose of the return calculation, half the value of the net new capital investment should be reflected in the regulatory investment value. BARNZ considers the Commission's assumption that capital works are commissioned or decommissioned evenly over the year to be a reasonable and pragmatic assumption.<sup>14</sup> BARNZ understands that this is usually the basis on which capital expenditure is treated by the regulated airports within their financial models.

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 be preferable. 42

BARNZ does not have a view on this question as merger and acquisition activity it is not an issue which has arisen to date with respect to the specified airports.

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

BARNZ does not have a view on this question as specified airports have not traded assets between themselves to date.

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

BARNZ agrees that an adjustment to the regulatory investment value for working capital is not necessary.

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<sup>14</sup> Information Disclosure Discussion Paper, refer para 193.

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.  
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The Commission has identified two options by which the capital costs associated with the use of regulated assets to provide regulated and unregulated services can be attributed:<sup>15</sup>

- Regard the whole asset as a regulated asset cost, but recognise the benefit the asset confers on the unregulated services by allocating to the asset a share of the unregulated revenue (an imputed rental value) in the regulatory profit calculation.
- Adjust the final RAB value, and associated depreciation and revaluations, by removing the value of the portion of assets that are used to provide unregulated services.

The approach adopted by the three specified airports to date has been the second approach, namely adjusting the RAB value by removing the value of assets used to provide unregulated services – although there have been some significant differences between airlines and airports with respect to asset allocation (i.e. the identification of assets to be removed and the proportion which should be removed). The most significant, material and frequently occurring differences relate to the allocation of common space within terminals and roads.

In the case of airports, the non-regulated business units are able to earn extremely large benefits from the use of the common assets, out of all proportion to the replacement cost value of the asset.

A particularly striking instance is the use of common roads by regulated airports to provide access to commercial car-parking facilities. For the 2008 financial year, AIAL earned \$29m from providing car park facilities, which comprised 8.3% of the airport's revenue.<sup>16</sup> CIAL earned \$9m from its car parking activities, which comprised 10.6% of its revenue.<sup>17</sup>

Similarly, airports earn extraordinarily high rental returns from retail space within the terminal buildings, with these retail shops benefiting from the circulation space and access and egress routes within the terminal which passengers use to access the retail and beverage offerings. AIAL, for example, earned \$103.4m from retail concessions or 29.4% of its revenue in FY2007/08.<sup>18</sup> CIAL and WIAL do not separately disclose revenue from retail activities.

While activities such as car-parks and provision of retail space available for lease are not currently regulated airport services within Part 4 of the Commerce Act, BARNZ considers that the revenue earned from such activities is still a relevant factor able to be taken into account when determining what a reasonable, fair and equitable cost allocation would be.

Where material benefits are obtained from the use of the common assets, then this factor should be taken into account in determining the ratio in which common costs are shared. BARNZ therefore supports the first option identified above, namely regarding the whole asset as a regulated asset cost, but recognising the benefit the asset confers on the unregulated services by allocating to the asset a share of the unregulated revenue (an imputed rental value) in the regulatory profit calculation.

<sup>15</sup> Information Disclosure Discussion Paper, refer para 201 – 203.

<sup>16</sup> AIAL Annual Report for the year ended 30 June 2008 at page 40.

<sup>17</sup> CIAL Annual Report for the year ended 30 June 2008 at page 70.

<sup>18</sup> AIAL Annual Report for the year ended 30 June 2008 at page 40.

BARNZ acknowledges that this differs from the way in which airports have identified and allocated common costs to date and that this position will be unlikely to be supported by airports. However, there must be recognition of the substantial benefits conferred upon the non-regulated activities of airports as a result of the complementary car-parking, retail, land transport and commercial freight space markets created as a result of the airlines operating scheduled services to and from the relevant airports.

## CHAPTER 5: FINANCIAL INFORMATION

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

BARNZ agrees that while GAAP should be used as the starting point for financial information disclosures, GAAP will need to be departed from where necessary to meet the purposes of information disclosure under the Commerce Act, which are substantially 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

BARNZ agrees that where a regulated asset is sold to an unregulated entity or business unit, then the regulatory profit should be adjusted for gains or losses on sale.

However, BARNZ observes that a necessary further question which the Commission needs to provide direction on is ‘how the value of the asset which is sold or transferred should be assessed if there is not an arms length commercial transaction?’ Regulated suppliers may have an incentive to transfer assets which were previously part of the RAB to an unregulated business unit for a value less than market value or even for less than the RAB value, and then be compensated for the ‘loss on sale’ in the regulated business unit.

The question of how to value assets being transferred from a regulated business unit to an unregulated business unit arose during consultation with WIAL in 2007 when WIAL transferred an area of common use circulation space within the central hub of its terminal building from the aeronautical asset base to the commercial asset base. Some airlines were concerned that the market value of the assets when used for commercial activities would be significantly in excess of the ODRC value of the asset which WIAL deducted from the RAB.

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

BARNZ agrees that pass-through revenue and the associated distribution should be transparently disclosed in the regulatory profit statement.

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

BARNZ agrees that pass-through costs should be separately and transparently disclosed in the regulatory profit statement.

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

BARNZ does not have a view on this question as self-insurance is not an issue which has arisen to date with respect to the specified airports.

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

BARNZ does not have a view on this question as merger and acquisition activity it is not an issue which has arisen to date with respect to the specified airports.

However, BARNZ has experienced significant costs relating to take-over activities on the Stock Exchange occurring in the case of AIAL, with \$6.5m of these costs being included in AIAL's Information Disclosure Accounts.<sup>19</sup> BARNZ does not consider that costs such as these should be included within regulatory financial accounts. They do not form part of the operating costs of the regulated business. They are a shareholder cost relating to the company's choice to be listed on the Stock Exchange. Their inclusion only serves to obscure the ability of interested persons to assess whether the objectives of Part 4 are being met.

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

BARNZ does not agree with the Commission's preliminary view that regulated business units should not be required to disclose financing information due to the difficulty in meaningfully allocating the portion that relates to the regulated business.

BARNZ considers that the actual cost of financing is an important piece of information for interested parties to assess whether the purpose of Part 4 is being met – particularly whether suppliers have incentives to innovate and invest as per s52A(1)(a) and whether suppliers are limited in their ability to extract excessive profits as per s52A(1)(d).

It is important for interested parties to be able to compare the actual cost of debt as against the cost of debt included within the calculation of the cost of capital. This is relevant to ensuring that a sufficient allowance for the cost of debt is being included within the cost of capital calculations so as to enable regulated suppliers to borrow funds in order to undertake investment. It is also relevant to ensuring suppliers are not over-compensated for the cost of borrowing funds, and thereby able to earn excess profits. If the cost of debt within the WACC calculation significantly exceeds the price at which a firm is able to access capital, then this may well result in the firm earning excess returns, and also being over-incentivised to invest. This would be contrary to the objectives of s 52A,

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<sup>19</sup> AIAL Disclosure Financial Statements for the year ended 30 June 2008, page 2.

particularly sharing efficiency gains with consumers and limiting the ability of suppliers to earn excess returns.

BARNZ has directly experienced the issue of a supplier being able to source debt at levels significantly below that included in the WACC equation in a consistent and sustained manner over time within the airport context, (as opposed to this occurring in one or two years) and the supplier retaining the benefits of these efficiencies. Since disclosure commenced in 2000, AIAL’s actual disclosed cost of debt for identified airport activities has been below the cost of debt contained in its disclosed WACC in every year except one. On average, over the nine years of information disclosure, AIAL’s actual cost of debt for its identified airport activities has been 1.4% below that contained in its WACC. By contrast, the variation experienced at WIAL and CIAL is much less, and has tended to be symmetrical (that is, in some years the actual cost of debt was less than the cost of debt which was included in the WACC calculations, and in other years it was higher).

*Comparison of AIAL’s Actual Cost of Debt for Identified Airport Activities and the Cost of Debt Included in its WACC*

	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>20</sup>
Actual Interest Cost	6.23%	6.22%	5.24%	5.65%	5.79%	5.69%	7.30%	6.45%	6.29%
WACC Cost of Debt	7.97%	7.97%	7.12%	7.12%	7.12%	7.12%	7.32%	7.32%	8.60%
Variation	1.74%	1.75%	1.88%	1.47%	1.33%	1.43%	0.02%	0.87%	2.31%

Source: Disclosure Financial Statements of AIAL 2000 – 2008 pursuant to the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999

As noted above, BARNZ considers the actual cost of debt is an important piece of information for interested parties to be able to assess whether the purpose of Part 4 is being achieved. BARNZ considers that where debt is incurred for a purpose specific to the regulated activity, then that debt should be allocated to the regulated activity. Where borrowings are undertaken on a company wide basis, then more pragmatic allocation rules will be needed, such as proportion of asset base, proportion of revenue or proportion of capital expenditure. However, it is essential that the cost of debt which is allocated is the actual cost of debt incurred by the firm – not the *ex ante* assumption contained in the cost of capital calculations regarding debt costs.

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

BARNZ notes that this issue was discussed by the Commission at paragraphs 8.34 to 8.38 of the Commission’s Input Methodologies Discussion Paper where the concept of retention of a reasonable investment grade credit rating (likely to be around A-/A3 or BBB+/ Baa1) was raised by the Commission. BARNZ considers the approach raised by the Commission of ensuring the retention of a reasonable investment grade credit rating seems a reasonable safeguard to apply in practice in order to ensure regulated firms are able to operate within a robust financial structure.

<sup>20</sup> In BARNZ Submission on the Input Methodologies discussion paper, deferred taxation had been included as a liability in 2008 when calculating the actual interest cost, which understated the interest for 2008 at 5.45%. This has now been corrected with deferred tax excluded from the liabilities used to determine the actual interest cost.

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

BARNZ does not agree with the Commission’s preliminary view that regulated suppliers should use the leverage assumption and the cost of financing assumptions outlined in the cost of capital input methodology in preparing the deductible interest and interest tax shield calculation. As discussed above in response to question 33, BARNZ considers the actual cost of debt incurred by the firm should be used.

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

BARNZ agrees that disclosure of related party transactions should at least be consistent with GAAP.

BARNZ also agrees that disclosure of related party transactions should include transactions between business units. As the table below demonstrates, asset transfers between business units within the airport context have been quite substantial. If not fully disclosed, interested persons can have considerable difficulty in fully understanding the changes in asset values and allocations over time.

***Transfers Between Non-aeronautical Assets and Identified Airport Activity Assets***

	FY2007	FY2008	FY2009
AIAL	\$38.1m	(\$9.8m)	Not yet released
WIAL	(\$30.9m)	\$2.1m	(\$8.2m)
CIAL	(\$0.4m)	(\$0.2m)	Not yet released

Source: Disclosure Financial Statements of AIAL (note 8), WIAL (note 12) and CIAL (note 14) for FY 2007, 2008 and 2009 pursuant to the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999

Note: A positive transfer represents an overall transfer of assets from non-aeronautical activities to identified airport activities (i.e. an increase to the regulated asset base), whereas a negative transfer represents a decrease to the regulated asset base.

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

BARNZ agrees that transactions with related parties, including transfer pricing information, should be disclosed. BARNZ agrees with the Commission’s comment at paragraph 255 that GAAP reporting will not necessarily assist with identifying whether monopoly rents are being shifted to unregulated business units.

BARNZ does not however agree that it will be sufficient to disclose these transactions as part of the consolidation and reconciliation provisions. BARNZ considers that transactions with related

parties, including transfer pricing, should, as a general rule, be transparently disclosed. If there are particular concerns with respect to commercial sensitivity of information relating to unregulated activities, then BARNZ considers the regulated supplier should apply to the Commission requesting (and substantiating the need for) confidentiality. In BARNZ' view, the Commission has the ability under s53C(3) to develop a process whereby regulated suppliers can apply for limited disclosure to the Commission to be substituted in place of normal public disclosure in the case of transfer pricing information which is shown to be commercially sensitive.

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

BARNZ agrees that reconciliation between consolidated statutory reporting and regulatory reporting is necessary and appropriate for the purpose of monitoring compliance, and therefore should be required to be disclosed.

In BARNZ' experience, without such information being made available so as to provide a full and complete picture of all activities of the supplier, it is not possible for interested persons to determine whether costs are being appropriately allocated, and to be satisfied that costs are not being allocated to more than one activity, and thus being recovered twice over. This has been a long standing concern of BARNZ' with respect to cost allocation in the context of activities occurring in and around airport passenger terminal buildings. The cost of providing and servicing common circulation space and access and egress routes within the terminals is allocated between aeronautical activities and commercial and retail activities undertaken by the airport.<sup>21</sup> Without knowing the amount allocated to commercial and retail activities for such costs, airlines are not able to ascertain that airports are only recovering such costs once, or whether airports are recovering more than the cost of providing and servicing this space as a result of the charges to airlines and passengers and in the recovery of outgoings under leases with commercial tenants.<sup>22</sup>

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

BARNZ agrees that as a general rule, consolidation and reconciliation disclosures should be publicly available.

If there are genuine confidentiality concerns, then BARNZ accepts that it may be appropriate for the Commission to restrict access to the information, however, BARNZ considers that this should be determined on a case by case basis, with the presumption being one of public disclosure and the onus being placed on the regulated supplier to establish the need for confidentiality.

In such circumstances, BARNZ also considers that the Commission should be prepared to consider making the information available to interested persons who can demonstrate a need for the

<sup>21</sup> The question of the appropriate means by which this space should be allocated is a separate issue on which airlines and airports have differing views. Refer to the responses by BARNZ to questions 28 and 134 - 137 of Commerce Commission, Input Methodologies Discussion Paper discussion and questions 12 and 16 of Commerce Commission, Input Methodologies Provisions Paper.

<sup>22</sup> See response by BARNZ to question 29 of Commerce Commission, Input Methodologies Discussion Paper.

information (i.e. that it is needed in order for them to assess whether the purpose of Part 4 is being met) and who are prepared to enter into confidentiality restrictions with respect to the confidential information.

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

BARNZ 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.

## CHAPTER 6: REGULATORY ASSET BASE (RAB) DISCLOSURES

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

BARNZ considers that if the initial RAB value is established by updating a base valuation<sup>23</sup>, then supporting disclosure of the methodology and assumptions is essential for transparency.

The value of the RAB is one of the most important inputs when assessing the return earned by the regulated supplier, and whether a normal return has been earned or whether the supplier has extracted excessive profits (or not recovered a sufficient return). It is therefore crucial that interested persons understand how the RAB is made up.

The disclosure of their asset base valuations by airports following the Airport Price Inquiry provides an apt demonstration of the importance of the RAB in assessing returns.

During the Airport Price Inquiry the Commerce Commission reviewed the airfield assets of the three specified airports and reached conclusions with respect to valuation methodologies and asset inclusions for determining the asset base appropriate for pricing airfield activities. The final report of the Commission was published on 1 August 2002.

Notwithstanding this decision, all three specified airports revalued their assets at the end of the 2002 financial year and used these revaluations as the basis for their annual disclosures under the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 (Airport Information Disclosure Regulations). In most cases, the values adopted were significantly greater than those considered appropriate by the Commission, and in the case of AIAL and WIAL, valuation methodologies were used which had been expressly rejected by the Commission as inappropriate.<sup>24</sup> In addition, all three airports included assets which the Commission had specifically determined were not used and useful and had therefore excluded from its assessment of what was an appropriate asset base.

As shown in the table below, the difference between the Commission's assessment of an appropriate asset base for the pricing of airfield activities and the valuations disclosed by the airports in their Disclosure Financial statements for the 2002 financial year was significant:

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<sup>23</sup> Note that BARNZ' view on the methodology for establishing the initial asset base is that an earlier base valuation should be adopted. See response by BARNZ to question 139 of Commerce Commission, Input Methodologies Discussion Paper.

<sup>24</sup> AIAL and WIAL used market value existing use (MVEU) to value airfield land, rather than opportunity cost. AIAL adopted an MVEU value of \$435 000 per ha for airfield land, rather than the \$200 000 opportunity cost value adopted by the Commission. WIAL adopted an MVEU value of \$788 000 per ha for airfield land, rather than the \$450 000 opportunity cost adopted by the Commission. For further details, see response by BARNZ to question 139 of Commerce Commission, Input Methodologies Discussion Paper.

*A Comparison of the Commission's Assessment of an Appropriate Valuation and the Revaluations Disclosed by the Specified Airports Under Information Disclosure Requirements*

	2002 Airport Price Inquiry Value (Majority view historic cost scenario 6)	2002 Airport Price Inquiry Value (Minority view ODRC revaluations scenario 4)	2002 airport valuations as per Financial Disclosure Statements	Difference
AIAL	\$218m <sup>25</sup>	\$238m <sup>26</sup>	\$335m	\$97m – \$117m
WIAL	\$71m <sup>27</sup>	\$78m <sup>28</sup>	\$106m	\$28m – \$35m
CIAL	\$41m <sup>29</sup>	\$59m <sup>30</sup>	\$53m	(\$6m) – \$12m

In the case of AIAL, the inclusion of assets which were not used and useful, and the overstatement of the value of some of its assets, allowed the airport to portray that it had earned substantially less than its WACC – in fact, a return of less than 4% according to the figures disclosed by AIAL in its 2002 Information Disclosure Statement. By contrast, the Commission had estimated likely excess returns for AIAL of between \$4.6m and \$8.3m in 2002.<sup>31</sup>

WIAL too used the overstatement of the value of its asset base to portray that its returns were significantly less than the Commission had assessed them to be.

Clearly, asset values enable monopoly profits to be disguised (through over-valuing assets or including assets not necessary or not yet in use), or even presented as an under-recovery. Clear requirements in respect of appropriate valuation methodologies, including which assets are able to be included, and transparency as to how the asset base is made up, are essential for interested persons to be in a position to meaningfully assess whether the purpose of Part 4 is being met, and in particular, whether regulated suppliers have been limited in their ability to extract excessive profits.

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

BARNZ agrees that disclosures of the roll forward of the RAB should be sufficiently transparent so as to show the roll-forward calculation. BARNZ considers that this information is also essential for interested persons to be able to make any meaningful assessment of whether the purpose of Part 4 is being met.

BARNZ has experienced considerable difficulties over the past 10 years in following the composition of the identified airport activity asset bases from year to year, and asset revaluation to asset revaluation, in the Information Disclosure Statements of the three specified airports. The level of capital expenditure incurred each year, and the assets transferred between business units, have

<sup>25</sup> Airport Price Inquiry, Final Report, August 2002, refer page 397.

<sup>26</sup> Ibid.

<sup>27</sup> Airport Price Inquiry, Final Report, August 2002, refer page 427, amended by adding back the seawall value of \$16.5m which the Commission acknowledged it had deducted twice by mistake in its letter to the Minister of Commerce dated 31 October 2002.

<sup>28</sup> Airport Price Inquiry, Final Report, August 2002, refer page 427.

<sup>29</sup> Airport Price Inquiry, Final Report, August 2002, refer page 454.

<sup>30</sup> Ibid.

<sup>31</sup> Airport Price Inquiry, Final Report, August 2002, refer para 8.201, Table 24, as amended by the Commission in a letter to the Minister of Commerce dated 31 October 2002.

been particularly opaque and not fully disclosed. The sums involved are quite material, with asset transfers of more than \$30m occurring in some years.<sup>32</sup>

Without sufficient information reconciling the asset base from year to year, BARNZ has not been able to obtain a comprehensive understanding of the changes to the airport's identified airport activity asset bases. BARNZ therefore sees annual transparent disclosures of the calculation of the roll-forward of the RAB as essential.

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

BARNZ agrees that the distinction between system fixed assets and non-system fixed assets under an indexed or un-indexed historic cost roll-forward approach is not required for the on-going purpose of information disclosure and that specifying asset classes within the total RAB, rather than seeking to distinguish between system and non-system fixed assets is more appropriate for 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 shared assets are recognised by adjusting the RAB value, depreciation and revaluations to reflect the proportion of the regulatory assets that are being used for non-regulatory purposes (as opposed to the alternative option identified by the Commission, which BARNZ supports, of recognising the benefit shared assets confer on the unregulated service in the form of an imputed rental value<sup>33</sup>), then BARNZ considers the Commission's preliminary view that this be done by way of an adjustment to the final RAB value, depreciation and revaluations is an acceptable means of making this adjustment.

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

BARNZ does not have any comment on this issue, as it is not one which has arisen significantly in the airport context.

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

<sup>32</sup> Refer to figures provided by BARNZ in response to question 36 above.

<sup>33</sup> Commerce Commission, Information Disclosure Discussion Paper, para 199 – 203 and 228.

BARNZ agrees 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. As was outlined in response to question 36, the magnitude of asset transfers between business units can, in some cases, be quite substantial. Sufficient information needs to be disclosed so that interested persons can understand what assets were transferred, what value was assigned to the asset, how the value was determined and (in the case of significant asset transfers) why the asset transfer occurred.

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

BARNZ agrees with the general principle articulated by the Commission that compensation for finance costs incurred during construction should be provided for at the time of commissioning. This recognises that in a competitive market, assets under construction do not normally earn a return until they are in use. It also avoids the risk of users paying for this cost twice, which is a possibility if a return is paid while the assets were under construction, but the assets are subsequently revalued with an allowance for finance while under construction being included within the revaluation.

The Commission has identified two means of compensating firms for financing costs during construction:

- Capitalising the actual cost of finance during construction in line with GAAP and hence the financial reporting of its assets by the regulated firm
- Applying a multiplier to the asset base which reflects the average cost of financing capital projects.

The issue of how to appropriately value financing costs during construction is one that has arisen during the most recent consultations on charges with the three airports. Broadly speaking, the airports have applied a finance multiplier to the construction cost of assets on the basis that this represents the opportunity cost of the capital invested during the construction period. This cost of financing multiplier has been applied both within the ODRC revaluations of existing specialised assets as well as to new investment as it is added to the pricing asset base.

BARNZ' understanding is that in both cases the likely timing of the work and the relevant cash-flows were taken into account by the airport and their valuers in determining the multiplier. BARNZ also understands that the multiplier was applied to the full construction cost, with no adjustment made to reflect the debt ratio.

The Commission's preliminary view is to favour capitalising finance costs in line with GAAP on the grounds financial and regulatory reporting of assets should be aligned where feasible. BARNZ notes that under the GAAP approach, firms which do not explicitly borrow to finance assets will have lower asset values. Adopting the GAAP approach would create an incentive for regulated suppliers to attribute as much debt to the project as possible (including allocating the most expensive debt to the project), which would tend to inflate asset values. BARNZ considers that as a matter of principle the differential treatment of financing costs depending upon whether debt or equity was used cannot be justified on any principled economic grounds when determining the RAB.

BARNZ therefore supports the use of the multiplier approach for determining the level of financing costs during construction. While this will result in the regulatory asset base and the financial reporting asset base differing, it will avoid incentivising suppliers to manipulate the debt leverage of new investment so as to increase the asset's value. BARNZ notes that the calculation of the multiplier must be transparent and objectively able to be justified, and should be determined taking into account financing costs and the likely timing of cash-flows of new investment. In addition, care must be taken to ensure the asset value to which the multiplier is applied does not include finance costs already, or else users will end up paying such costs twice. Similarly, care must be taken to ensure that if an asset has been included in the asset base on which charges were set during its holding or construction period, then the multiplier should not be applied to this asset, or else users will likewise end up paying such costs twice.

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

BARNZ agrees that RAB information should be disclosed by way of the reports identified above by the Commission, namely:

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

BARNZ offers two observations with respect to the Commission's high level discussion in section 6.4 on the likely content and material disclosed in these reports:

- BARNZ considers that asset transactions between business units of regulated suppliers should also be transparently disclosed, whether in the Regulatory Valuation Roll-Forward Report or by including these in the Asset Transactions with Other Regulated Suppliers Report.
- BARNZ considers that the 'adjustment due to capital expenditure reviews' component identified by the Commission within the Regulatory Valuation Roll-Forward Report should be applicable in the case of all regulated suppliers. While the Commission considers that it will only be making this adjustment itself in the case of firms subject to price-quality regulation (and not for firms only subject to information disclosure regulation), BARNZ considers that all regulated suppliers should be undertaking this assessment when determining how to roll forward their asset base so as to ensure that only necessary, timely and efficient capital expenditure is added to the RAB. Without this exercise being undertaken, regulated firms may well include capital expenditure which is not used and useful (i.e. is not necessary for the provision of the regulated service) in their RAB, which would be contrary to the purpose of Part 4 as it would not be in the long term benefit of consumers or consistent with the outcomes produced in competitive markets.

An example within the airport context where BARNZ considers such an exercise needs to be undertaken is the construction of a second runway (termed the Northern Runway) by AIAL. AIAL has recently been undertaking construction work on the Northern Runway, although it has just

announced that such work is being paused for the next twelve months.<sup>34</sup> BARNZ considers that there is not any substantial aeronautical demand for this project in the current or medium term. Construction commenced well before AIAL's publicly stated trigger points of the busy hour runway demand exceeding the capacity of a single runway (as per AIAL's Masterplan<sup>35</sup>) or delays of 15 minutes on the main runway (as per statements by AIAL to the Commerce Commission during the Airport Price Inquiry).<sup>36</sup> BARNZ has previously advised AIAL that it does not consider the Northern Runway can be considered used and useful until it is long enough to be able to be used by larger turbo-prop scheduled operations and is linked to the main runway network (although the actual level of use at that time might still mean that a gradual inclusion is necessary).

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<sup>34</sup> Auckland Airport, Preliminary Full Year Report Announcement 12 Months Ended 30 June 2009, page 8.

<sup>35</sup> Auckland Airport: the next 20 years and beyond: Masterplan: 2005 – 2025, page 43.

<sup>36</sup> Commerce Commission, Airport Price Inquiry, Final Report, August 2002, para 8.147.

## CHAPTER 7: QUALITY DISCLOSURE AND STATISTICS

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

BARNZ agrees that requisite quality, quality targets and actual quality are appropriate measurements of quality for the purposes of information disclosure. BARNZ does however note that some capacity and utilisation measures are not necessarily suitable to be articulated as quality targets. Rather these are simply measures of trends in asset use and changes in utilisation and efficiency to be monitored over time.

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

BARNZ agrees that that requisite quality should be disclosed by suppliers of regulated services through the AMP, however BARNZ has reservations over the appropriateness of regulated suppliers establishing the requisite level of quality.

It has to be questioned whether regulated suppliers are sufficiently impartial so as to be able to objectively establish consumers' requisite level of quality. There is a very real risk that suppliers will 'water down' the level of requisite quality or superimpose the supplier's own view of appropriate quality and present this as the consumers' views. If suppliers are collecting and determining requisite quality, then the outcome disclosed may not reflect the quality demanded by consumers, and might instead be the supplier's own interpretation of quality in the form of manageable quality targets or their own view of appropriate quality.

BARNZ considers consumers are in the best position to determine requisite quality. Where large consumers exist (such as airlines or large users of electricity or gas pipelines) then these parties should be able to directly specify their requisite quality, with this being incorporated directly into the AMP. Where a more fragmented consumer base exists (such as consumers of electricity or gas or passengers using airport terminals) then BARNZ considers that a process involving an independent third party overseeing the collection and interpretation of requisite quality information is required. This is not to say the regulated supplier may not participate in the process or provide the resources by which it occurs, but in BARNZ' view, it is necessary for there to be independent oversight of the collection process and of the interpretation of the information collected.

If suppliers are responsible for establishing and disclosing requisite quality then, in BARNZ' view, there is a serious risk that the result will represent what the supplier considers appropriate quality targets, rather than the views held by consumers.

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

BARNZ agrees 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. As noted above, BARNZ considers that an independent and objective third party oversight role should be incorporated within the process of collecting and determining requisite quality.

As part of the Commission's assessment, BARNZ considers the Commission should invite (or be open to receiving) comment from interested persons on the supplier's level of engagement with consumers and the process undertaken to assess requisite quality and whether consumers and/or interested persons consider that the requisite quality disclosed by the supplier is an accurate reflection of their views.

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

BARNZ agrees that suppliers should be required to engage with their consumers, and disclose how they engage or plan to engage with consumers, on the above matters.

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

BARNZ agrees that quality information should be audited.

However BARNZ does not consider that having such audits undertaken by the regulated supplier's financial auditors adds any material value or input, and would simply add cost to the regulated business for no material benefit. In the case of non-financial information such as quality, performance indicators or statistics, BARNZ suggests that it would provide a more meaningful check, and potentially constructive oversight, if the audits were required to be undertaken by an experienced and independent third party with appropriate industry experience and quality assurance qualifications.

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

BARNZ agrees that the aspects of quality most relevant to suppliers of regulated services should include reliability, supply quality-other and customer service.

BARNZ agrees that where safety issues are already monitored to a high degree by other industry-specific regulatory organisations, then the cost of including safety information within the information disclosure regime would outweigh any additional benefit. However, BARNZ considers

the regulated supplier should be required to disclose which other industry-specific regulatory organisations monitor safety and where interested persons can access such information.

BARNZ agrees with the Commission that when an aspect of quality is quantifiable then it should be measured using a quantifiable measurement of outputs.<sup>37</sup> While collections of consumer perceptions may supplement quantifiable measures, by themselves, they do not provide as objective a measure as quantifiable outputs.

BARNZ does not agree with the preliminary view expressed by the Commission at paragraph 388 that '*Consumers of airport services ... may also not view supply interruptions as highly as other measures of quality.*'

Interruptions to airfield activities and to facilities and services within terminal buildings are of key concern to consumers of regulated airport services. Airlines view any interruption to service as of concern, particularly those which result in on time departure delays. Even interruptions which do not cause delays to on time departure can create serious resource issues for airlines which have to endeavour to turn the aircraft around in a timely fashion despite the interruption to services. For example, the airline may have had to use a remote stand rather than a contact gate, or have had to manually deliver these bags by hand to the baggage laterals for loading into containers rather than the bags being able to be processed automatically through the baggage sortation system.

Passengers also view interruptions which result in delays to on time departure seriously, as well as interruptions which result in their baggage not travelling on the same aircraft. By way of recent example, on 3 July 2009 a contractor working on site at Christchurch Airport cut through a communications cable, which provided data to Air NZ's and JetStar's check-in facilities. The result was chaos with delays of up to an hour on some flights. Flow-on delays occurred throughout both JetStar's and Air NZ's networks for the remainder of the day. The delays made the prime television news that night, and were the subject of several media releases by CIAL.

Under the Montreal Convention, which sets out the liability of international airlines for loss, damage or delay to passengers and their baggage, airlines are responsible for 'damage occasioned by delay in the carriage by air of passengers, baggage or cargo' unless the airline can prove it took all measures reasonably required to avoid the damage.<sup>38</sup> Airlines are liable up to 4150 Special Drawing Rights (SDR) per passenger for delay and 1000 SDR for delayed baggage.

The general assumption within the industry is that, on a world-wide average, it costs \$US150 to reunite a missing bag with the passenger that checked it in. In addition, under their terms of carriage, airlines also generally provide passengers with *ex gratia* payments or over-night kits where they are away from home and their bag goes missing. Such payments increase for every day the bag continues to be missing. Passengers put the blame for any missing bags squarely on the relevant airline, and view the timely and intact arrival of their baggage as a key priority. The operation of the baggage handling system and baggage hall at airports are therefore vital inputs to the operational efficiency of airlines and are considered key by airlines when assessing the performance of airports.

Thus when the new baggage handling system (BHS) commissioned at AIAL in late 2005 experienced considerable teething problems there was widespread concern among all airlines. Air

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<sup>37</sup> Commerce Commission, Information Disclosure Discussion Paper, para 383.

<sup>38</sup> CONVENTION FOR THE UNIFICATION OF CERTAIN RULES FOR INTERNATIONAL CARRIAGE BY AIR (Montreal Convention), Articles 19 and 22.

NZ has advised BARNZ that during the first 6 weeks of operation of the new system, it had 900 mishandled bags resulting from issues with the BHS. Auckland Airport and the airlines operating at the airport have subsequently put a considerable amount of resource into addressing the performance of the BHS with an independent review undertaken, a BHS Steering Committee established and significant costs incurred by the Airport (and consequently the airlines) in correcting the performance, design, and OSH issues relating to the BHS.

Airlines also view individual interruptions (i.e. interruptions which only affect one or two flights rather than the entire airport) as sufficiently serious to be raised with the relevant airport. On the 25<sup>th</sup> of July 2009 the door security system at Auckland Airport malfunctioned meaning several airbridges could not be accessed. This caused an on-time departure delay of 55 minutes for Air Pacific. The resulting email responses from Air Pacific are illustrative of the high degree of importance airlines place on interruptions as a measure of the quality of service received from airports. Air Pacific described the incident as *'the worst delay we have encountered for any reason for many years'* stating that *'A delay of 55 minutes is a serious occurrence for us'*.

Airline crews are subject to safety related crew duty flight time limitations. If a delay causes, or creates the potential, for crew to exceed authorised or regulated duty times, then an aircraft will not be able to depart without a replacement crew. For airlines which have other crew based locally, this may mean a delay of one to two hours while an alternate crew is found and the rostered operating crew replaced. For airlines which do not have locally based crew, this can create a serious difficulty. This may involve the repositioning of crews to the applicable airport with consequential delay or even cancellation of the affected flight. This results in substantial commercial loss to the airline. BARNZ has been advised that for flights to North America, there is a window of 60 to 90 minutes in which departure must occur or else a complete crew replacement will be required. With respect to Trans Tasman flights, BARNZ has been advised that if a delay to the afternoon departure of an aircraft returning to New Zealand later that day results in the aircraft arriving back in New Zealand after midnight, crew must be provided with an additional day off (with associated unanticipated costs) before they can fly again.

Overall, it is BARNZ' experience that airlines and passengers view supply interruptions extremely seriously, and just as highly (if not more so) than other measures of quality.

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

BARNZ agrees that statistics information should include asset information, demand and capacity information. BARNZ particularly agrees with the Commission's comments at paragraph 402 as to why statistics disclosures are a necessary component of information disclosure regulation.

BARNZ agrees with the high level summary at section 7.5.2 of the key components of statistics disclosures, namely:

- Asset information relating to age, size, length and location
- Annual and peak demand
- Capacity and utilisation information
- Pricing statistics across consumers, services and areas

## CHAPTER 8: ASSET MANAGEMENT PLANS

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

BARNZ considers that it is appropriate for suppliers of regulated services to have regard to recognised AMP standards and best practices when developing their AMPs. BARNZ also considers there would be merit in suppliers having their AMPs externally reviewed and critiqued, particularly given that AMPs are intended to be evolving documents with firms continually striving to improve the quality of their AMP.

However, BARNZ does not consider it would be appropriate for there to be a regulatory requirement for a particular AMP standard to be applied. Standards developed overseas will not necessarily be appropriate in all respects within the New Zealand regulatory regime. Moreover, AMPs need to be tailored to the particular characteristics and needs of the industry and the infrastructure in question.

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

BARNZ agrees that AMPs should cover at least a ten-year forecast period.

BARNZ agrees that the first five years of the period covered by the AMP will contain considerable more detail than the remaining five years. BARNZ' experience in the airport context is that one could probably divide the ten year period into three parts, with the capital expenditure forecasts for first three years being considerably detailed, the forecasts for the next three years (years four, five and six) being of a medium level of detail and the forecasts for the remaining four years (years seven, eight, nine and ten) being fairly high level.

In addition BARNZ considers that regulated suppliers should have to disclose any major capital expenditure projects which are likely to occur within the longer strategic period (i.e. the following 10 to 20 years or even further if known). It is acknowledged that such disclosure would necessarily be at a very high level and just contain a broad estimate of costs. Nevertheless BARNZ considers it is important that interested persons are aware of any major projects, and the indicative costs, as early as possible.

BARNZ agrees that AMPs should be disclosed at the beginning of the financial year.

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

BARNZ agrees that AMPs should be certified by Directors to the effect that they are compliant with the requirements and describe actual process and practices implemented by the business.

BARNZ also considers there would be merit in having the AMP similarly certified by the relevant senior executive of the regulated supplier who is responsible for overseeing the development and implementation of the AMP and the processes and practices contained within it. BARNZ considers this would similarly promote accountability and oversight within the management structure of the regulated supplier. This certification could either be in addition to the certification by Directors, or in place of certification by one of the Directors.

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

No comment.

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

BARNZ agrees 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. This is important contextual information. BARNZ agrees with the Commission's preliminary view as set out in paragraph 446 of the matters which the AMP should include with respect to the regulated supplier's overall approach to, and objectives of its asset management and planning processes.

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

BARNZ agrees that an AMP should include details of the assets covered by the plan. BARNZ agrees that the matters listed by the Commission at paragraph 447 should all be included within the description of the assets. In addition, BARNZ considers the description of the assets should also include:

- Maps and plans showing the location of the assets
- The justification for including any newly developed, constructed or acquired assets. This is important so as to allow interested persons to assess whether the capital expenditure of the regulated supplier was appropriate or was over-specified or constructed before it was needed.

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

BARNZ agrees that an AMP should include details of the regulated suppliers' plans for asset growth and their methods for reaching asset-related growth decisions.

BARNZ agrees that the matters outlined by the Commission at paragraph 454 should be included within the detailed description of development plans.

BARNZ also notes that it is important for the criteria or trigger for the development of significant infrastructure to be well defined and signalled in advance so that interested persons can modify their consumption patterns (if applicable) and can also assess whether suppliers are constructing assets in a timely fashion or whether assets are being developed before they are required (or not developed even though there is a demonstrated need). Relevant examples within the airport context which demonstrate the need for clear definition of the criteria or trigger for development are:

- The development by CIAL of its domestic terminal expansion – construction has only just commenced in the last few months despite this project being included in CIAL’s financial model on which charges were set since 2001.
- AIAL’s commencement of construction of the Northern Runway – construction commenced circa 2007 despite the trigger of demand exceeding the capacity of a single runway with 15 minutes delay on the main runway in peak periods previously specified by AIAL<sup>39</sup> being nowhere close to being met.

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

BARNZ agrees that the AMP should include details of the regulated supplier’s plans for maintenance and renewal of assets over the planning period. BARNZ notes that if the regulated supplier has other documents which comprehensively set out maintenance and renewal programmes, then it would be sensible for the AMP to simply contain a summary. For instance, airports usually have comprehensive Pavement Management Reports which are updated annually and determine the pavement repairs and renewal programme for runway and sealed surfaces at each airport.

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

BARNZ agrees that an AMP should include details of risk policies, assessment, analysis and mitigation methods, and details of emergency response and contingency plans, provided that public disclosure of these items does not cause a security risk. BARNZ notes that in the airport context some of these items are classified with strict restrictions in place over their circulation and disclosure. For instance, the National Aviation Security Plan has extremely strict restrictions on its circulation and availability. In addition, BARNZ would envisage that the airports’ Emergency Response Plans would also be subject to circulation restrictions as would parts of their Business Continuity Plans.

BARNZ also notes that if material is available in published plans, policies or protocols, regulated suppliers should be permitted to disclose the existence of these other documents and provide a brief summary of their contents and point interested persons to where the full document may be obtained, rather than needing to replicate the material.

<sup>39</sup> Refer statements by AIAL to the Commerce Commission, Airport Price Inquiry, Final Report, August 2002, para 8.147 and Auckland Airport: the next 20 years and beyond: Masterplan: 2005 – 2025, page 43.

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

BARNZ agrees that there is value (as outlined by the Commission at paragraph 462) in requiring regulated suppliers to undertake self-evaluation of the firm's performance against its own financial and service level targets.

BARNZ also agrees with the Commission's view expressed at paragraph 468 that there is value in interested persons being able to compare previous forecasts with reported actual expenditure. BARNZ agrees that enabling comparison of actual expenditure with forecast expenditure will:

- Disclose the extent to which the regulated supplier is accurately anticipating growth (or reduction) in demand for the regulated services
- Enable interested persons to review the incentives followed by suppliers in their investment behaviour.
- Impose a forecasting discipline on regulated suppliers to disclose forecasts that are rigorous and realistic.
- Help maintain consistency year-on-year in the categorisation of expenditure, assisting in maintaining a high standard of information disclosure integrity over time.

BARNZ also considers that enabling comparison between actual and forecast capital expenditure will place a discipline on regulated suppliers to justify any significant variance, and should assist in making suppliers more accountable for undertaking projects, the costs of which have been incorporated within charges.

## CHAPTER 9: PRICING AND OTHER DISCLOSURE PROVISIONS

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

BARNZ agrees that all regulated suppliers should disclose and publish their pricing methodologies. Transparent disclosure of pricing methodologies enables interested persons to assess whether efficient pricing principles are being applied by the regulated supplier.

BARNZ agrees that the matters outlined by the Commission at paragraph 484 are appropriate as a minimum level of disclosure.

BARNZ also observes that, as a matter of practice, it is important to ensure that disclosure by regulated suppliers of methodologies is sufficiently detailed and informative to provide interested persons with a meaningful understanding of how prices were determined. It has been BARNZ' experience with disclosure of pricing and cost allocation methodologies under the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 that the descriptions of methodologies by the specified airports have, for the most part, been so high level and generic as to be meaningless and would not provide any real insight for an interested person as to how prices were set or costs allocated.

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

BARNZ agrees that regulated suppliers should disclose the prices for the supply of regulated services.

BARNZ also notes that regulated suppliers should be required to disclose any variations from published schedules of prices for regulated services, as well as any rebates, credits or discounts (other than service level rebates for breach of any agreed quality standards).

Airports are required to publish their charges for identified airport activities under the Airport Information Disclosure Regulations. They generally do so by replicating their schedule of published charges which appears on their website.

However, it has become apparent that some airports are entering into agreements for discounts or rebates with some airlines, and that these discounts or rebates are not being disclosed within the relevant airport's information disclosure statements. In its submission to the Commission on the Provisions Paper, WIAL referred to the recent entry of Pacific Blue and Jetstar and to agreements on price, volume and quality having been entered into with these new entrants.<sup>40</sup> In addition, WIAL disclosed that following the 2002 consultations over airfield and terminal charges, it entered into a passenger growth agreement with Air NZ which saw WIAL return \$14m to Air NZ in rebates.<sup>41</sup>

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<sup>40</sup> Para 4.3.5.

<sup>41</sup> Para 4.4.1.

The concern to BARNZ is with respect to transparency and compliance by airports with information disclosure requirements. BARNZ notes that the Commission also considers transparency is a key principle for information disclosure.<sup>42</sup>

A key principle within the International Civil Aviation Organisation's (ICAO) Policies on Charges for Airports and Air Navigation Services<sup>43</sup> is the principle that airport charges should be non-discriminatory between airlines for the same services received, and that if any differentiation occurs, then this should be transparent, cost-based, and if for the purpose of attracting new services, temporary only.

Paragraph 31 of ICAO's Policies on Charges for Airports and Air Navigation Services relevantly states:

31. The Council recommends that charging systems at international airports be chosen in accordance with the following principles:
  - iv) The charges must be non-discriminatory both between foreign users and those having the nationality of the State in which the airport is located and engaged in similar international operations, and between two or more foreign users.
  - v) Within their economic oversight responsibilities, States should assess, where necessary, the positive and negative effects associated with specific forms of differential charges applied by airports on a case-by-case basis according to national circumstances. Where differential charges are extended to particular categories of users, States should ensure that they are transparent in terms of their creation, purpose and the criteria on which they are offered; that, without prejudice to modulated charging schemes, costs associated with differential charges are not allocated, either directly or indirectly, to those other users not benefiting from them; and that, if the purpose is to attract and/or retain new air services, they are offered only on a temporary basis.

BARNZ considers that information disclosure requirements should ensure that any variation from published charges is transparently disclosed.

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

BARNZ agrees that regulated suppliers should be required to disclose the terms and conditions of supply.

BARNZ also agrees that the scope of disclosures 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

BARNZ agrees that the disclosure of policies which are relevant to the objectives contained in s52A will assist in achieving those purposes. BARNZ has, in the course of past pricing consultations, had cause to consider sponsorship decisions, insurance costs and profit distribution through subvention payments and loans with interest levels above market rates. The credit policies and delegated

<sup>42</sup> Commerce Commission, Information Disclosure Discussion Document, paras 73 and 82.

<sup>43</sup> Document 9082, eighth edition, 2009.

authority policies are not items BARNZ has had cause to be concerned about with respect to the three regulated airports.

On the other hand, an area which BARNZ has however had concerns over, and would encourage the Commission to consider requiring disclosure of relevant policies in respect of, is the question of competitive tendering, and the policies of the supplier with respect to using a preferred contractor, carrying out tendering by invitation or undertaking full competitive tenders.

CHAPTER 10: PUBLICATION, RETENTION, CERTIFICATION, STATUTORY  
DECLARATION AND AUDIT

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

For its part, BARNZ does not consider that a notice in the Gazette adds any particular value.

What BARNZ considers would be of more practical value to interested persons is if regulated suppliers are required to maintain a 'Register of Interested Persons' (the onus being on the interested person to request it be added to the Register), with a requirement that the regulated supplier automatically notify all registered interested persons by email whenever any disclosure of information is made, with such notification including directions as to how the information can be viewed or accessed. This notification would be of particular benefit in the case of disclosures which do not annually recur at a set time (e.g. price disclosures).

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

BARNZ agrees that the 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

While as a general principle BARNZ supports notification of price disclosures to each consumer by whom the charge is payable, BARNZ notes that in the case of regulated airports, some of which levy charges directly to passengers, this may not be practicable.

BARNZ therefore suggests that an obligation to notify consumers known to the regulated supplier would be more appropriate, together with a requirement that the information also be made publicly available. In the case of Electricity Lines Businesses or Gas Pipeline Businesses this would mean consumers of electricity or gas would be directly notified. In the case of airports, this would mean airlines would be directly notified and passengers would have the information made publicly available for them to access.

BARNZ' suggestion under question 70 of automatic notification to all registered interested persons would supplement this process as interested consumers would be able to register to directly receive notification of the new the price disclosures.

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

BARNZ agrees 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.

BARNZ also considers that interested persons should also be able to request a copy of this disclosure in the same format from the regulated supplier, so as to facilitate any analysis which they may wish to undertake. For its part, BARNZ would find it useful to be able to obtain the information in Excel format, rather than as a PDF. Currently BARNZ has to manually enter the information disclosed by the airports into an Excel spreadsheet every year in order to undertake monitoring and analysis of the information.

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

BARNZ considers that disclosure five months after the end of the regulatory year is too late. In the case of quality and reliability information, the information may have become less relevant. BARNZ considers that disclosure should be required three months after the end of the year. If this is not possible in the case of financial information, then BARNZ considers an interim result disclosing quality information should occur at the earlier three month date, followed by full disclosure at the five month date.

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

CIAL and AIAL both have their financial year end at 30 June. Of the three regulated airports, only WIAL has 31 March as its financial year end. Using 30 June as the regulatory year end would produce the greatest alignment with financial year ends of specified airports, and make it easier in the case of two out of the three airports, to reconcile the disclosed regulatory information with the airport's financial results. Aligning the regulatory year with CIAL and AIAL's financial years which end 30 June will produce the lowest overall cost, rather than using 31 March, which is only aligned with the financial year end of one of the specified airports.

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

BARNZ agrees disclosed (and supporting) information should be retained by regulated suppliers for at least seven years after disclosure. In fact, BARNZ considers it is good practice for information to be retained for significantly longer than this. For example, BARNZ found that information from when AIAL and CIAL set charges in 2000 was relevant to answering questions in the Commission's Input Methodologies Discussion Paper.

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

BARNZ 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.

In addition BARNZ considers there would be merit in having these disclosures similarly certified by the relevant senior executive of the regulated supplier who is responsible for overseeing these aspects of the regulated service. BARNZ considers this would promote accountability and oversight within the management structure of the regulated supplier. This certification could either be in addition to the certification by Directors, or in place of certification by one of the Directors.

BARNZ disagrees with the Commission's preliminary view that Director certification is not required for prices and contracts disclosure. BARNZ considers that Director certification should be required for these items so as to assist in promoting a high level of accuracy.

BARNZ has some concerns over the completeness of WIAL's disclosure of charges under the Airport Information Disclosure Regulations. Each year WIAL has accurately disclosed its published charges which were set under the Airport Authorities Act following consultation. However, in its Submission to the Commission on the Provisions Paper, WIAL noted the airport has entered into agreements on price, volume, quality and growth rebates with a number of airlines.<sup>44</sup> The existence of these agreed prices and rebates was not disclosed by WIAL when it disclosed its charges within its Disclosure Financial Statements over the relevant period. While BARNZ has not seen these Pricing and Rebate Agreements, and is therefore unaware of the precise terms of the Agreements, BARNZ has to now question whether the disclosure by WIAL of charges for identified airport activities in its Financial Disclosure Statements has been complete during the previous six or seven years. For the avoidance of doubt, BARNZ notes that its concern is not over such agreements being made, but with the lack of transparency and potential non-compliance with information disclosure 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

BARNZ agrees that audit reports should be required for Annual Disclosures.

However, BARNZ considers that the Commission should tailor the qualifications of the person undertaking the audit for the characteristics of the relevant component of the disclosure. For instance, the financial aspects of the disclosure should continue to be audited by an auditor qualified for appointment as an auditor of a company under the Companies Act 1993.

However, BARNZ does not consider that having audits of non-financial information (such as quality and performance indicators or AMPs) undertaken by a financial auditor adds any material value or input, and would simply add cost to the regulated business for no material benefit. In the case of non-financial information such as quality, performance indicators or statistics, or AMPs, BARNZ suggests that it would provide a more meaningful check, and potentially, a constructive oversight, if the audits were required to be undertaken by an experienced and independent third party with appropriate qualifications and practical industry experience.

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<sup>44</sup> Refer paras 4.3.5 and 4.4.1.

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

BARNZ considers that independent assurance is necessary for AMPs, pricing methodology and prices or contracts disclosures.

In the case of AMPs, as noted above, BARNZ does not consider audit reports by financially qualified auditors of AMPs add value. However, review by an independent, experienced, technical specialist in the relevant industry, would provide the necessary independent assurance regarding the accuracy and completeness of the AMP. Therefore BARNZ considers independent review and assurance should occur for AMPs, albeit not by a financial auditor.

In the case of pricing methodology disclosures, BARNZ considers audit reports should be required. Pricing methodologies are financially based and auditors should be well qualified to express a view on whether the disclosure is accurate, thorough and complete, and in accordance with the disclosure requirements specified by the Commission.

In the case of prices or contract disclosures, BARNZ considers that some form of independent assurance is also required. This could either be by financial auditors or by a declaration by the regulated supplier's Legal Counsel (either in-house or their solicitor). The Commission is referred to the account of BARNZ' concerns with respect to the completeness of WIAL's disclosure of its charges under the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 in question 77 above.

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

BARNZ 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

BARNZ agrees that audit reports should include a statement as to whether the disclosures comply with the requirements and include explanations of any material non-compliance.

In addition, BARNZ considers the audit report should contain an explanation of the steps taken by the auditor to verify that the disclosures comply 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

BARNZ agrees that the difficulty in making judgments about the robustness and accuracy of forecast information means that it is appropriate for there to be different assurance requirements for different types of information.

BARNZ considers that the expected standards of assurance identified by the Commission in Table 13 for the various types of information are appropriate.

However BARNZ considers that rather than a financial auditor reviewing the non-financial information, this information should be reviewed by an independent, experienced, technical specialist in the relevant industry, with this independent subject matter expert providing the necessary assurances. If this occurs, then an assurance would also be able to be provided (or limitations noted) with respect to the reasonableness of the assumptions made or adopted by the regulated supplier in the AMP.

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

BARNZ 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

BARNZ agrees that the additional requirements for independence of auditors outlined by the Commission at paragraph 541 are all appropriate. The auditors should not have played any role in the selection of methodologies and pricing decisions of the regulated supplier.

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

BARNZ does not mind either way, given that the statutory declaration proposed is limited to certifying that the information provided to the Commission is a true copy of the information made available to the public.

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

BARNZ has identified two further characteristics of specified airport services, and the markets in which specified airport services are provided, which it considers are relevant characteristics to be taken into account when designing the information disclosure regime for specified airport services and how it should be applied:

- The segmentation of specified airport services into airfield, terminal and aircraft and freight activities
- The concentration of airline consumers and high level of knowledge and interest held by this consumer group

#### ***Segmentation of specified airport services***

BARNZ considers that the composition of specified airport services as an amalgamation of three distinct activities (airfield activities, specified passenger terminal activities and aircraft and freight activities) is a characteristic that affects how the information disclosure regime for specified airport services should be applied. The three identified airport activities which make up specified airport services all:

- Have separate and distinct asset bases and cost structures
- Provide separate services to consumers
- Are used by different consumer groups (for instance, freight aircraft operations do not use terminal services, the Government Border Agencies (other than Avsec) do not use the airfield, passengers do not use freight facilities)
- Have separate stand alone charges levied in respect of them, with charges altering independently of each other and often at different periods of time, using separate and distinct financial models.

BARNZ considers that the separate and distinct nature of airfield activities, specified passenger terminal activities and aircraft and freight activities means that each of these activities needs to be separately disclosed within the information disclosure requirements, and have quality performance indicators customised to fit the particular characteristics of each activity, its consumers and relevant outputs. For instance, measures per passenger are more appropriate for terminal activities, whereas measures per aircraft movement or per 1000 tonnes landed are more pertinent to the airfield.

BARNZ notes that the Commission has recognised this at section 14.3.8 of its Discussion Paper where it concludes that disclosure of segmented information using the definitions of specified airport services in the Airport Authorities Act 1966 remains appropriate and important for assessing performance at the business activity level.

#### ***The concentrated nature of airline consumers and their interest and knowledge on airport charges***

Airlines have a high level of interest in the level of airport charges and ensuring they are efficient and reasonable. Even where charges are passed onto airline consumers (i.e. passengers or shippers)

airlines still have a vested interest in ensuring such charges are reasonable as every dollar of cost passed onto passengers (or shippers) will reduce the level of demand for airline travel (or air freight). Airlines therefore seek to be well informed on the issue of airport charges. As commercial consumers, airlines are in a position to commit sufficient resource to undertake analysis and monitoring work, both through the industry organisation BARNZ and individually. BARNZ considers these characteristics of airline consumers of airport services should be considered by the Commission as it develops the processes around the disclosure of specified airport information. For instance:

- Organisations which are wishing to undertake their own analysis and monitoring of disclosed information should be able to request access to the Excel format in which the airports disclose information to the Commission. For its part, BARNZ would find these Excel spreadsheets useful in continuing to undertake monitoring work
- Where organisations are prepared to provide confidentiality undertakings to the Commission (as BARNZ would be), then BARNZ considers the Commission should be prepared to make confidential information disclosed by the regulated supplier (i.e. the airport) available, where this is necessary in order to enable interested parties to determine whether the purpose of Part 4 is being met.

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

BARNZ considers that, if these key performance indicators are provided for each of airfield activities, specified passenger terminal activities and aircraft and freight activities, then (with one addition) they should be a sufficient set of key performance indicators for disclosure, provided that the disclosure requirements also require regulated suppliers to annually disclose sufficient information so that interested persons are able to carry out their own analysis in relation to matters of particular interest to them, over and beyond the prescribed indicators. BARNZ notes that the Commission has acknowledged the need for sufficient information to be disclosed for this purpose in paragraphs 101, 116 and 142 of its Information Disclosure Discussion Document.

The one additional performance indicator which BARNZ considers should be included as a key performance indicator is 'Operational Expenditure per unit' which would be calculated as follows:

$$\frac{\text{Operational expenditure}}{\text{Unit of output}}$$

BARNZ considers that the appropriate denominator in the 'operational expenditure per unit' performance indicator for each of the identified airport activities is as follows:

- For airfield activities, per 1000 tonnes of landed MCTOW
- For specified passenger terminal activities, per passenger (whether arriving, departing or transit)
- For aircraft and freight activities, per tonne of freight handled (inbound and outbound).

BARNZ considers that measuring operating costs on a per unit of output basis is a critical indicator for interested persons to assess whether regulated suppliers are improving efficiency as per s52A(1)(b) and are sharing with consumers the benefits of efficiency gains as per s52A(1)(c).

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

BARNZ considers that the appropriate denominator for the capital expenditure growth ratio is the RAB value of the relevant assets.

However, BARNZ considers that, if a capital expenditure growth ratio is only disclosed for the entire asset base, then it will be difficult for interested parties to assess whether expenditure is occurring in the areas where it needs to. The information would be too high level to provide any real insight.

Therefore BARNZ considers that in addition to the key performance indicators of overall capital expenditure ratios, there needs to be a supplementary set of more detailed capital expenditure ratios prepared for each main asset type – in the case of airports that would be for land, sealed surfaces, buildings and infrastructure. These supplementary capital expenditure ratios would be in addition to (or as supporting information for) the key performance indicator of the overall capital expenditure growth ratios. This would apply for the capital expenditure ratio, renewal ratio and capital expenditure growth ratio. For instance:

Key Performance Capital Expenditure Growth Ratio	<u>Growth Expenditure</u> RAB
Supporting Capital Expenditure Growth Ratios	<p style="text-align: center;"><u>Growth Expenditure related to land</u> Land RAB value</p> <p style="text-align: center;"><u>Sealed Surfaces Growth Expenditure</u> Sealed surfaces RAB value</p> <p style="text-align: center;"><u>Buildings Growth Expenditure</u> Buildings Land value</p> <p style="text-align: center;"><u>Infrastructure Growth Expenditure</u> Infrastructure RAB value</p> <p style="text-align: center;"><u>Plant and Equipment Growth Expenditure</u> Plant and Equipment RAB value</p>

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

BARNZ notes that separate denominators will be required for airfield activities, specified passenger terminal activities and aircraft and freight activities.

BARNZ considers that the appropriate denominator in the ‘average price per unit’ performance indicator for each of these three activities is as follows:

- For airfield activities, per 1000 tonnes of landed MCTOW
- For specified passenger terminal activities, per passenger (whether arriving, departing or transit)
- For aircraft and freight activities, per tonne of freight handled (inbound and outbound).

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

BARNZ considers that the key capacity utilisation performance indicator would be a snapshot of relevant peak hour utilisation of key facilities.

This snapshot should be taken on a representative busy day, (not being the busiest day of the year or a day affected by abnormal events, such as weather, equipment failure or a public holiday). It is widely accepted within the aviation industry that the peak hour or day used for designing airport facilities (and consequently for measuring utilisation) should be significantly busier than average, but should not be the busiest hour/day.

The busiest hour/day needs to be measured separately for arriving passengers and departing passengers, and also for domestic and international passengers, given that arrival and departure facilities, and international and domestic facilities, differ, both in terms of the facilities used and the areas of the terminal. Internationally, security requirements oblige airports to separate arriving and departing international passengers in the airside areas of the terminal. For example, departing international passengers utilise the check-in area, outbound baggage sortation system and outbound customs and Avsec areas, whereas inbound international passengers utilise the primary customs processing area, baggage collection carousels and hall, MAF processing area and meeters and greeters area.

A number of different industry measurements are available for ascertaining this representative busy day (or representative busy hour).

BARNZ notes that AIAL’s Masterplan uses the 30<sup>th</sup> busiest hour<sup>45</sup> while the WIAL Masterplan uses the IATA method of the busiest hour on the second busiest day in an average week (excluding special events such as religious festivals, trade fairs and conventions, and sport events) during the peak month of the year.<sup>46</sup>

The NZ Airports Association and BARNZ organised a series of industry meetings on quality performance which culminated in a Joint Working Paper dated 24 June 2009 provided to the Commission on Quality Service Monitoring for Specified Airport Companies (hereafter NZ Airports/BARNZ Joint Working Paper). This paper identified that BARNZ and NZAA would jointly commission work from AirBiz to review the actual pattern of demand at Auckland, Wellington and Christchurch Airports and recommend what industry measurement of a representative busy day is most appropriate for the circumstances of these three airports. This work is currently being commissioned.

<sup>45</sup> Auckland Airport: the next 20 years and beyond: Masterplan: 2005 – 2025, page 36.

<sup>46</sup> WIAL Draft Masterplan, 30 April 2009, page 11.

BARNZ considers that the AirBiz work should be used to design a series of capacity utilisation measures. Terminals, aprons and runways are sufficiently complex in terms of configuration and use that BARNZ considers no one capacity utilisation measure would be able to provide an accurate indication of performance. Therefore BARNZ considers that a number of measures of capacity utilisation will need to be disclosed within the disclosure statements of the airport in order to provide interested persons with a clear picture of the capacity and utilisation of specified airport services, such that these interested persons can then assess whether the purpose of Part 4 is being met.

In terms of key performance indicators, BARNZ considers that a broad indication of capacity utilisation can be provided by disclosing peak hour utilisation in terms of number of aircraft movements for the runway and number of arriving and departing passengers for the terminals as follows:

Number of Aircraft Movements in relevant busy hour  
Notional maximum number of aircraft movements on runway

Number of arriving international passengers in relevant busy hour  
Overall sustainable peak arriving passenger processing capacity of international terminal

Number of departing international passengers in relevant busy hour  
Overall sustainable peak departing passenger processing capacity of international terminal

Number of arriving domestic passengers in relevant busy hour  
Sustainable peak arriving passenger processing capacity of domestic terminal

Number of departing domestic passengers in relevant busy hour  
Sustainable peak departing passenger processing capacity of domestic terminal

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

The NZ Airports/BARNZ Joint Working Paper noted that *'the perception by the end consumer of the quality of service received is most appropriately collected via surveys of airline passengers.'* The working document noted that the airport could either undertake this survey itself or utilise the services of an organisation which undertakes similar surveys (such as the ACI ASQ survey). The specifics regarding this survey and measuring passenger perceptions is discussed in more detail in response to questions 150 – 152.

BARNZ considers that the most appropriate key performance indicator for customer perception would be the annual average score for the relevant airport for the categories measured. This could either be expressed as a score out of 5 (being the ACI ASQ ranking) or converted to a percentage.

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

While BARNZ agrees that that specified airport service suppliers should disclose the level of revenue they are earning from property rent and lease income from specified airport service assets.

BARNZ considers all revenue earned from specified airport service assets should be disclosed. For instance, in addition to airfield and terminal charges, and rental and lease revenue, airports also levy (or have in the past levied) various other charges such as:

- Concession revenue such as a fuel hydrant throughput charge
- Quarantine waste disposal charges
- Licence fees for providers of aviation related services to operate on the airport and access the airfield or terminal. These fees are often charged to firms providing services such as catering, ground handling, cleaning, supplying fuel, maintaining baggage systems or IT services such as the baggage reconciliation system or check-in systems.
- Licence fees or charges for use of counter space
- Advertising revenue from wall space within the terminal or on the outside of the terminal or airbridges
- Fees for security passes or licences to drive vehicles airside
- Utility charges for water, power, rates
- Communications or IT charges, including charges for access to the airport's wi-fi network.

BARNZ suggests that specified airports should be required to disclose revenue information under the following categories:

- Landing charges to airlines
- Terminal charges to airlines (to include any counter use charge)
- Passenger Terminal Charges
- Rental and lease revenue
- Utility charges (including telecommunications and IT)
- Licence fees or access charges
- Other.

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 proposed disclosing operating expenditure under the following categories:

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

The Airport Information Disclosure Regulations currently require disclosure of operating costs under the categories of staff costs, repairs and maintenance, administration and other. In addition, AIAL separately discloses its rates and insurance costs and WIAL its consultation costs.

While the four categories proposed by the Commission are appropriate, BARNZ considers that they need to be expanded to include an additional category of ‘security and safety costs’.

‘Security and safety costs’ have dramatically increased over the last decade in the aviation sector. BARNZ considers there would be significant benefit in these costs being shown separately so that trends over time can be measured and the efficiency of airports providing such costs can be monitored. Under the categories proposed by the Commission, ‘security and safety costs’ will be obscured within ‘Asset management and operations’. Interested parties need to be able to make informed judgments as to whether it is appropriate for airports to continue providing relevant security and safety functions or whether it is more efficient for such services to be contracted out. One of the most significant operating cost categories in respect of the airfield is the provision of rescue fire services – currently provided by all three specified airports but which could be contracted out.<sup>47</sup>

In addition, BARNZ considers airports should also be required to disclose total human resource costs for the three identified airport activities, perhaps as a statistic. Various measures of costs per FTE and outputs per FTE are commonly used in benchmarking airport productivity and efficiency.<sup>48</sup> BARNZ has found average wage/salary cost per FTE, passengers per FTE and aircraft movements per FTE to be useful statistics to monitor over time as indicators of efficiency.

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

BARNZ considers that the capital expenditure categories identified by the Commission at paragraph 779 are appropriate, namely:

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

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<sup>47</sup> For example, WIAL contracted out its Rescue Fire Service requirements for at least part of the 1990s.

<sup>48</sup> Refer for example to the Airport Performance Indicators published annually by Jacobs Consultancy, where 8 out of the 35 published measures relate to staff numbers or staff costs.

BARNZ notes that the Commission does not consider it necessary to have asset relocation as a category of capital expenditure because airports would not normally be required to relocate assets by an external third party. While this statement is probably correct with respect to third party requirements, BARNZ is aware of a number of occasions where assets have had to be (or are planned to be) relocated as a result of planning decisions by airports with respect to redeveloping their sites. Significant and on-going redevelopment of airport sites occurs on a continuous basis. At any point in time, it would be a safe bet that one or other of the three airports will be engaged in redeveloping terminal configurations and surrounding land uses. Significant recent or proposed asset relocations include:

- The relocation of a large number of retail stores by AIAL during the separation of arriving and departing passengers.
- A significant number of car-parks will need to be relocated when Stage 3B of AIAL's international terminal expansion occurs (because this extends onto land currently used as the main public car park).
- [REDACTED]
- The Airways Tower at Auckland Airport will need to be relocated at some point in the future when operations on the future Northern Runway require this. AIAL's Master Plan indicates that the Tower relocation will be required when the future Northern Runway is extended beyond its initial 1200m length.<sup>49</sup> However, the location of the six storey hotel just announced by Auckland Airport may well advance the timing of the Tower relocation or necessitate additional interim capital expenditure. BARNZ understands that this issue is still being worked through by Airways.
- AIAL's Master Plan envisages that the eventual extension of the Northern Runway to its ultimate length of 2150m will necessitate the relocation and realignment of a significant section of George Bolt Memorial Drive. AIAL management have provided BARNZ with an indicative cost for this of [REDACTED].
- AIAL's Masterplan includes a long-term strategic plan of relocating its cross runway further to the south-west in order to enable full use of both runways simultaneously and to enable Code E operations on the cross taxiway.

In some cases there have been (and continue to be) significant differences between airlines and airports over the allocation of the capital costs of relocating services. [REDACTED]

<sup>49</sup> Auckland Airport: the next 20 years and beyond: Masterplan: 2005 – 2025, page 47.

BARNZ therefore continues to consider that asset relocation is a significant category of capital expenditure in the case of airports, even though such relocations are due to airport planning decisions rather than external third party requirements.

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

BARNZ considers that the asset categories identified by the Commission at paragraph 786 are appropriate, namely:

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

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

BARNZ agrees that if a cost of capital input methodology is not established for specified airport services then the Commission should issue the required financing assumptions for use in information disclosure.

However BARNZ' view is that the Commission should develop input methodologies relating to the cost of capital as they are needed in order for the Commission to undertake its monitoring and analysis roles under s53B(2)(a) and (b). BARNZ considers that without input methodologies for the cost of capital, interested parties will not be able to reliably judge whether or not the outcomes in s52A are being promoted, particularly whether suppliers are limited in their ability to extract excessive profits.<sup>50</sup>

BARNZ does acknowledge that in the case of airports, which are only subject to information disclosure regulation, input methodologies on the cost of capital will not be required until the first set of information is disclosed and is being monitored and analysed by the Commission and interested persons. Thus the Commission would be able to prepare input methodologies for cost of capital at any time prior to the end of November 2011 without adversely affecting the operation of information disclosure regulation of specified airports.

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<sup>50</sup> See BARNZ' response to questions 132 and 133 in BARNZ Submission on the Commerce Commission Input Methodologies Discussion Paper.

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

BARNZ agrees that the key aspects of quality suitable for disclosure by specified airport services are customer service, reliability and capacity/utilisation.

BARNZ agrees that as safety issues are monitored to a high degree by other industry-specific regulatory organisations, (in the case of airports the Civil Aviation Authority), then safety information should not be required to be disclosed within the information disclosure regime. However, BARNZ does consider that the specified airports should be required to disclose where interested persons can access the most recent safety information related to the airport.

BARNZ also notes that measures of reliability and interruptions to supply are seen as extremely important by airlines. The Commission is referred to the earlier discussion on this issue by BARNZ in response to question 54.

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

In the context of the design of qualitative surveys of passenger perceptions of quality, BARNZ agrees 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.

However, when designing quantitative measures of quality, BARNZ does not consider this issue arises. For example, quantitative measures are able to be designed which will relate solely to the quality of regulated services, such as seats or space available in departure lounges, the space available in customs or MAF areas, the number of FIDS or the number of baggage trolleys.

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

BARNZ considers that passenger perception surveys are one aspect of measuring customer service and supply quality. BARNZ therefore agrees that passenger perception surveys should be used as a measure of customer service and supply quality for specified airport services. However BARNZ considers such surveys need to be used in conjunction with other means of measuring customer service and supply quality, such as:

- Perception surveys of other users of specified airport services
- Quantitative measures of quality
- Reliability measures
- Capacity and utilisation measures

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

BARNZ agrees that the ACI ASQ survey is an appropriate survey for collecting passenger perceptions for specified airport service (noting that another means will be required for collecting perceptions of other airport users).

BARNZ does however note that if the Commission specifies use of the ACI ASQ survey within its disclosure requirements, then this may potentially cause an issue if the ACI ASQ survey ceases or is modified such that it is no longer applicable. For this reason the NZ Airports/BARNZ Joint Working Paper noted that the airport could either undertake this survey itself (using robust and objectively independent sampling methods and data collection processes) or utilise the services of an organisation which undertakes similar surveys (such as the ACI ASQ survey).

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

BARNZ agrees that the ACI ASQ measures listed by the Commission at paragraph 801 are appropriate for measuring passenger perceptions of quality. The measures listed by the Commission are those identified in the NZ Airports/BARNZ Joint Working Paper.

In addition, BARNZ considers that some of the measures identified should also be supported or supplemented by quantitative measures which can be disclosed separately.<sup>51</sup> For instance:

- Passenger perceptions on availability of baggage trolleys can be supplemented by the airport disclosing the number of available baggage trolleys
- Passenger perceptions on FIDs screens can be supplemented by statistics on the number of FIDs screens
- Passenger perceptions on availability of washrooms can be supplemented by the airport disclosing the number of toilets
- Passenger perceptions on the cleanliness of washrooms can be supplemented by the airport measuring and disclosing the range of bacteria counts in random samples of surfaces within the washroom (e.g. that bacteria counts are within an acceptable range)
- Passenger perceptions on the comfort in gate and waiting areas can be supplemented by the airport disclosing the size of gate and waiting areas, and the number of available seats.

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

### ***Disclosure of Reliability of Services***

<sup>51</sup> The airports did not however agree with this view, hence the Joint Working Paper only included passenger perception surveys.

BARNZ agrees that reliability of services should be disclosed.

BARNZ was concerned over a preliminary view expressed by the Commission at paragraph 388 Chapter 7 that ‘Consumers of airport services ... may also not view supply interruptions as highly as other measures of quality.’ However, BARNZ has noted that Chapter 14, which specifically addresses the information disclosure requirements for specified airport services, does not contain any suggestion that reliability and interruption measures not be included within the quality performance indicators for specified airports.

In its response to question 54 BARNZ strongly disagreed with the Commission’s preliminary view at paragraph 388, and noted that interruptions to airfield activities and to facilities and services within terminal buildings are of key concern to consumers of regulated airport services. Airlines view any interruption to service as of concern, particularly those which result in on-time departure delays, but even interruptions which do not cause delays to on time departure can create serious resource issues for airlines which have to endeavour to turn the aircraft around in a timely fashion despite the interruption to service. A number of examples of recent interruptions and the responses by airlines, and of the consequences of interruptions on airlines and passengers were provided in BARNZ’ response to question 54.

#### ***Disclosure of causes of interruption***

BARNZ also agrees that the causes of interruptions are important for users to have knowledge of and understand. This is an aspect of the current airport information disclosure requirements which BARNZ considers is sorely lacking.

While BARNZ’ initial view was that the cause of the interruption or delay should be disclosed within the information disclosure requirements, in the meetings between BARNZ and the NZ Airports Association (which were also attended by the three specified airports and Air NZ) a process of Root Cause Analysis and Operational Improvement Forums was developed and agreed which (if fully implemented) should largely address BARNZ’ concerns over the lack of information on the cause of interruptions and delays.<sup>52</sup>

The Root Cause Analysis would involve determination (where possible) of what party was responsible for the interruption or on time departure delay and what the primary cause was. In the case of on time departure delays the relevant airline/s and the airport would meet reasonably soon after the delay to determine if the interruption to service was due to airport, airline, security, or third party causes.

The Root Cause Analysis would then be supported by Operational Improvement Forums in which the relevant airport and the airlines operating scheduled services to it would meet regularly to identify any measures available to:

- Reduce the likelihood of interruptions to material services or interruptions to services generally which have caused on time departure delays from re-occurring; and
- Better manage such losses of services so as to reduce the impact on users.

In addition, it was envisaged that the Operational Improvement Forum process would be used to review passenger perception survey results each quarter as they become available in order to identify areas where remedial action is required by the airport, airline or border agencies.

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<sup>52</sup> NZ Airports/BARNZ Joint Working Paper, 24 June 2009, pages 4 and 5.

It was considered that the results from the Root Cause Analysis and Operational Improvement Forums should not be disclosed as part of the information disclosure requirements (in large part because of the difficulties of auditing assignment of responsibility for interruptions). Instead airports would annually disclose the process the airport has put in place for undertaking Operational Improvement Forums, and the minutes of such meetings would be available to the Commission upon request.

BARNZ considers that the Root Cause Analysis and Operational Improvement Forum processes should result in tangible improvements in service quality and should provide a constructive vehicle for ensuring that reliability standards are set at a level which reflects consumer demands as per s52A(1)(b).

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

The Commission has referred to the current categories within the Airport Information Disclosure Regulations of planned and unplanned interruptions to the runway, stand positions, aerobridge and baggage handling services and has not suggested any alterations to these, other than including indicators of whether the airport or a third party caused the interruption.

The NZ Airports/BARNZ Joint Working Paper considered reliability should be measured by disclosure of:

- Unplanned interruptions to material services
- Unavailability of facilities or services which caused an on time departure delay

The unavailability of facilities or services which caused an on time departure delay is discussed in BARNZ’s response to question 155 below.

NZ Airports and BARNZ considered that unplanned interruptions to material services should measure the frequency and duration of the unavailability of facilities which can materially impact the inbound and outbound operation of aircraft and therefore passengers and freight. The criteria for material services, and interruption to material services, were identified as follows within the NZ Airports/BARNZ Joint Working Paper:<sup>53</sup>

***NZ Airports/BARNZ Categories for Disclosure of Unplanned Interruptions to Material Services***

Material Service	Interruption criteria	Examples
Runway services	A scheduled aircraft cannot land or depart due to closure of runway. If there is no scheduled aircraft there is no loss of service. So long as scheduled operators can still land on the runway there is no loss of material service.	An aircraft leaves debris on the runway which results in a closure affecting scheduled services. If there is reduced length such that only 737s can land, there is no loss of service if no aircraft larger than a 737 are scheduled.
Taxiway services	For all practical purposes the taxiway is unusable by scheduled aircraft and there	Scheduled operator cannot use material portions of the taxiway.

<sup>53</sup> Refer Section 2 – Reliability of Aeronautical Services.

	is no alternative path reasonably available.	
Contact stand and airbridge	A remote stand with bussing operations or walking to or from the terminal was scheduled, but the remote stand and/or means of passengers accessing the terminal was not available and no alternative was provided.	An operator scheduled to use a remote stand had to wait for another stand or for the means of passengers accessing the terminal or the aircraft.
Remote stand and means of embarking or disembarking the aircraft	A contact stand / airbridge was scheduled and no alternative contact stand / airbridge was provided.	An operator scheduled to use a contact stand either had to use a remote stand alternative or wait. This includes interruptions due to another airline not using the equipment correctly.
Baggage sortation system (departing)	The baggage sortation system for departing bags was unavailable for more than 15 minutes, irrespective of where the breakdown was within the system	
Baggage reclaim system	The baggage reclaim unit scheduled was not available and no baggage reclaim unit alternative was available for use	There were no baggage reclaim units available for use by a scheduled operator. There is no interruption if a scheduled operator is able to use a different baggage reclaim unit. <sup>54</sup>

A comparison between the above NZ Airports/BARNZ work and the current categories of interruptions is set out below:

***Comparison Between Current Airport Information Disclosure Requirements and the NZ Airports/BARNZ Joint Working Document***

Current Categories	NZ Airports/BARNZ Joint Working View
Planned unavailability of runway	Not required
Planned unavailability of stand positions	Not required
Planned unavailability of aerobridges	Not required
Planned unavailability of Baggage handling services	Not required
Unplanned unavailability of runway	Included
Unplanned unavailability of stand positions	Included, but altered to distinguish between contact gates and remote stands, and link contact stands with airbridges, and remote stands with a means of accessing the terminal or aircraft
Unplanned unavailability of airbridges	Included, but altered to link contact stands with airbridges, and remote stands with a means of accessing the terminal or aircraft

<sup>54</sup> Note this example was not included in the Joint Working paper but is reflective of the discussions which occurred between industry participants.

Unplanned unavailability of baggage handling services	Included, but separated into outbound baggage system and inbound baggage reclaim units.
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The key difference between the current requirements and the NZ Airports/BARNZ joint working view is the omission of planned interruptions. It was considered that planning for maintenance is an integral part of an asset owner managing the service capability of its assets and maintaining reliability, and therefore interruptions which were planned, and in respect of which users had the requisite degree of notice, should not be disclosed as interruptions. Airport services need to be maintained, and where operations are close to 24/7, then maintenance will necessarily need to be scheduled to occur during operational hours. It is unplanned interruptions which cause airlines the greatest degree of operational difficulty, and have the greatest impact on airlines and passengers, and hence are those with which airlines are most concerned.

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

BARNZ agrees that the disclosure of the effect of interruptions on consumers is an important measure of quality for specified airport services.

As noted above, the NZ Airports/BARNZ Joint Working Paper considered reliability should be measured by disclosure of:

- Unplanned interruptions to material services
- Unavailability of facilities or services which caused an on time departure delay

NZ Airports and BARNZ considered that on time departure delays should be measured where these are caused by the unavailability of facilities provided by the airport (whether material services or not). On time departures is an important cost driver for airlines and hence ‘on time departure delays caused by the unavailability of facilities provided by the airport’ is a measure that both NZ Airports and BARNZ supported as “*a key indicator of airport operational efficiency*”.<sup>55</sup>

The proposed definition of ‘on time departure delays caused by the unavailability of facilities provided by the airport’ in the NZ Airports/BARNZ Joint Working Paper is such that this metric will measure the effects of loss of a wider range of aeronautical services than the loss of material services discussed under question 154. This will ensure that where a service normally provided by an airport, but which is not considered a material service, fails or is not available, then this will be recorded where the impact is such that it causes a delay in the on time departure of aircraft by more than 15 minutes. NZ Airports and BARNZ considered that this is a pragmatic balanced way of ensuring that loss of services which impact airlines and passengers are recorded, without requiring airports to undertake monitoring of availability of a prohibitively large range of services.

Examples of services the unavailability of which could potentially cause a delay in on time departure include services such as:<sup>56</sup>

- Most of the material services identified above (namely runway, taxiway, contact gate and airbridge, remote stand and means of accessing the terminal or aircraft and outbound baggage sortation system)

<sup>55</sup> NZ Airports/BARNZ Joint Working Paper, 24 June 2009, page 3.

<sup>56</sup> NZ Airports/BARNZ Joint Working Document, 24 June 2009, page 4.

- Nose in guidance system to guide aircraft into the gate (NIGs)
- Ground Power Units or Pre-conditioned Air (GPU, PCA)
- Flight Information Display Screens (FIDs)
- IT systems
- Public address systems
- The late allocation (or reallocation) of a gate
- A secure gate lounge
- Check-in counters

A recent example of a series of on time departure delays which were caused by the interruption to an airport service (which was not a material service) occurred on 3 July 2009 at Christchurch Airport when a communications cable was cut by a contractor involved in the construction of the terminal project. Air NZ and JetStar both experienced considerable delays in on time departure of aircraft for most of the day.

It is proposed that the ‘unavailability of facilities or services which caused an on time departure delay’ quality metric would be measured in the first instance by disclosing the number of flights affected by the service interruption.

BARNZ also supports the total length of the delays being disclosed. However, the airports are concerned that on time departure delay is a new metric for which the data quality has yet to be assessed, particularly with regard to the duration of the departure delay. Therefore airlines and airports have committed to trialling the collection of this statistic. The NZ Airports/BARNZ Joint Working Paper noted that this will require significant planning and is likely to require information provision by airlines and information technology solutions if it is to be collected efficiently. The paper also noted that the introduction of this efficiency measure will require a sufficient lead time for the development of relevant processes and solutions.

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

BARNZ agrees that capacity and utilisation is a key piece of information both for assessing the quality of supply, and for interested persons to determine whether the purpose of Part 4 is being met. In particular, capacity, and utilisation of capacity, are indicators of whether investment is occurring in line with demand for the regulated service (s52A(1)(a)) and is also highly relevant to whether services are being provided at a quality that reflects consumer demands (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 utilization should or should not be measured and the reasons for your view. 190

At paragraphs 806 and 809 the Commission identified a number of points within the airfield and terminal in respect of which it considers that capacity for specified airport services should be disclosed and measurement of utilisation should occur (aligned to standard industry practice).

The NZ Airports/BARNZ Joint Working Paper also considered the question of appropriate points at which to determine capacity and utilisation. A comparison of the Commission's preliminary view and the position in the joint working document is set out below:

***Comparison of Points identified by the Commission and by NZ Airports/BARNZ at Which to Measure Capacity and Utilisation***

NZ Airports/BARNZ point to measure capacity	NZ Airports/BARNZ point to measure utilisation	Commerce Commission points for measuring capacity and utilisation
<b>AIRFIELD FACILITIES</b>		
Runway and taxiway measurements and area, category of instrument landing system and Airways declared capacity (movements per hour)	Number of aircraft movements during representative busy hour	Runways
Number of aircraft parking stands and access provided to terminal	Number of turnarounds for representative busy day	Parking Bays Aerobridges
<b>TERMINAL FUNCTIONAL AREAS</b>		
Space for check in facilities (m <sup>2</sup> )	N/A	Check-in desks
Outbound baggage system notional processing capacity bags per hour	Bags per hour during representative busy hour	Baggage system
Space for baggage make up area (m <sup>2</sup> )		Not measured
Space for landside circulation (m <sup>2</sup> )	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Not measured
Space for security screening (m <sup>2</sup> ) and notional passenger processing capacity per hour	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Security screening space
Space for outbound passport control (m <sup>2</sup> ) and notional passenger processing capacity per hour	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Outbound passport control space
Space for departure lounges (m <sup>2</sup> )	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Departure lounge seats and space
Space for airside circulation (m <sup>2</sup> )	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Airside circulation space
Space for inbound passport control (m <sup>2</sup> ) and notional passenger processing capacity per hour	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Inbound passport control space
Space for baggage reclaim (m <sup>2</sup> ) and notional passenger and bag processing capacity per hour	Passenger throughput per 100m <sup>2</sup> during representative busy hour Bags per hour during	Baggage system Baggage collection space

	representative busy hour	
Space for bio-security screening and customs secondary screening (m <sup>2</sup> ) and notional passenger processing capacity per hour	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Bio-security screening and inspection and customs secondary inspection space
Space for arrivals concourse (m <sup>2</sup> )	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Not measured
Space for passenger facilities and amenities (m <sup>2</sup> )	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Flight information display screens Information points
Total terminal functional space (m <sup>2</sup> ) and overall notional passenger capacity per hour	Passenger throughput per 100m <sup>2</sup> during representative busy hour	Not measured

There is a large degree of alignment between the preliminary view of the Commission and the outcome of the joint working sessions organised by BARNZ and NZ Airports. The few key differences are:

- The NZ Airports/BARNZ Joint Working Paper includes key landside areas of the terminal such as landside circulation space and the arrivals concourse (meeters and greeters area). Even though these areas are landside they still provide key aeronautical functional space and can act as a congestion point within the overall processing capacity of the terminal if sufficient space is not provided.
- The NZ Airports/BARNZ Joint Working Paper includes the space available for the baggage make-up area as an area to measure. If the baggage make-up hall is too small then this creates considerable operational difficulties for baggage handlers. The baggage hall is a key operational area for airlines and constraints within it create significant flow-on effects to a number of other aspects of airline operations.
- The NZ Airports/BARNZ Joint Working Paper measures the notional processing capacity of areas such as customs, Avsec, security screening and baggage reclaim and passenger throughput per 100m<sup>2</sup> on the relevant busy hour as well as the space provided. The Commission just proposes to consider space. BARNZ considers that the notional processing capacity is the key measure for determining whether sufficient area is available and also whether innovation and efficiency improvements have occurred or whether capital expenditure or innovation and efficiency improvements are required. While the notional processing capacity is influenced by the actions of users (such as airline scheduling decisions and Government Border Agency processing practices and facilitation improvements and regulatory border and security requirements), as well as by investment decisions by airports, both BARNZ and NZ Airports considered that it was important that an overall picture of facilities was provided. The sustainable peak passenger processing capacity of international terminal facilities at AIAL was a critical consideration during the consultation on whether the next stage of the international terminal complex (stage 3B) was required in the immediate future.

BARNZ looks forward to participating in the workshops signalled by the Commission to determine the appropriate means of measuring capacity and utilisation for specified airport services.

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

BARNZ agrees that it is not appropriate to measure capacity by comparing peak demand with service capacity and that it may be more appropriate to consider the duration of capacity constraint or near-full constraint.

The NZ Airports/BARNZ Joint Working Paper proposed using a snapshot of the peak hour taken on a representative busy day, (not being the busiest day of the year or a day affected by abnormal events, such as weather, equipment failure or a public holiday). As noted in response to question 141 it is widely accepted within the aviation industry that the peak hour or day used for designing airport facilities (and consequently for measuring utilisation) should be significantly busier than average but should not be the busiest hour/day. There are a number of industry measurements available for ascertaining the representative busy day (or representative busy hour). BARNZ and NZAA are jointly commissioning work from AirBiz to review the actual pattern of demand at Auckland, Wellington and Christchurch Airports and recommend what industry measurement of a representative busy day is most appropriate for the circumstances of these three airports.

While the outcome of the joint working sessions was that only a snapshot of the peak hour on the representative busy day should be disclosed in the information disclosure requirements, it was agreed that the airports would separately provide BARNZ and the airlines with information showing the pattern of utilisation throughout the representative busy day. BARNZ' experience during the consultation in 2007 and 2008 over whether construction of Stage 3B of AIAL's international terminal needed to commence immediately, indicated that the pattern of use over the relevant busy day is just as important, if not more so, than the peak. There is a significant difference between peak processing capacity of terminals and sustainable processing capacity.<sup>57</sup> BARNZ also notes that AIAL's Masterplan included the most recent pattern of aircraft movements over the day.<sup>58</sup>

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

BARNZ agrees that a description of the assets and their capacity should be disclosed.

As noted in response to question 3 above, BARNZ considers that sufficient statistical information needs to be disclosed so as to enable interested persons to carry out their own analysis in relation to matters of particular interest to them, beyond the prescribed indicators, so that they are able to form a fully informed view as to whether the objectives of Part 4 are being met. BARNZ notes that the Commission has acknowledged the need for sufficient information to be disclosed for this purpose in paragraphs 101, 116 and 142.

The Commission has indicated that its preliminary view is that relevant statistical information for

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<sup>57</sup> That is, airport facilities may be able to manage 2000 arriving passengers in a 60 minute period if the periods before or after this 60 minute period (the shoulders) only have 1000 passengers scheduled to arrive (this indicates a peak passenger processing capacity of 2000 arriving passengers per hour) but if there are three consecutive busy hours scheduled, then the airport facilities may only be sufficient to process 1500 passengers per hour over this three hour period (this indicates a sustainable passenger processing capacity of 1500 arriving passengers per hour).

<sup>58</sup> Auckland Airport: the next 20 years and beyond: Masterplan: 2005 – 2025, page 18.

Airports should include:<sup>59</sup>

- A description of the assets and the capacity of those assets
- Details on the international and domestic demand, including passengers (arriving and departing), freight tonnage and aircraft
- Details on international and domestic peak demand, including passengers (arriving and departing) and aircraft
- Pricing statistics.

In addition, BARNZ considers the following further statistical information is required:

- Number of full time equivalent staff members (FTEs)
- Human resource costs
- Details of demand for any other measure (not included in the statistics expressly required to be disclosed) for which a charge is levied based on throughput.

BARNZ uses staff numbers and costs for a number of the performance measures which it monitors in its annual monitoring reports of the information disclosed by airports under the Airport Information Disclosure regulations. These include revenue per FTE, staff costs per FTE, passengers per FTE and aircraft movements per FTE. In addition, BARNZ notes that many of the measures monitoring performance in the international Airport Performance Measures prepared annually by Jacobs Consulting relate to staff number or staff costs.<sup>60</sup>

BARNZ considers that where a charge is levied on the basis of throughput or use, then the airport should be required to disclose annual statistics relating to the throughput or use. For example, terminal charges at CIAL are levied on the basis of landed seats, yet the airport does not currently disclose the number of landed seats, which makes it difficult to properly monitor forecast demand as against actual demand.

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

BARNZ agrees that demand disclosures for specified airport services should include disclosure of international and domestic volumes for passengers.

With respect to international and domestic aircraft movements, BARNZ considers that total landed MCTOW<sup>61</sup> also needs to be disclosed for international and domestic operations, as well as the number of movements. The pricing structure for airfield charges (or the component of airfield charges within overall charges) at all three airports is based on the weight of the aircraft. Aircraft weight and size determine the runway requirements for the aircraft (in terms of length, width and depth). In addition the weight of the aircraft is one of the main determinants of the damage done by

<sup>59</sup> Commerce Commission, Information Disclosure Discussion Document, para 811.

<sup>60</sup> In fact 8 out of the 35 measures published by Jacobs relate to employee numbers or costs, namely Total revenue per employee, Staff costs as a percentage of staff and operating costs, Staff costs per 1000 ATUs, Staff costs per passenger, Staff costs as a percentage of turnover, Passengers per employee, ATUs per employee, Assets per employee.

<sup>61</sup> Maximum Certified Take-Off Weight.

the aircraft to the runway surface. Larger aircraft require greater runway length, width and depth and (as a general rule) cause greater deterioration to the runway surface. Disclosing only aircraft movements therefore provides an incomplete picture of the use of the runway. In particular, it fails to demonstrate the type of aircraft and the total MCTOW. BARNZ considers that total landed MCTOW should also be disclosed. This will link the disclosed information with the basis on which airfield charges are determined and with a significant driver of airfield costs.

With respect to freight, BARNZ considers that international freight volumes should have to be disclosed. NZ Customs collects international freight volumes, hence an objective reliable information source exists for this. However, BARNZ is not aware of any such independent source of domestic freight information. Domestic freight is not required to be subject to the same security and border requirements as international freight. BARNZ considers that the cost of collecting domestic freight information outweighs the benefit.

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

BARNZ 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

BARNZ agrees that there is limited value in assessing prices at individual consumer levels given the variations between airports of who is directly charged, and the fact that as airlines operate in a competitive market as non-end-users, at least some component of the airport charges will be passed on to the end-users, being passengers and consumers of air freight services.

However BARNZ does not consider that only disclosing pricing statistics by comparing total revenue to units handled (as per question 161 above) is sufficient by itself.

BARNZ considers that specified airports should also be required to disclose the revenue earned by the airport for a sample of common aircraft types. Revenue earned by an airport from an aircraft turn-around is a standard industry measurement by which benchmarking of airport charges occurs. It is a means of enabling all the varied and different charges set by each airport to be compared on a consistent basis across airports – irrespective of whether the airport has charged the passenger or the airline, irrespective of whether the charge is expressed by aircraft type, by aircraft weight, by passengers on board or by available seats. BARNZ regularly undertakes this type of benchmarking work with respect to the New Zealand airports. Such measures are also used by the media when reporting on airport charges. It is also one of the bases on which the airport submissions presented benchmarking of charges.

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

BARNZ agrees that separate disclosure of segmented aircraft and freight activities, airfield activities and specified terminal activities is integral for interested persons to be able to meaningfully assess regulated supplier performance for specified airport services, and whether the purpose of Part 4 is being met.

As is highlighted in the following table, airfield activities, specified passenger terminal activities and aircraft and freight activities all:

- Have separate and distinct asset bases and cost structures
- Provide separate services to consumers
- Are used by different consumer groups (for instance, freight aircraft operations do not use terminal services, the Government Border Agencies (other than Avsec) do not use the airfield and passengers do not use freight facilities)
- Have separate stand alone charges levied in respect of them, with charges for each activity altering independently of charges for other activities and often at different periods of time, using separate and distinct financial models.

***Description of Key Characteristics of the Segmented Specified Airport Services***

	Airfield Activities	Specified Passenger Terminal Activities	Aircraft and Freight Activities
Key services provided	<ul style="list-style-type: none"> <li>• Use of airfield, taxiway and aprons</li> <li>• Rescue fire services</li> </ul>	<ul style="list-style-type: none"> <li>• Use of terminal space for processing passengers</li> <li>• Check-in counters</li> <li>• Baggage handling systems</li> <li>• Means of passengers embarking and disembarking aircraft</li> </ul>	<ul style="list-style-type: none"> <li>• Means of aircraft services accessing aircraft</li> <li>• Jet fuel hydrant</li> <li>• Leased hangar space</li> </ul>
Main assets	<ul style="list-style-type: none"> <li>• Land associated with airfield, taxiway and apron</li> <li>• Sealed surfaces</li> <li>• Infrastructure</li> <li>• Rescue fire plant and equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Aeronautical space within terminals</li> <li>• Land associated with terminals</li> <li>• Access roads</li> <li>• Baggage handling systems</li> <li>• Airbridges</li> </ul>	<ul style="list-style-type: none"> <li>• Jet fuel hydrant pipeline</li> <li>• Hangars</li> <li>• Land associated with hangars</li> </ul>
Direct key users	<ul style="list-style-type: none"> <li>• Airlines operating passenger services</li> <li>• Airlines operating freight services</li> <li>• Ground handlers</li> </ul>	<ul style="list-style-type: none"> <li>• Passengers</li> <li>• Airlines operating passenger services</li> <li>• Government border and security agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Airlines</li> <li>• Freight handlers</li> <li>• Providers of aircraft services</li> </ul>
Key unit of output	<ul style="list-style-type: none"> <li>• Aircraft movements</li> <li>• Landed tonnes of MCTOW</li> </ul>	<ul style="list-style-type: none"> <li>• Passenger arrivals and departures</li> </ul>	<ul style="list-style-type: none"> <li>• Aircraft movements</li> <li>• Freight volume</li> </ul>
Charges levied	<ul style="list-style-type: none"> <li>• Landing charges levied on airlines at AIAL</li> <li>• Airfield charge component within</li> </ul>	<ul style="list-style-type: none"> <li>• TSC<sup>63</sup> and PSC levied on airlines at AIAL</li> <li>• Terminal charge component within aircraft</li> </ul>	<ul style="list-style-type: none"> <li>• Access licences charged by some airports for third parties to access</li> </ul>

<sup>62</sup> Passenger Services Charge.

<sup>63</sup> Terminal services Charge.

	aircraft charge levied on airlines at CIAL <ul style="list-style-type: none"> <li>• Airfield charge component within PSC<sup>62</sup> levied on airlines at WIAL</li> </ul>	charge levied on airlines and IDF <sup>64</sup> levied on passengers at CIAL <ul style="list-style-type: none"> <li>• Terminal charge and airbridge charge component within PSC levied on airlines and IDF levied on passengers at WIAL</li> <li>• Counter use charges at all airports</li> <li>• Lease revenue for sole use space such as premium check-in areas or transfer desks</li> </ul>	airfield <ul style="list-style-type: none"> <li>• Lease revenue for hangars</li> </ul>
Key quality measures	<ul style="list-style-type: none"> <li>• Interruptions</li> <li>• On time departure delays</li> <li>• Surface deterioration</li> </ul>	<ul style="list-style-type: none"> <li>• Interruptions</li> <li>• On time departure delays</li> <li>• Passenger perceptions</li> <li>• Consumer perceptions</li> </ul>	<ul style="list-style-type: none"> <li>• Interruptions</li> </ul>

The Commission has indicated at paragraph 818 that its preliminary view is that the segmented information should include revenue, operating expenditure, taxation and RAB information, including depreciation and revaluation.

BARNZ considers that segmented information needs to be provided for all proposed types of information to be disclosed, not just financial and RAB information. The quite separate and distinct nature of airfield activities, specified passenger terminal activities and aircraft and freight activities (as outlined in the above table) means that all aspects of information disclosure should be separately and fully disclosed for each activity. This should include quality performance indicators (which need to be customised to fit the particular characteristics of each activity and relevant consumers and modes of use), statistics, pricing, assumptions and methodologies. It may be that one Asset Management Plan could be prepared for all three components of specified airport services, provided that the different assets are clearly distinguished within the AMP.

Not providing segmented disclosure on quality, statistics, pricing, assumptions and methodologies will mean interested persons will not be able to fully assess whether the purpose of Part 4 is being met, particularly with respect to the need for investment, improvement of efficiency and providing services at a quality that reflects customer demands.

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

BARNZ agrees with the Commission's preliminary view that some GAAP disclosure may not be appropriate or necessary for regulatory reporting purposes, therefore the current requirement that financial information be prepared in accordance with GAAP is inappropriate for carrying forward

<sup>64</sup> International Departure Charge.

into the disclosure requirements being determined by the Commission under Part 4 of the Commerce Act.

BARNZ agrees that financial instruments, cash flow information, equity information, derivatives and their fair value adjustments should not be required for disclosure under Part 4.

BARNZ also agrees that disclosure of working capital is not necessary.

However, BARNZ considers that financing information should be required. As outlined in response to question 33 above, BARNZ does not agree with the Commission's preliminary view that regulated business units should not be required to disclose financing information due to the difficulty in meaningfully allocating the portion that relates to the regulated business. BARNZ considers that the actual cost of financing is an important piece of information for interested parties to have in order to assess whether the purpose of Part 4 is being met – particularly whether suppliers have incentives to innovate and invest as per s52A(1)(a) and whether suppliers are limited in their ability to extract excessive profits as per s52A(1)(d). If the cost of debt within the WACC calculation significantly exceeds the price at which a firm is able to access capital, then this may well result in the firm earning excess returns, and also being over-incentivised to invest. BARNZ noted in its response to question 33 that AIAL's actual disclosed cost of debt for identified airport activities has been significantly below the cost of debt contained in its disclosed WACC in every year except one, with the actual cost of debt to AIAL being 1.4% below that contained in its disclosed WACC over the last nine years of information disclosure.

In addition, while BARNZ notes the Commission's preliminary view that if the WACC is a material assumption in the pricing methodology, then this should be disclosed as part of the pricing methodology,<sup>65</sup> BARNZ continues to consider that specified airports should be required to disclose their WACC as a specific information disclosure requirement. A comparison of the return earned by the regulated supplier against an appropriate cost of capital is a key component in the analysis by interested parties to determine whether the objective in s52A(1)(d) of ensuring suppliers are limited in their ability to extract excessive profits is being met. Disclosure of the cost of capital the airport considers appropriate, is a relevant (albeit not determinative) factor in interested persons assessing whether the specified airport is targeting a return which is greater than a normal return and whether in fact the specified airport has earned excessive profits.

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<sup>65</sup> Commerce Commission, Information Disclosure Discussion Document, para 824.

# BARNZ Board of Airline Representatives New Zealand Inc

## BARNZ PROFILE

1. The Board of Airline Representatives New Zealand Inc (“BARNZ”) is an incorporated society comprising 23 member airlines operating scheduled and code share international and domestic services. Its members are:

Full membership:

<i>Aerolineas Argentinas</i>	<i>Air Calin</i>
<i>Air New Zealand (Group)</i>	<i>Air Pacific</i>
<i>Airwork</i>	<i>Air Tahiti Nui</i>
<i>Air Vanuatu</i>	<i>Asian Express</i>
<i>Cathay Pacific Airways</i>	<i>Emirates</i>
<i>EVA Airways</i>	<i>Fieldair</i>
<i>Japan Airlines (code share)</i>	<i>Korean Air</i>
<i>LAN Airlines</i>	<i>Malaysia Airlines</i>
<i>Pacific Blue</i>	<i>Qantas Airways (incl Jetstar)</i>
<i>Royal Brunei</i>	<i>Singapore Airlines</i>
<i>Thai Airways International</i>	

Associate membership:

<i>Garuda Indonesia (code share)</i>	<i>Menzies Aviation(NZ) Ltd</i>
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2. The objectives of BARNZ include:
- (i) the establishment of recognised means of communication between member airlines and other bodies whose interests or actions affect member airlines and the aviation industry;
  - (ii) representation of members in matters affecting their common interests;
  - (iii) determining the position of members on legislative, judicial and administrative actions affecting the provision of air services and the representation of member airlines before decision-making bodies;
  - (iv) the promotion and advancement of the interests of its members in relation to scheduled international and domestic airline operations at New Zealand Airports.