

**Submission by NZ Airports Association on
the Commerce Commission Information
Disclosure Discussion Paper**

11 September 2009

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Supporting Paper on Airport Masterplanning prepared by Peter D Smith

Introduction

1. New Zealand Airports Association ("**NZ Airports**") makes this submission to the Commerce Commission ("**Commission**") on the Information Disclosure Discussion Paper ("**Discussion Paper**") issued by the Commission on 29 July 2009. This submission is made on behalf of Auckland, Wellington and Christchurch International Airports ("**three Airports**") and should be considered as the submission for each of those airports in their own right.

NZ Airports has provided comment on the Discussion Paper only as it relates to airports. This submission should be read in conjunction with the submissions and cross submissions by NZ Airports and the three Airports on the Commission's Regulatory Provisions of the Commerce Act 1986 Discussion Paper published on 19 December 2008 and the Input Methodologies Discussion Paper published on 19 June 2009.

2. NZ Airports will be pleased to provide any further information required in support of this submission.

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3. The submission is divided into two parts:
 - The first part provides NZ Airports' comments on the intention of and requirements for information disclosure for the three Airports.
 - The second part provides responses to the relevant questions raised by the Commission in the Discussion Paper.

Timetable and consultation

4. NZ Airports is aware that the Commission is working to a demanding statutory timetable and that this necessitates the Commission's development of the Part 4 input methodologies and the design of the information disclosure requirements to be undertaken simultaneously.
5. Nevertheless, given the long-term importance of this regulation for airports, airlines, passengers and other interested parties, it is critical that airports are given the fullest opportunity to consider the Commission's proposed input methodologies and information disclosure requirements as a package and to respond on an informed basis.
6. NZ Airports encourages the Commission to:
 - Notify the airports at the earliest opportunity of any changes to the Commission's thinking or proposals (this should be done in advance of issuing any formal documentation).

- Ensure that it provides sufficient opportunity for the airports to fully consider the Commission's proposal over a reasonable time-frame. Consultation on the Commission's documents in the past year has been undertaken within very short time-frames for significant and complex long-term issues.
- Conduct workshops with airports following the conference to discuss and test the Commission's proposals. NZ Airports will respond to any requests by the Commission to arrange workshops in the shortest possible time frame. In particular, NZ Airports encourages the Commission to work directly with NZ Airports and BARNZ in the prospective workshops to resolve final disclosure requirements as efficiently as possible.

NZ Airports considers that two potential topics for workshops are:

- Identifying more accurately the scope of information required to be disclosed to meet the purpose of information disclosure; and
- Ensuring that the disclosure requirements are developed in the most efficient and cost-effective way.

7. NZ Airports welcomes the decision by the Commission to consider airport information disclosure requirements as a separate stream of work (from other utilities) and we look forward to engaging with the Commission in the workshops proposed for the final quarter of 2009.

PART ONE: APPROPRIATE INFORMATION DISCLOSURE REGULATION FOR AIRPORTS

Executive Summary

Information Disclosure Needs to be Fit for Purpose

8. Information disclosure is the most light-handed regulatory instrument available to the Commission under Part 4 of the Commerce Act 1986 ("**Act**"). Its purpose as stated in section 52A is "*to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 of the Act is being met.*"
9. NZ Airports believes that whilst the Commission has correctly interpreted the intent of the new information disclosure requirements under Part 4 of the Act, its specific proposals go beyond the purpose of the information disclosure regime by proposing airport disclosure requirements which are unreasonably onerous, expensive and are entirely different in scope and detail to the disclosures which are currently in place.
10. The Commission states that a similar scope, detail, prescription and consistency of disclosed information is required for all suppliers of regulated services. NZ Airports considers that this is incorrect. The Commission needs to recognise that:
 - airports are not subject to price control;
 - airports are different to electricity network businesses;
 - airports are subject to industry specific regulation; and
 - the Part 4 regime gives the Commission sufficient flexibility to tailor appropriate information disclosure for airports to best meet the purpose of information disclosure regulation.
11. In short, "one size should not fit all".

Cost of Disclosure Disproportionate to Potential Benefits

12. NZ Airports considers that the level of prescriptiveness proposed by the Commission does not recognise the existing obligations for airport companies, or the cost of providing this information. This is notwithstanding that the Commission states that it is mindful of the need to implement a least-cost regime and utilise existing processes and reporting.
13. One of the Commission's four implementation principles is cost-effectiveness. NZ Airports believes that the Commission needs to reconsider the proposed level of prescriptiveness of information disclosure to ensure that this principle is met. This includes ensuring that its proposals are proportionate to the risk or problem the regulatory requirements seek to address.
14. NZ Airports considers the proposal to require the disclosure of detailed policies (such as delegated authorities) and detailed consolidated asset management plans ("**AMPs**") is evidence of disproportionate regulation.

15. NZ Airports also notes that airports have commercial arrangements with individual users where increased disclosure could reduce airline competition.
16. Given the increased cost of regulation forecast by the airports it is essential that the Commission ensures that perceived benefits are effectively evaluated and attainable for the industry. The prescriptive approach proposed by the Commission will lead to a substantial increase in costs for the industry, with airports estimating a total cost of \$9.8 million for 2009-2011. The Commission's costs account for over a quarter of this total.
17. This cost is unjustified in the context of a light-handed regulatory regime given that no problems in the airport sector have been identified and there has been no assessment that the proposed approach will give rise to greater benefits. In fact, as highlighted in NZ Airports' submission on the Input Methodologies Discussion Paper, the sector is delivering significant benefits for consumers through enhanced competition which has been facilitated by airport investment.

Duplication of Existing Airport Obligations

18. NZ Airports submits that the Commission must have regard to existing airport obligations, in particular under the Airports Authorities Act 1966 ("**AAA**") and the requirements of the New Zealand Civil Aviation Authority ("**NZCAA**"). This is not to ignore the information disclosure requirements under the new Part 4, but to remind the Commission of the context in which the new regime is being developed.
19. The AAA requires the airports to deliver comprehensive information during consultation with airline customers for pricing reset determinations including ex ante capital expenditure.
20. In addition, regulatory requirements for aerodrome asset management are mandated by the NZCAA, including annual audits of compliance.
21. Any perceived shortcomings regarding the existing disclosures or processes are matters for another forum, and not relevant to the Commission's task at hand.
22. The Commission should also consider that information disclosure is intended to work in tandem with the AAA consultation regime. That is, information disclosure under Part 4 should complement the AAA consultation, and not require duplication of all information that is not necessary for the specific purpose of information disclosure. Conversely, information disclosure should not be used to fix any perceived deficiencies in the information provided under AAA consultation.
23. While we appreciate that the Commission has an important role in establishing a robust information disclosure regime under Part 4, we are concerned to ensure that the disclosure requirements do not inadvertently reduce incentives to reach pragmatic commercial agreements appropriate to meet specific circumstances.
24. The disclosure and resulting constraints imposed on airports outside of the Part 4 regime should be recognised by the Commission as it seeks to deliver Parliament's intention for a light-handed regulatory approach which is cost effective and promotes efficiency, rather than adding inefficiency and duplication into existing processes which have not been shown to be "broken".

Interested Parties

25. To be fit for purpose, the disclosed information should be as simple and clear as possible, so it can be understood and used by *all* interested parties.
26. Informed parties with more sophisticated and detailed information requirements can currently access the necessary information. Airlines receive comprehensive information under the AAA consultation regime. The Commission has statutory powers to gather information for regulatory purposes. Information disclosure is not required to replicate, replace or fulfil information requirements which could be met under the AAA regime.
27. If information disclosure requirements are tailored to meet the needs of the otherwise informed parties, and therefore results in disclosure of complex and detailed information, there is a high risk that information disclosure will discourage the majority of interested parties from engaging in an assessment of whether the Part 4 purpose statement is being met.
28. The Commission has acknowledged that interpreting some proposed disclosures, such as AMPs, may be beyond the expertise of some interested parties and therefore proposes to inform them by undertaking its monitoring and analysis role. NZ Airports agrees that the Commission has an important role to promote understanding of airport performance as required by the Act, but is concerned to ensure that this role is not used in place of the primary requirement to ensure that disclosed information is able to be used by interested parties to assess whether the purpose of Part 4 is being met.
29. Airport disclosures can be provided in an appropriate manner that allows effective engagement at a non-technical level. NZ Airports provides recommended disclosures later in this submission.

Incorrect Replication of the old Part 4A

30. The Commission is proposing that the regime for airports replicates the disclosures regime developed under the previous Part 4A for electricity lines businesses. The old Part 4A information disclosure regime was developed under a fundamentally different legal framework, and complemented a targeted price control regime.
31. The new Part 4 therefore requires a fresh approach to information disclosure for airports, which also recognises the significant differences between the airport and network industries.
32. Unlike the previous Part 4A, the new Part 4 also contains specific reference to the requirement for the Commission to give due regard to incentives for investment and innovation.

Misinterpretation of the Consistency Principle

33. The Commission has applied the consistency implementation principle to create a set of measures that facilitates comparisons across regulated suppliers to assess their relative performance at a point in time.
34. The Commission justifies this approach on the grounds that consistency of disclosures between the regulated suppliers is desirable. However, the consistency principle actually requires that the Commission applies its regulatory decision-making in a consistent and fair

manner across regulated suppliers in similar circumstances. Such an approach needs to reflect the implementation principles of flexibility, transparency and cost-effectiveness.

Qualitative Service and Quality Measures

35. NZ Airports note that the Commission has acknowledged the joint NZ Airports/BARNZ proposal for a range of quality performance measures. The challenge in designing a set of officially endorsed ratios and measures that businesses are required to calculate and publish is to avoid the lessening of incentives for risk taking and efficiency improvement. NZ Airports looks forward to engaging with the Commission and BARNZ further in this area.
36. NZ Airports agrees that passenger surveys are important, but considers that caution should be exercised in interpreting qualitative surveys, for example about terminal ambiance, which may excite public criticism and speculation but will not always be commensurate to more effective investment or operation of the airports. Context will be important for all service quality metrics.

Specific Concerns - Asset Management Plans

37. Of particular concern to NZ Airports is the proposal that airports may be required to complete an annual AMP. In proposing this requirement, the Commission appears not to have considered the unique nature of airport assets, their particular differences from energy distribution companies, and the consequential differences in asset management disciplines that this requires.
38. A highly prescriptive annual provision of an AMP and forecasts will be extremely expensive and disruptive and of negligible benefit in actually enhancing investment or efficiency by airports.
39. Airport Master Plans ("**Master Plans**"), in combination with comprehensive service quality reporting and financial variance commentary, will allow the purpose of section 53A to be met in a cost-effective manner.
40. The requirement for AMPs to be prepared by electricity distribution companies followed a significant failure in electricity infrastructure that led to the power outage in the Auckland central business district in early 1998. No such systemic failure has occurred in the airport industry and established safety regulatory requirements for aerodrome asset management are mandated by the NZCAA, including annual audits of compliance, which means a very high international standard of risk management applies at airports.
41. Imposing an industry standard on airports for asset management planning would come at a considerable cost to the airports, yet no systemic industry failure is evident for airport asset management. Considerable external support would be required from external engineers and other advisors to enable the technical components of the proposed AMPs to be updated and the cost to have these externally audited and certified by directors should not be underestimated.
42. NZ Airports believes sufficient information can be provided via means other than AMPs as developed for utilities, so that over the long term, interested persons can monitor whether or

not regulated suppliers face appropriate incentives to innovate, improve efficiency and provide services at a price and quality that reflects the demands of consumers.

43. Airports already prepare (at considerable cost) long-term Master Plans which provide long-term asset development scenarios. These Master Plans achieve much of what the Commission proposes to achieve with the AMPs but given their cost, they are typically undertaken by airports every 5 to 10 years. Master Plans are publicly available to all interested parties and extensive consultation is undertaken with interested and affected parties before the Master Plans are finalised. Further consultation also occurs before construction projects are commenced to understand the price and quality demands of consumers. NZ Airports, in conjunction with BARNZ, has also developed a number of service and quality indicators which will allow assessment of whether or not airports face appropriate incentives to innovate and the quality of services and facilities delivered by airports.
44. Furthermore, NZ Airports is concerned that the Commission's objective with annual disclosed AMPs is to encourage the regulated airports to undertake efficient investment. NZ Airports submits that this goes beyond the limits of information disclosure under the Act. The AAA is the appropriate regulatory regime for reviewing investment decisions.

Specific Concerns – Performance Measures

45. The Commission proposes a range of specific ratios, or “performance indicators”. We note that the Commission has acknowledged the joint NZ Airports/BARNZ proposal for a range of quality performance measures. Much of the Commission’s work is consistent with the proposal and we anticipate engaging with the Commission to achieve final determinations.
46. The investment performance indicators proposed by the Commission are, in NZ Airports' view, inappropriate due to the intermittent nature of airport investment. The proposed indicators make the analysis of airport performance through measures related to asset base values uninformative, as the intermittent investment will distort the ratios and not allow sufficient comparability since investment occurs over different time profiles for the three Airports.

Recommendation - Performance Measures

47. NZ Airports recommends more appropriate performance indicators to be:
 - Innovation and investment and annual capital expenditure reporting - annual high level comment on changes / progress vis a vis published Master Plans; high level comment on annual capital expenditure programmes; an innovation statement summarising innovations the airport company has implemented itself, or through collaboration with airlines or Government agencies and other suppliers of aeronautical services.
 - Efficiency – ratios should relate to passenger numbers since this is the key driver of airport performance and this will also facilitate simple and readily understood comparison between airports.
 - Quality – NZ Airports and BARNZ have provided the Commission with a recommended package of performance measures – refer to Appendix 1 for a copy of the proposed approach.

- Prices and profits – return on investment (“ROI”) can be compared to a range of feasible asset bases to enable assessment of returns by informed parties in a competitive market context. However, as noted earlier, due to the intermittent nature of airport investment, ratios will be distorted and difficult to compare with other airports. Operating profits per passenger is one useful indicator because it allows comparison between airports. This is also subject to the overall caveat that weight should only be placed on ROIs if there is a substantial time series, given the volatility of profits.

48. NZ Airports recommends the following summary to replace the Commission's proposal for performance indicators in Table 23 on page 180 of the Discussion Paper.

Key Performance Area	Performance Indicator	Method of Calculating
Innovation and investment	Annual update comment on Master Plan	Commission assessment as part of the summary and analysis
	Annual comment on Capital Expenditure	Commission assessment as part of the summary and analysis
	Innovation statement	Commission assessment as part of the summary and analysis
Efficiency	Operational expenditure ratio	<u>Operational expenditure</u> Passengers
	Overhead operational expenditure ratio	<u>Overhead expenditure</u> Passengers
	Maintenance expenditure ratio	<u>Maintenance expenditure</u> Passengers
	Average price per unit	<u>Total aeronautical revenue</u> Passengers
Quality	Annual update comment on capital expenditure	Commission assessment as part of the summary and analysis
	Capacity Utilisation	Number of measures per NZ Airports/BARNZ proposal
	Customer Perception	Number of measures per NZ Airports/BARNZ proposal
	Service Interruption	Number of measures per NZ Airports/BARNZ proposal
Prices and Profits	ROI	<u>Regulatory profit</u> Asset base(s)
	Operating return	<u>Regulatory profit</u> Passengers

Recommendation - Timing of disclosures

49. NZ Airports summarises below its recommendations on the timing and level of information which would be appropriate to provide sufficient information and indicators to a broad range of interested parties, such that the purpose of section 53A is met. It considers the priorities of interested parties, the industry factors important for measuring airport performance, and information disclosure implementation principles in order to provide timely, relevant and understandable information to a broad set of interested parties. It does not duplicate the

forecast information required to be produced under the AAA consultation regime, which we submit should not be included in the Information Disclosure regime being designed by the Commission under Part 4.

Proposed information package:	Information to be included:	Information period	Timing of disclosure
Annual disclosure of financial performance	<ul style="list-style-type: none"> • Regulatory Profit Statement • Regulatory Asset Statement • Regulatory Tax Calculation (if the Commission retains tax payable approach) • Financial Performance Indicators <p>(All information to be provided through completion of the Commission's templates)</p>	12 months based on the financial year of the reporting airport	Within 5 months after balance date
Annual disclosure of service level performance and priorities comment on investment and innovation	<ul style="list-style-type: none"> • Customer perception survey outcomes • Reliability of aeronautical services (detailing service interruptions) • Capacity and utilisation statistics • Commentary on performance outcomes from service quality reporting • Update comment on Master Plan • Comment on capital expenditure (to address areas requiring consideration from the service quality reporting) • Innovation statement 	12 months to end of Q3	By balance date

Application of Statutory Requirements for Airport Information Disclosure

Concerns with the Commission's general approach

50. NZ Airports agrees with the Commission's core analysis of the statutory requirements for information disclosure as outlined in the Discussion Paper. However, as the following commentary demonstrates, the application of that analysis should in fact result in a far less prescriptive and detailed regime than has been proposed in the Discussion Paper.

The Commission's analysis of the legal requirements is correct

51. The Commission is correct to recognise that for airports:¹

"The information disclosure regime is a stand-alone regime with the purpose of ensuring that interested persons have sufficient information to determine whether section 52A is being met."

52. The information disclosure regime is a stand-alone regime for airports, in the sense that airports are not subject to the price control provisions of Part 4. This compares to electricity and gas companies where information disclosure requirements may appropriately complement price-quality regulation.
53. However, for airports, the Commission should have due regard to the AAA regime, which Parliament intended to continue in tandem with the Part 4 information disclosure regime. The Commission should develop the information disclosure regime consistently within this statutory context, as outlined in this submission.
54. The Commission acknowledges that in designing an information disclosure regime for airports:²

*"The information disclosure requirements **should only require suppliers to disclose information that is necessary** to achieve the purpose of information disclosure regulation..."*

[Emphasis added]

55. The Commission correctly appreciates that its primary focus must be on the purpose of information disclosure and not the direct implementation of the economic principles embodied in the purpose statement objectives of Part 4. Although the Commission accepts these economic principles are "very important to price-quality regulation", it states that:³

*"they are only indirectly relevant to information disclosure regulation. This is because the economic principles are generally used to weigh up and consider the various ways that appropriate incentives could be directly provided. As noted above, **the incentives provided under information disclosure regulation are indirect. Information disclosure indicators must instead be predicated on the extent to which they allow interested persons to assess whether the purpose of Part 4 is being met.**"*

¹ Para 759.

² Para 758.

³ Paras 69 and 70.

The three dimensions of efficiency are relevant to the extent that they are helpful in framing the assessment around whether or not outcomes are improving for consumers over time. In particular, whether or not the supply of regulated services is becoming more efficient, and thus whether the purpose of Part 4 and the associated objectives in s 52A(1)(a) to (d) are being met over time..."

[Emphasis added]

56. These passages capture the key difference between an information disclosure-only regime and price-quality control under Part 4. Although the difference between the direct and indirect promotion of the Part 4 purpose statement objectives may appear subtle, the distinction is critical. If the information disclosure requirements, including the applicable input methodologies, are prescriptive and detailed to an extent that this distinction becomes blurred (ie the purpose of a requirement goes further than allowing an assessment by an interested party of whether the purpose of Part 4 is being met), then shadow price or quality control can result. This point was discussed more fully in NZ Airports' submission on the Input Methodologies Discussion Paper.

Incorrect application of the Commission's analysis

57. Despite the Commission's analysis of the legal requirements for information disclosure being correct, NZ Airports disagrees with key aspects of the Commission's initial views on the design of the information disclosure regime.
58. NZ Airports' fundamental concern is that the Commission considers it appropriate to attach the same level of detail and prescriptiveness to all suppliers, irrespective of whether other forms of regulation apply. The Commission's position is that:⁴

"Irrespective of whether other regulatory instruments apply to a supplier in addition to information disclosure regulation, the Commission's preliminary view is that a similar scope, detail, prescription and consistency of disclosed information would need to apply to all suppliers of regulated services in order to determine whether the Part 4 purpose is being met, and in order to promote a greater understanding of the performance of those suppliers."

59. NZ Airports' submits that, under Part 4 of the Act, this position is incorrect. Information disclosure regulation is not, by nature, a "one size fits all" regulatory instrument. Although there are core characteristics that will apply (to varying degrees) to the design of all information disclosure regimes, it is nevertheless necessary to shape an information disclosure regime that is appropriately targeted at the regulated businesses or industry concerned, and which is consistent with the relevant statutory provisions.
60. For suppliers that are also subject to price control under Part 4, the Commission is responsible for implementing a regime that will directly promote the purpose statement. Therefore, in designing an information disclosure regime which allows an assessment of whether Part 4 is being met, the Commission will need to tailor a regime that allows the outcomes delivered by price control to be assessed effectively. In that regard, a detailed and prescriptive regime may be appropriate and necessary, given that greater information rigour is required when suppliers are controlled on a forward-looking basis.

⁴ Para 759.

61. For airports, the information disclosure regime must allow an assessment of whether the market is delivering the outcomes sought by the Part 4 purpose statement. There is no price control, and there is no "one size fits all" approach. Assessment must be on an ex post basis, having regard to the constraints and information disclosure requirements that already exist under the AAA. In the case of airports, a less detailed and less prescriptive regime is therefore appropriate to meet the purpose of information disclosure.

62. The Commission has previously accepted that, in the context of electricity lines businesses, the design of information disclosure should be different when it complements a form of price control. In its 2005 Review of Information Disclosure Regime Discussion Paper, the Commission signalled that the role of information disclosure was integrated with the parallel targeted control regime:⁵

"In the Commission's view, it is important to view these roles within the context of the whole of the Part 4A provisions and especially to consider the interaction of the information disclosure regime with the targeted control regime."

63. In light of the Part 4A regime, the Commission was of the view that the information disclosure regime and the targeted control regime were in fact intended to be "complementary":⁶

"The inclusion of both regimes under Part 4A and the fact that both share a common overall statutory purpose ("to promote the efficient operation of markets directly related to electricity distribution and transmission services") suggests that the two regimes are intended to be complementary."

64. Given this position, NZ Airports disagrees with the Commission's view that it should draw on its previous experience of information disclosure regulation for electricity lines businesses under Part 4A, in the implementation of an information disclosure regime for airports. NZ Airports is concerned that the Commission has stated that "*the performance indicators and components of disclosed information proposed for the purpose of Part 4 are based on this experience*".⁷

65. The purpose of information disclosure under the old Part 4A was fundamentally different to that under the new Part 4. The repealed Part 4A information disclosure purpose statement was as follows (old section 57T):

"the purpose of this subpart is to promote the efficient operation of markets directly related to electricity distribution and transmission services by ensuring that large line owners and large electricity distributors make publicly available reliable and timely information about the operation and behaviour of those businesses, so that a wide range of people are informed about such factors as profits, costs, asset values, price (including terms and conditions of supply), quality, security, and reliability of supply of those businesses".

[Emphasis added]

⁵ Review of the Information Disclosure Regime Discussion Paper, 13 October 2005, para 57.

⁶ Review of the Information Disclosure Regime Discussion Paper, 13 October 2005, para 58.

⁷ Para 109.

66. Accordingly, the old Part 4A information disclosure regime was intended to directly promote efficient outcomes and, on the Commission's own analysis, complemented a targeted control regime. Information disclosure under the old Part 4A was intended to be far more invasive, and it was therefore appropriate to require a level of detail and prescriptiveness that is not warranted for airports under the new Part 4.
67. In NZ Airports' view, these differences are fundamental. The Commission's view that it can simply import the old Part 4A information disclosure regime into a new regime for airports under Part 4 is incorrect. We urge the Commission to reconsider its position, and to consider the recommendations put forward in this submission.

Implementation principles

68. In NZ Airports' view, while implementation principles can be helpful at a conceptual level, the principles must not be applied incorrectly or in a manner that leads to the Commission making regulatory decisions that are not justified under the statutory framework. In that respect, NZ Airports believes that the consistency principle has been misapplied.
69. NZ Airports considers that the Commission should review its current proposal for airport information disclosure against the implementation principles of flexibility, transparency and cost-effectiveness (which, as discussed below, should include proportionality). NZ Airports believes the Commission needs to re-assess its application of the principles as the current proposal does not provide sufficient flexibility for any of the airports to disclose a fair reflection of their performance.
70. NZ Airports submits that an appropriate application of the implementation principles would lead to a simplified information disclosure process for airports such that the section 53A purpose statement is met, while achieving significant efficiencies over the Commission's current proposals.

Consistency does not require detail and prescriptiveness

71. One of the Commission's key justifications for requiring a detailed and prescriptive regime is to ensure consistency in disclosure to allow comparability:⁸
- "Comparability will be assisted by ensuring that information disclosure determinations are prescribed in sufficient detail to result in a basis for comparison. Higher level determinations would give greater scope for differences in applications."*
72. In NZ Airports' view, the Commission's application of the consistency implementation principle in this way is misplaced.
73. The Commission sets out the following statement in the Input Methodologies Discussion Paper which, in NZ Airports' view, is correct:⁹

"The criterion of consistency stems from two considerations. First, there is the need to reduce uncertainty. This requires a consistent promotion of the purpose statement. Equally, the need for consistency stems from the

⁸ Para 77.

⁹ Para 2.76 of the Input Methodologies Discussion Paper.

principles of administrative law, which necessitate that regulatory framework principles be constructed and applied in a consistent manner in similar circumstances irrespective of the parties affected."

74. The consistency principle is about ensuring consistency and fairness in the Commission's regulatory decision-making. The Commission's approach in the Discussion Paper converts the "consistency" implementation principle into a principle that requires consistency and comparability in the disclosures across all regulated suppliers, which in NZ Airports' view, is inappropriate and unwarranted.

75. The Commission recognised in the Input Methodologies Discussion Paper that there are many dimensions, including consistency in decision-making over time in relation to developing and applying the regulatory framework in a consistent manner, in similar circumstances, and for consistency in input methodologies applying to the same types of goods and services. The Commission then acknowledged the limitation on extending this principle too far:¹⁰

"Of course, the ability for a consistent approach to be translated into similar treatment of different parties will be limited by differences between the regulatory instruments, differences between types of services, and differences between the regulated businesses, as well as a number of real-world constraints, such as the availability of supporting information or data."

76. The Commission itself has reinforced our concerns regarding the way it is seeking to apply the consistency principle.

77. We acknowledge that for information disclosure to be useful to interested persons, it must be understandable, relevant and reliable. While comparability is a worthy objective, it may not be achievable for every element of information disclosure, as it will impose undue cost. NZ Airports notes that comparability between airports will be more difficult in some areas than in others for the following reasons:

- The measures of innovation, investment and efficiency chosen by the Commission will give a misleading comparison between the airports. They are likely to be dominated by the differences in the airports' respective operating environments and scale, which would make them meaningless as comparative measures of innovation, investment and efficiency. The focus should rather be on the performance of each airport over time.
- The measures wrongly focus on the performance of an airport at a single point in time. Instead, the focus should be on trends and performance over time and business cycles. This is the role of the Commission's annual commentary.

78. The following fundamental differences between airports and utility companies also make any inter-sector comparison meaningless:

- As commented above, electricity and gas distribution companies are subject to other price control measures. The current information disclosure requirements for those companies complement the applicable price control measures, as

¹⁰ Commerce Commission Input Methodologies Discussion Paper, 19 June 2009, paragraph 2.78.

acknowledged in paragraph 50 of the Discussion Paper. Airports are not price controlled under Part 4.

- The nature of the products supplied by the network companies and airports are considerably different, as consumers have more discretion with respect to travel expenditure. Similar discretion does not exist with respect to energy.
- The energy companies are not subject to an external consultation regime in which highly motivated, well funded and expert industry participants (the airlines), scrutinise the pricing determinations extensively before prices can be set.

79. These are fundamental differences that should have a bearing on the role that information disclosure plays for each sector.

Cost of Proposed Information Disclosure Regime

80. The Commission states that it is "*mindful of the need to implement a least-cost regime that sufficiently informs interested persons whether the purpose of Part 4 is being met*" (paragraph X7 of the Discussion Paper).

81. The United Kingdom's Better Regulation Task Force has established five "Principles of Good Regulation" that regulators should bear in mind when devising, implementing, enforcing and reviewing regulation.¹¹ The Task Force lists proportionality as one of these five principles, stating that "*regulators should only intervene when necessary. Remedies should be appropriate to the risk posed, and costs identified and minimised*".

82. The Task Force maintains that policy solutions must be proportionate to the perceived problem or risk and justify the compliance costs imposed and that "*all options for achieving policy objectives must be considered - not just prescriptive regulation. Alternatives may be more effective and cheaper to apply*".

83. In line with good regulatory practice and in accordance with Parliament's intent, NZ Airports submit that the Commission has an obligation to ensure that it implements an information disclosure regulatory regime for airports consistently with this proportionality principle. It is in our view a critical aspect of cost-effectiveness.

84. As it stands, the extent of the burden that the airports would be expected to shoulder is not proportionate to the risk, particularly given Parliament's intention that the regime to be imposed for airports be a light-handed one. The purpose of information disclosure can be achieved largely through existing airport processes and reporting structures and therefore, it is contrary to the principles of good regulation if the Commission proceeds down its current path and imposes costly regulation beyond what is necessary to meet the information disclosure purpose statement.

85. The inclusion of the airports-specific subpart 11 in the Act has already had a direct cost impact for airports, through the obligation to fund the Commission's work in developing the new regulatory regime.

¹¹ Better Regulation Task Force, "Principles of Good Regulation", 2003
<http://archive.cabinetoffice.gov.uk/brc/upload/assets/www.brc.gov.uk/principlesleaflet.pdf>.

86. The proposed requirements in the Discussion Paper would result in considerable additional regulatory cost as follows:
- Each of the airports will need to employ additional resources to meet the increased disclosure requirements. There will be additional costs in the near future to develop processes to generate and report the initial information required by the Commission with a then reduced, but still substantial, annual cost to produce annual disclosures on an ongoing basis.
 - The prospective establishment of a separate asset base to be developed from the methodologies formed by the Commission would also be a significant development task if the regime does not commence with up to date valuations applying from July 2010 (we have submitted on the Input Methodologies Paper that assets should be valued at 2010). Constructing and maintaining a historical asset base will require considerable time and resources.
 - Standardised AMPs, as contemplated for utilities would, if they were imposed on the industry by the Commission, involve considerable effort and resource to prepare on an annual basis.
 - The Commission has proposed the disclosure of a plethora of policies. It is difficult to see how this disclosure is commensurate with a light-handed information disclosure regime.
87. The airports have formed high level cost estimates for the initial three year development phase of the new regime under the Act. The cost estimates include expected external advisory support and additional internal resources in line with the Commission's released timetable of work. A summary of these cost estimates is:

Party or Cost	2009	2010	2011
Airports	2,263,500	2,371,500	2,030,500
NZ Airports Association	217,000	250,000	50,000
MED Levy	900,000	1,230,000	400,000
Total	3,380,500	3,851,500	2,580,500

88. Over the three year period the costs will total an estimated \$9.8 million of which the Commission's costs would account for more than a quarter.
89. This is a substantial additional cost imposition on the industry that airports will not be able to recover unless they initiate a new consultation round with airlines under the AAA. Such consultation would incur even further unanticipated cost for the whole industry, while also diverting airport and airline management from undertaking the work necessary to meet the Commission's deadlines for the Commission's consultation on the new regime.
90. NZ Airports submits that the Commission should seek to minimise the costs for the industry by utilising existing airport processes and reporting where these meet the requirements of the section 53A purpose statement. We comment further on these matters below.

91. NZ Airport requests that the Commission:
- demonstrates the cost-benefit analysis supporting its approach as to what would constitute “sufficient information”; and
 - considers benchmarking its information requirements with other countries with a similar light-handed information disclosure regime (such as Australia) as a common sense check on the cost-benefit conclusions it has drawn.

The AAA Consultation Regime

92. NZ Airports is also concerned that the approach to information disclosure for airports, as expressed in the Discussion Paper, is not fit for purpose. When the proposals are read together with the proposals in the Input Methodologies Discussion Paper, the Commission is proposing a considerable increase in the regulatory requirements for airports without, as NZ Airports and the three Airports have submitted previously, having due regard to the existing obligations imposed on airports under the AAA regime.
93. The Commission appears to have undertaken no analysis to ascertain the proper scope of information disclosure under the Act to ensure that it does not unduly infringe on the AAA regime. In particular, it should be ensured that the AAA regime's benefits are not diminished. There is a high risk that if information disclosure is too prescriptive and/or seeks to influence pricing and investment behaviour, then incentives to reach efficient outcomes under the AAA will be lost, contrary to Parliament's intent. The outcomes under the AAA would be dictated by the information disclosure requirements under Part 4.
94. In NZ Airports' view, the Commission's comment that the AAA is a separate regime with a different purpose from information disclosure¹² does not give sufficient weight to the fact that they are nevertheless two parts of a broader regulatory regime.
95. If the complementary nature of the two regimes is ignored it will result in duplication of airport resources, which is clearly contrary to the objective of having a cost-effective regime and may serve to undermine the incentives for commercial compromise under the AAA.
96. It is true that only airlines directly receive consultation information under the AAA. However, the information that airlines receive from airports is not formally limited and airports will meet any reasonable request from airlines to ensure airlines are consulted on a fully informed basis. The airlines scrutinise this information over consultations that typically continue for at least 12 months. Disclosures pertain both to extensive historical and forecast information.
97. Accordingly, despite the fact that the information is not distributed to all interested parties, the AAA consultations place considerable restraint on the airports whilst also encouraging airports to seek efficiencies in their businesses. These restraints help to achieve the purpose of section 52A. In that context, it is unnecessary to require disclosure of information better suited to AAA consultation (eg forecasts) to all

¹² Commerce Commission Information Disclosure Discussion Paper 29 July 2009, para 757.

interested parties under Part 4, given that disclosure under the AAA has a more specific focus (eg price setting) than Part 4.

98. NZ Airports submits that the Commission must recognise that the Part 4 information disclosure regime and the AAA regime are complementary. This recognition will ensure that Parliament’s intended light-handed regulatory approach for airports is retained, needless inefficiency is avoided, and that proportionate regulation is delivered.

Interested Persons

99. The Commission has suggested at paragraph 53 of the Discussion Paper that the term "*interested person*" is broad in its application and includes all persons that are interested in the activities of a regulated supplier. This includes, but is not limited to, consumers, suppliers and owners of the regulated supplier, regulatory bodies (including the Commission) and any other stakeholder of the regulated supplier.
100. The term is not defined, so its meaning must be established within the context of the Act itself. We note that, under the information disclosure regime, the primary obligation of the regulated supplier is to publicly disclose the required information. There is a separate obligation to provide a copy of the publicly disclosed information to the Commission. NZ Airports therefore acknowledges that the term "*interested person*" can be broad in its application.
101. NZ Airports also accepts that the Commission is an "*interested person*", and that it has an important monitoring and analysis role.
102. However NZ Airports is concerned to ensure that the design of the information disclosure regime is appropriate for the broader group of interested persons. Many interested persons do not share the Commission's expertise and interest as a regulator or the more sophisticated information requirements of interested persons who have alternative means for obtaining the information they require.
103. In particular, NZ Airports is concerned to ensure that the information disclosed is simple and clear enough to be reasonably understood and assessed by the general public who are passengers and the end-users of airport services.

Consideration of Information Requirements for Interested Persons

104. Development of a separate information disclosure regime for airports should include the consideration of the nature of the parties forming "*interested persons*" and how their respective information needs (that go beyond the purpose of information disclosure under Part 4) may be met from other sources to avoid duplication of cost and focus on information gaps, where a cost-benefit case can be established. We summarise these points in the table below and follow with further explanatory comment:

Categories of Interested Persons	Role	Information Sources	Role of Information Disclosure under Part 4
Airlines, including BARNZ	Direct consumers of airport facilities and indirectly through services provided to	Direct experiences of airport quality, efficiency and	<ul style="list-style-type: none"> Provides supplementary reporting mechanisms for actual outcomes

Categories of Interested Persons	Role	Information Sources	Role of Information Disclosure under Part 4
	passengers	innovation AAA consultation information and direct and ongoing regular relationship with airport management Masterplanning process Consolidated annual reports	<ul style="list-style-type: none"> • Service quality and capacity utilisation reporting
Commerce Commission	Administers the Commerce Act	AAA consultation information (to the extent it is disclosed in accordance with confidentiality deeds) and wide statutory powers to request information Consolidated annual reports	<ul style="list-style-type: none"> • Provides supplementary reporting mechanisms for actual outcomes • Service quality and capacity utilisation reporting
Government Departments (eg MED, MOT, Treasury)	Transport sector policy advice to Government	If necessary, AAA consultation information can be supplied to assist their functions Consolidated annual reports	<ul style="list-style-type: none"> • Provides supplementary reporting mechanisms for actual outcomes • Service quality and capacity utilisation reporting
Passengers	Direct consumers of airport facilities	Direct experiences of airport quality, efficiency and innovation Masterplan Website Airport information disclosures	<ul style="list-style-type: none"> • Key focus of service quality and asset availability • Indirect interest in airport financial outcomes as payment of charges
Other members of public (including meeters and greeters)	Direct consumers of airport facilities and possibly other general interest	Direct experiences Masterplan process Website Consolidated annual reports	<ul style="list-style-type: none"> • Arrivals concourse quality in capacity utilisation reporting
Government agencies at airports	Direct consumers of airport facilities	Direct experiences of airport quality, efficiency and	<ul style="list-style-type: none"> • Key focus of service quality in capital utilisation

Categories of Interested Persons	Role	Information Sources	Role of Information Disclosure under Part 4
		innovation Direct relationship with airport management Masterplanning process Project consultation where impacted Consolidated annual reports	reporting
Airport property tenants (for airlines this is a distinct function from carrying passengers)	Direct consumers of airport facilities	Direct experiences of airport quality, efficiency and innovation Direct relationship with airport management Masterplanning process Project consultation where impacted Consolidated annual reports	<ul style="list-style-type: none"> Provides supplementary reporting mechanisms for actual outcomes at a consolidated level

It is inappropriate to establish "sufficiency" based on the requirements of informed parties with alternative methods to access information

105. Parties that have a designated regulatory function to oversee the performance of regulated businesses (the Commission), or provide policy advice to Government (Government departments) have alternative sources to obtain the information necessary to fulfil those functions.
106. Airlines are entitled under the AAA consultation regime to receive a wide range of comprehensive information regarding the airport companies that is necessary to ensure that they can engage on pricing and investment proposals on a fully informed basis.
107. The Commission should be careful to ensure that it does not seek to respond to any perceived inadequacies with AAA consultation by implementing an information disclosure regime for the purpose of resolving information "disputes" under the AAA regime. The airports refute any claim that inadequate information is disclosed, and the AAA provides the process for the resolution of such disputes in any event. Parliament has chosen to maintain that process.

Appropriate standard of "sufficient" information

108. The information disclosure regime, which is designed to provide a broader range of parties with access to information, should therefore be designed specifically to achieve the section 53A purpose.
109. Sufficient information disclosure should provide information that can be understood by the public and should be presented in a form that encourages engagement. Too little information and the purpose of information disclosure will not be achieved; too much information and it will become overwhelming and unintelligible to some interested parties.
110. In summary, NZ Airports submits that to ensure the information disclosure regime is fit for purpose and serves the needs of all interested persons, the disclosure requirements should be as simple, clear and non-technical as possible.
111. NZ Airports provides recommendations on an appropriate information disclosure regime for airports later in this submission.

Specific Concerns with Discussion Paper

Overview

112. In their submissions on the Input Methodologies Discussion Paper, NZ Airports, and each of the regulated airports, expressed considerable concern about the level of prescriptiveness proposed by the Commission for input methodologies. The Discussion Paper continues to show that a detailed and prescriptive approach to information disclosure is proposed by the Commission.
113. NZ Airports, and the individual airports, reiterate their considerable comment in earlier submissions on the performance of the aviation industry in New Zealand. In NZ Airports' view there is a high risk that:
- in the absence of work undertaken to identify whether a problem exists, the proposed information disclosure regime will amount to an extensive and costly approach to fix a problem that in fact does not exist; and
 - Parliament's intent for a light-handed and cost-effective regime will not be achieved under the proposed onerous approach.
114. In particular, the Commission's requirement for airports to complete comprehensive annual AMPs will add considerable cost for airports and will require detailed annual asset planning reviews that are out of step with the time frames for planning investment in, and development of, airport assets.
115. The Commission suggests at paragraph 80 of the Discussion Paper that consistency is only desirable if it can be achieved in a cost-effective manner. In NZ Airports' view the level of prescriptiveness proposed by the Commission is unlikely to be cost-effective, as the Commission is seeking comprehensive information on all issues that it addresses.
116. We also note the Commission's comment in paragraph 77 of the Discussion Paper:
- "Comparability will be assisted by ensuring that information disclosure determinations are prescribed in sufficient detail to result in a basis for comparison. Higher level determinations would give greater scope for differences in application."*
117. In a competitive market businesses endeavour to gain a competitive advantage by adapting to changes in circumstances. Overly-prescriptive regulatory approaches from the Commission will limit the flexibility and adaptability of the regulated firms who are operating in difficult financial times and very dynamic and complex market structures. As the Commission will only monitor high level indicators, it is appropriate that the Commission can prescribe high level approaches. Specifically in relation to airports, the difference in the business characteristics of the three Airports means that, in any event, comparisons will need to be supported by business commentary.
118. We also note comments made by the Commission (see, for example, paragraphs 48-49 of the Discussion Paper), concerning the potential influence of information disclosure on suppliers. We accept that information disclosure may indirectly influence suppliers. Indeed, the underlying rationale of any information disclosure regime is to promote transparency and accountability. However, NZ Airports wishes to emphasise that under

the Act the Commission's role is not to seek to influence, directly or indirectly, pricing and investment decision-making via the setting of information disclosure requirements. We are therefore concerned about the Commission's comment at paragraph 421 of the Discussion Paper that *"the effectiveness of suppliers' decision making may be increased by virtue of indirect incentives"* provided by the preparation of and disclosure of AMPs. This is an example of the distinction between price-quality control and information disclosure only regulation being blurred.

Core Information Disclosure Requirements

Regulatory Statements

119. NZ Airports agrees with the Commission's proposed approach to develop templates for completion by airports to provide the annual financial disclosures. NZ Airports would like to work with the Commission to develop these templates.
120. We comment on the regulatory statements proposed by the Commission as follows:
- Regulatory Profit Statement – we acknowledge the need for this statement and have provided comments on expense classification issues in our responses to the Commission's questions.
 - Regulatory Asset Statement – we also accept the requirement for airports to demonstrate annual changes in asset values. NZ Airports has submitted on the Input Methodologies Paper that the Commission should enable the disclosure of more than one asset base methodology and NZ Airports notes that Regulatory Asset Statements would be required for each asset valuation approach.
 - Regulatory Tax Calculation – NZ Airports has submitted on the Input Methodologies Paper that a tax expense approach should be the preferred method of calculating regulatory tax and on this basis a separate statement is not required.
 - Forecast Statement – NZ Airports notes that the provision of forecast information is not a normal feature of competitive markets other than where investment is being sought from the public, such as in a debt or equity issue. This is not the case in this instance and therefore should not be required. We refer again to the concern expressed by Auckland Airport that any public disclosure of forecast information would trigger NZX and ASX disclosure requirements.

In particular, capital expenditure forecasting for airports naturally carries with it significant risk of forecast uncertainty, primarily caused by two factors:

- volatility around passenger forecasting; and
- lumpiness and long lead times - planning and design lead times mean that projects prior to the construction stage can incorporate a 30% forecast variance.

At one stage, Auckland Airport provided three year forecasts of capital expenditure to the market, but ceased this practice due to continuous disclosure complications. An unintended consequence of information disclosure is that analysts focus on market sensitive data incorporated in any forecasts in information disclosure and

use this as leverage to require continual disclosure of forecasts to the market. For example, if a five or ten year forecast of capital expenditure is disclosed, airports that are required to meet listed company requirements would be required to update the market at any time, in relation to any material element of the capital expenditure forecast changed. This requirement to update the market on any material change to forecast information is specifically referred to in the NZX listing rule guidance note on continuous disclosure.¹³

We also note that Wellington International Airport Limited recently issued \$100 million of retail bonds which are listed on the NZX. Again, we highlight that the release of any forecast information would trigger NZX disclosure requirements.

NZ Airports believes the proposed information disclosure requirements exceed those of a light-handed regime and, in proposing them, the Commission has not exercised the principle of flexibility in considering the consequences of information disclosure as they relate to, and impact on, airports.

NZ Airports believes that, in the alternative, capital expenditure forecasts prepared at the time of aeronautical pricing consultation could be provided by airports on a confidential basis to the Commission. This information would already be held by major airline customers and BARNZ.

- Consolidation Statement – as the financial disclosures for the regulated businesses will be audited, NZ Airports does not consider that a Consolidation Statement is necessary. Full airport financial results are made available in annual reports providing total business outcomes. Interested persons have full access to this information.

Performance Indicators

121. We comment below on the key performance indicators set out in Table 23 of the Discussion Paper. Asset Management Planning is addressed separately in the next section.

Innovation and Investment

122. In NZ Airports' view, performance indicators for airport innovation and investment are better addressed through qualitative review of innovation and investment reporting rather than through ratios.
123. The intermittent or lumpy nature of airport investment, unlike the smoother requirement for renewal expenditure by the energy companies, means capital expenditure ratios for any one year, or periods of only a few years, have little meaning. Such information will not be relevant or enable any meaningful conclusion with respect to trends. The ratios will not show the relative airport commitments to ongoing investment and development because of the different time horizons for each airport's investments. For example, in the year in which a major investment project is completed, a capital expenditure ratio would be high while in most other years it would

¹³ NZSX and NZDX Listing Rules Guidance Notes, Continuous Disclosure, January 2005
http://static.nzx.stuff.co.nz/legacy/sxdx_continuous_disclosure.pdf.

be low. Different investment time frames for each airport mean there would be no usable trend information within, or between, airports.

124. A further challenge is that large airport investment projects are not limited to growth expenditure, but can also be renewal expenditure. As an example, refurbishing the surface of a runway is a significant undertaking that can be required every 10-30 or more years depending on the core construction of the runway. Despite the lengthy period, the refurbishment is renewal expenditure only. The same issue applies for taxiways, aprons and terminal expansions meaning that ratios can vary widely from year to year and airport to airport. In the case of Christchurch International Airport Limited, this work is carried out on a regular basis as part of the annual major maintenance programme.
125. On the other hand, there could be a tendency to under-report maintenance capital expenditure, as many major projects include growth and maintenance and the distinction is not always clear. Expenditure is likely to be reported as growth when this is the business driver for the project.
126. It is very difficult to see how any conclusion on investment performance can be drawn from such indicators or be easily interpretable, on an asset base value or by any other unit.
127. The Discussion Paper does not provide any guidance from the Commission on how it defines innovation. We consider a useful summary of this to be the following extract from an Australian Bureau of Statistics (ABS) Information Paper:¹⁴

“Koberg (Koberg et al 2003) also describes innovation as being either radical or incremental. Radical innovation is 'major in scope or breadth, involving strategic innovations or the creation of new products, services or markets' (ibid, pg. 23). It is sometimes also referred to as disruptive innovation, as it causes major changes in the industry or field in which it occurs (Thornburn & Langdale 2003). Incremental innovation is low in its breadth of impact, but far more common than radical innovation and includes activities such as significant improvement of existing processes, products and services (ibid).

Koberg also defines four broad categories of incremental innovation. These are: '...procedural (management-determined innovations in rules and procedures); personnel-related (innovations in selection and training policies, and in human resource management practices); process (new methods of production or manufacturing); and structural (modifications to equipment and facilities and new ways in which work units are structured)'.”

128. Innovation therefore includes a wide range of changes to business processes and/or assets.
129. We note that innovation is central to dynamic efficiency, and can be very difficult to measure in quantifiable terms. This is due in large part to the fact that dynamic efficiency gains are often realised over longer periods of time. We also note that a key

¹⁴ Australian Bureau of Statistics Information Paper Measuring Innovation: Towards Developing a Scorecard Tasmania 2008, page 1

driver for the reform of Part 4 was the Government's desire to provide greater incentives for dynamic efficiency.

130. In NZ Airports' view, it is critical that the information disclosure performance measures are suited to the difficult-to-measure nature of dynamic efficiency, especially in the airport context. Prescriptive or formulaic approaches are unlikely to enable a meaningful assessment by interested parties.

131. Paragraph 766 of the Discussion Paper comments:

“Given the importance of forecasts in determining if investment and innovation is occurring, the Commission’s preliminary view is that forecast information, where it assists in achieving the purpose of information disclosure, should be provided by all regulated suppliers, including suppliers of specified airport services.”

132. NZ Airports submits that the disclosure of forecasts is not required to determine whether investment is occurring. Annual financial reporting will demonstrate investment as it occurs. Master Plans also provide a longer term view of capital developments that will be required to meet expected future demand.

133. It is also clear that capital expenditure, including forecasts, cannot possibly provide any real indication of whether innovation (or more broadly dynamic efficiency) is occurring. For capital expenditure, innovation will be demonstrated by innovative construction techniques or enhancements to services that arise from the expenditure. Ultimately dynamic efficiency will be measured by airline and passenger satisfaction and productive efficiency over time, rather than any short term measure of dollars spent on capital expenditure.

134. The Australian Bureau of Statistics' Information Paper discusses the measurement of innovation and considers international examples. It is common throughout the examples in the paper that the measure of innovation is taken across a wide range of factors and either presented as a scorecard of measures or combined into an innovation index.

135. There is no suggestion in the paper that capital expenditure provides a useful indication of innovation and consequently NZ Airports submits that it should not be considered as appropriate by the Commission.

136. NZ Airports’ summarises its proposals, in comparison to the Discussion Paper's proposals for reporting on investment and innovation in the following table:

Proposed Performance Indicator	Proposed Method of calculating	Limitation	NZ Airports Recommendation
AMP review rating – innovation and investment	A qualitative statement of actions		Innovation statement to be reported by the airport May include comment on capital or operating projects, or on service quality process improvement

Proposed Performance Indicator	Proposed Method of calculating	Limitation	NZ Airports Recommendation
Capital expenditure ratio	Capital expenditure / asset base	Difficult to draw any conclusion on performance, even on a time series basis and certainly not for benchmarking.	No ratio proposed Reporting under service quality will allow a more relevant or useful assessment of whether investment is meeting consumer expectations and preferences over time Total capital expenditure reported in the context of renewal and growth expenditure and their context
Renewal ratio	Renewal expenditure / Depreciation	Ratio can be distorted by major renewal projects	No ratio proposed Report renewal capital expenditure, with commentary on the nature of major renewal programme
Capital expenditure growth ratio	Growth expenditure / undetermined denominator		No ratio proposed Report growth capital expenditure, with commentary on the nature of investment and service or capacity objectives

Efficiency - Expenditure

137. The Commission proposes that expenditure ratios be disclosed for total operating, overhead and maintenance expenditure. NZ Airports agrees that ratios indicating costs, and efficiencies achieved over time, are appropriate.
138. As acknowledged by the Commission cost, minimisation should not be obtained at the expense of quality. Equally, cost increases may be appropriate if consumer quality expectations have increased. A further complication for airports is the multi-party nature of service delivery. As the industry evolves and takes on board further technology, the boundaries of service between providers can change. Any service change will be based upon analysis of the relative efficiency of each supplier to provide the business.
139. It may be that it is more efficient for some aspects of service to be delivered by airports that are not doing so currently. This may take cost out of the operating base of border agencies or airlines, and add costs to airports, but in net terms provide a benefit to

consumers. While it will not be possible to control for such events this example shows the importance of adding context, in this case explaining a change in the management of a service to passengers, to any single metric proposed as performance indicators.

140. NZ Airports' primary concern with the cost based efficiency indicators is the proposed use of the asset base as the denominator for expenditure ratios. This poses the following problems for airports:

- With the exception of maintenance costs the asset base in itself is not a driver of a considerable portion of airport costs.
- Significant airport investment is intermittent and will greatly affect ratios when the investment is included in the asset base, such as, the building of new terminals every 40-50 years.
- Under the Commission's asset base approach, the asset bases would not reflect a current cost base, but operating costs would be in today's terms. This would produce inconsistent results.
- Asset bases can be affected by valuation inputs such as proximity to the city and type of aircraft operating at an airport whereas most operating costs are not affected by these inputs. A cost ratio based on assets would therefore not allow meaningful comparability between airports.
- The proposed approach runs counter to standard industry practice, which does not consider that costs per asset is a relevant indicator. Industry experts Jacobs Consultancy benchmark the following cost data:
 - total costs per air transport movement;
 - total costs per passenger;
 - total costs per airport throughput unit (airport throughput units are a regression based combination of passengers, freight and movements); and
 - operating costs per passenger.

Each of these four metrics captures both cost efficiency and relative differences in the scale / mix of operations of an airport. Like revenues, the appropriate base for consideration of cost ratios is passengers. NZ Airports submits that cost ratios should be reported on a real and nominal basis. This is consistent with international benchmarking practices.

Efficiency – Average Price per Unit

141. Airports have a considerable variety of business mixes and pricing structures that make both time series analysis and benchmarking of pricing schedules a complex challenge. Aeronautical revenues are priced differently between airports and different revenue streams can be collected per passenger, per movement, based on Maximum Certificated Takeoff Weight (of an aircraft) or based on particular lease terms.

142. New Zealand airports tend to benchmark themselves in this area in one of two ways:

- a comparison of aeronautical revenues per passenger; or

- looking at comparable turnaround costs for a particular aircraft with standardised load factors and particular services.
143. NZ Airports would support average revenue per passenger as a metric. This is a simple measure which is easily understood and the most common charging unit, and indeed the ultimate recovery mechanism for airline pricing.
144. Aeronautical revenue per passenger was proposed by the ACCC as the primary measure for aeronautical pricing. It is worth noting that during the consultation process only Virgin Blue submitted that reporting charges on a per passenger basis might misrepresent the effective charges and costs levied on airlines, since many activities are not simply passenger based. They requested that the ACCC report on particular charges for particular services and for particular service levels.¹⁵
145. However the ACCC concluded:¹⁶
- “A per passenger measure of revenue has the advantage of providing a consistent service definition and is a measure of cost to airlines expressed in terms of the most significant charging unit. A per passenger measure is likely to most closely reflect the average cost of airport services to the ultimate user of the services.”*
146. The Commission comments at paragraph 142 of the Discussion Paper that *“the most effective measure of pricing efficiency for each regulated service should be presented as the key indicator.”* NZ Airports submits that, for airports, this indicator should be the ratio of aeronautical income per passenger.
147. NZ Airports summarises its proposals, compared to the Commission’s proposals, in the following table:

<i>Proposed Performance Indicator</i>	<i>Proposed Method of calculating</i>	<i>Limitation</i>	<i>NZ Airports Recommendation</i>
Operational expenditure ratio	Operational expenditure / asset base	Denominator is not appropriate to the sector	Operating cost per passenger (per industry standard definition)
Overhead operational expenditure ratio	Overhead expenditure / asset base	A per passenger metric would be more easily understood by interested parties and is good industry practice.	Overhead cost per passenger
Maintenance expenditure ratio	Maintenance expenditure / asset base		Maintenance cost per passenger
Average price per unit	Total revenue / undetermined denominator		Aeronautical revenue per passenger

¹⁵ Virgin Blue Airlines Pty. Ltd., Submission to the draft price monitoring extract of the Airports Monitoring Guideline, 31 October 2007, p 2.

¹⁶ ACCC, Airports Reporting Guideline Information Requirements under Parts 7 and 8 of the Airports Act 1996 and Section 95ZF of the Trade Practices Act 1974, 2008, Statement of Reasons , pp 4-5.

Quality - Service Quality and Capacity Measures

148. NZ Airports and BARNZ wrote to the Commission on 29 June 2009 (a copy of the letter is attached at Appendix 1), recommending a proposed range of quality and capacity measures that could be applied in monitoring airport performance. The Commission was invited to provide feedback on this proposal.
149. While feedback has not been received to date, we note that in the Discussion Paper there is considerable commonality between the Commission's comment and the joint proposal. We also note that the Commission is seeking to further develop its views on capacity and utilisation measurement with the joint proposal providing some advice on this.
150. NZ Airports proposes that the Commission adopts the approaches contained in the joint proposal. NZ Airports would like to work with the Commission and BARNZ to further develop the measures into a form approved by the Commission for information disclosure.

Prices and Profits - Return on Investment ("ROI")

151. The Commission introduces the concept of ROI in Chapter 4 with the following comment:¹⁷
- "Various measures of financial performance have been considered, and while they all have their merits and limitations, the advantage of using the ROI is that it is the annual measure that is most comparable to the regulatory cost of capital, being the WACC."*
152. NZ Airports notes that comparability to a regulatory cost of capital is not relevant for companies subject only to information disclosure and the Commission has acknowledged this.
153. NZ Airports refers the Commission to the ACCC information disclosure requirements for airports in Australia, which were recently developed. During cross submissions Virgin Blue stated it would greatly appreciate reporting on the applicable WACC for each airport and any guidance the ACCC could provide in relation to benchmark inputs for inclusion in the formulation of the WACC.¹⁸
154. ACCC responded that its monitoring role does not extend to estimating or benchmarking the WACC of the airport operators. The ACCC does not require that airport operators provide an estimate of WACC. Importantly, under a regime comparable to information disclosure under Part 4, the ACCC uses a similar profit measure, they use the term Return on Assets ("**ROA**"), and this is broadly consistent with the Commission's approach for ROI.
155. The ACCC requirements determine the ROA as a pre tax return on average assets to avoid companies influencing the ratio through their choice of capital structure. We note that the Commission is proposing that the New Zealand airports should report on a pre and post tax basis.

¹⁷ Para 161.

¹⁸ Virgin Blue Airlines Pty Ltd, p 2.

156. In the post tax scenario, the Discussion Paper comments on the need for inputs to the ROI calculation to be consistent with the approach to setting WACC and calculating tax. WACC is not a relevant consideration as commented above however consistency in respect of the tax calculation requires the annual tax cost to be adjusted for the impact of the interest shield from debt financing. NZ Airports submits that it is not necessary for the Commission to establish any assumptions in respect of airport financing leverage or cost of debt ratios. It is sufficient for the airports to disclose the assumptions that they have used.
157. The pre tax approach is also consistent with the ACCC assessment of operating earnings per passenger which follows the reporting of costs and revenues on a per passenger basis. In our Input Methodologies submission NZ Airports submitted that there is a range of feasible asset valuation methodologies.
158. We note that in paragraph 292 of the Discussion Paper the Commission acknowledges that there are potentially different approaches to valuation, which can require different approaches to disclosures. This provides a further reason to allow the disclosure of more than one asset base.
159. NZ Airports propose that the ROI calculation should be completed for each underlying asset base, with the depreciation and revaluation inputs consistent with that asset base.
160. Commentary should also be provided to explain the critical differences between asset bases and the treatment of revaluations in each approach.
161. The approach to date of the airlines and the Commission on past revaluations has been to not properly apply economic principles in considering the treatment of unexpected revaluation gains. We consider the Commission needs to follow economic principles, and in particular an appropriate ex ante application of FCM in any future discussion on asset revaluation disclosures.

Asset Management Plans

162. NZ Airports believes that AMPs, as required for utility companies, ought not to be required as part of airports disclosure for the following reasons:
 - AMPs are not fit for purpose for application to airports;
 - The cost of AMPs is disproportionate to the benefits and is inconsistent with light-handed regulation; and
 - Sufficient information can be obtained in a more cost effective manner for consumers to assess whether regulated suppliers face appropriate incentives to innovate, improve efficiency and provide services at a price and quality that reflects the demands of consumers.

AMPs are not fit for purpose for airports

163. Paragraph 434 of the Discussion Paper states that:

“Under the information disclosure requirements currently applicable to asset management reviews for EDBs, the Commission undertakes (assisted by external experts) and publicly discloses an annual review of AMPs as part of its summary and analysis obligations under

the Act. This assists interested persons as not all interested persons will have the ability or resources to assess regulated suppliers' levels of innovation and efficient investment from the AMP disclosures."

164. The Commission acknowledges that AMPs will be of limited use to some interested persons, yet suggests that using its summary and analysis obligations it will be able to interpret and present the information in an understandable form for interested persons.
165. NZ Airports submits that this is inappropriate in the context of the information disclosure regime for airports, and is concerned that it does not meet the test of whether disclosure is limited to information sufficient to allow interested parties to assess whether the purpose of Part 4 is being met. Information that is of limited use to interested persons will not assist them in making that assessment.
166. This is not to ignore the importance of the Commission's summary and analysis function. Rather, NZ Airports is concerned that this role is not used in substitute for the primary obligation to only require disclosure of sufficient information.
167. The Commission comments at paragraphs 442-443 of the Discussion Paper that:

"As the Commission outlined in the Input Methodologies Discussion Paper, in a light-handed regulatory environment with no ex ante approval of investments, there is a need for transparency and accountability to ensure that interested persons are able to assess whether regulated suppliers are making effective decisions about ongoing investment. This is particularly true of sectors for which information disclosure is the only form of regulation that will apply, such as Airports and consumer-owned EDBs.

In these circumstances, it is the Commission's view that the value of AMP disclosures is increased as information disclosure is the only means by which interested persons can assess a regulated supplier's financial and service quality performance in light of internal processes and investment-related decisions."
168. We accept that transparency and accountability is important. However, we do not understand the logic that AMPs are more important if information disclosure regulation only applies. This implies that the real purpose of requiring disclosure of AMPs is to compensate for the fact that price-quality control does not apply, which would be inappropriate.
169. NZ Airports submits that the opposite is in fact true. If the regulatory threshold for imposing control has been reached, then this suggests a greater need for closely monitoring decision-making about investment and assessment of whether the Part 4 purpose statement is being met. This would be more consistent with the Commission's suggestions at paragraphs 421 and 422 that AMPs will help to improve the effectiveness of investment decision making and help ensure that only prudent and efficient capital expenditure is added to the RAB.
170. NZ Airports submits that seeking to influence investment decision making is outside the purpose of information disclosure under Part 4. The Commission should also recognise the specific requirements under the AAA, as retained by Parliament, for separate consultation on large capital expenditure projects. This requires an ex ante review of airport investments and ensures that the requirements for, and the cost of, proposed capital projects, are scrutinised in detail by the airlines. The AAA provides the

accountability and transparency sought by the Commission and should be acknowledged as an important part of the complementary regulatory regimes.

171. Paragraph 424 of the Discussion Paper states:

“The Commission considers that requiring the disclosure of an AMP may promote best practice asset management within regulated sectors. The Commission anticipates that regulated suppliers would apply best practice asset management principles in the preparation of their AMPs.”

172. NZ Airports submits that this purpose is outside the scope of the requirements of the Act. The Commission’s role is to ensure information is provided to interested persons, not to seek to influence management processes adopted by the airports. Clearly, best practice asset management is desirable. The point is simply that it is not the role of information disclosure regulation to seek to promote it.

173. That is especially the case given that airports already have strong requirements to follow best asset management practices in order to comply with NZCAA requirements and satisfy the NZCAA annual audits.

174. The proposal to use AMPs as a good practice tool appears to be without analysis of the airports' current asset management practices and other regulatory obligations, and therefore whether changes to these systems are required. Most importantly there is no evidence of any systematic or serious failure of airport asset management processes that has resulted in assets not meeting airline and passenger requirements. Without such consideration, introducing further comprehensive requirements such as AMPs can only lead to further cost and inefficiencies for the industry as a whole.

Nature of airport assets

175. The Discussion Paper notes the value of AMPs in the electricity business regulatory context. However, the requirement for AMPs to be prepared and disclosed for electricity businesses followed a major system failure in electricity supply with an outage in the Auckland central business district in early 1998.

176. A Ministerial Inquiry was established to review the circumstances surrounding the outage. The Ministry of Commerce reported on the Inquiry and the actions to follow:¹⁹

“22. It will be recalled that the Ministerial Inquiry into the Auckland power failure was critical of Mercury Energy's asset management planning and practices. The inquiry team recommended that the Government consider requiring publication of asset management plans as part of the disclosure regulations. The Minister of Energy announced on 21 July 1998, when the inquiry report was released, that he had directed officials to develop detailed proposals for disclosure of asset management plans.

23. Ensuring security of lines is a matter of legitimate public interest. The Ministry considers that disclosure of asset management plans will help promote strong incentives to put in place and maintain good practices within New Zealand, and will assist companies in demonstrating that they follow high standards.”

¹⁹ Discussion Paper Proposals for Amending the Electricity (Information Disclosure) Regulations, Energy Markets Policy Group Resources & Networks Branch, Ministry of Commerce, September 1998.

177. Security of supply issues do not exist for airports in the same way as for energy companies and, as a consequence, the same requirement for asset management planning for airports in the form proposed by the Commission is not justified.
178. NZ Airports does not see commensurate benefits flowing to consumers from AMPs as contemplated for utilities and therefore questions the cost-effectiveness of a standardised approach. Rather NZ Airports believes that AMPs are a solution looking for a problem.
179. It appears that the Commission's comments reflect its understanding of, and experience in, the regulation of network assets. For network companies much of the investment is passive once it is made and can operate for many years without significant replenishment or maintenance. Physical stress on the assets is derived not from their transmission function (other than through aging) but from external factors, unanticipated events or perhaps changes required from locational issues.
180. Airport assets are considerably different in nature, and fall into two main categories:
- Airfield surfaces, runways, taxiways aprons etc, are subject to high stress every day with potentially severe consequences if there is a failure. Considerable effort is therefore required by airports daily to ensure that the airfield surfaces remain fit for purpose. There are daily physical inspections of the surfaces and procedures are implemented to ensure that all airline and other users report foreign objects or potential damage to the surfaces as soon as they are observed. Repairs or reinstatement must be undertaken immediately once a fault is reported.
 - Terminal assets experience intense use of facilities by airlines, passengers and the public which results in immediate observation and identification of break downs and immediate resolution if delays to services are possible. Passengers are typically very intolerant of delays in their travel, and airlines intolerant of the cost of delays in on-time performance. This creates the requirement for immediacy to resolve asset failures which arguably does not exist for energy customers to the same extent.
181. Maintenance and short-term asset replenishment issues are therefore required to be resolved without delay because the nature of the airport business.
182. Standards are prescribed by the NZCAA in accordance with the standards of the International Civil Aviation Organisation for the management and maintenance of aeronautical assets. These are subject to internal quality assurance programmes and a strict compliance regime which is audited by the NZCAA. To maintain its NZCAA certification, each airport must meet strict design requirements and (at all times) provide and comply with a comprehensive set of policies and procedures, signed by the chief executive, which cover:
- the methods of ensuring ongoing compliance;
 - the titles, names, duties and responsibilities of the responsible senior people, and an organisation chart;
 - the aerodrome emergency plan;

- the rescue and fire fighting assets and personnel;
 - the environmental management programme (when required);
 - the internal quality assurance procedures;
 - the aerodrome maintenance programme including preventive maintenance and checks, inspection programme and reporting system;
 - procedures for works on the aerodrome; and
 - the security programme.
183. The majority of aeronautical assets fall within this regime, which reaches a level of detail commensurate with very demanding safety standards and high levels of public interest. Consequently, it is unnecessary for an AMP to duplicate these requirements, which already represent best international practice.
184. Airports operate at single sites with the major assets visible and fundamentally understood at a basic level by users. While airlines will understand the technical issues behind the assets, passengers can form their own views of the suitability of assets for their purposes each time they travel or visit the airport sites. This is a marked contrast from the energy companies where many of the assets are not visible to the consumer and therefore do not enable the consumer to form their own views on the quality of the assets.
185. Airport capital expenditure for the purpose of enhancing airport capacity is intermittent and characterised by large lump sums. Long development timeframes are required for capacity enhancement projects. Phases of these projects typically include:
- inclusion of long term capital expenditure requirements in Master Plans;
 - consultation with airlines on the requirement for the projects;
 - technical design;
 - consultation with airlines on operational design issues;
 - public consultation or notification processes depending on the project;
 - resource or building consent requirements; and
 - construction.
186. Projects of this type vary in length but are usually completed within a minimum of five years from commencement.
187. Any projects that have consequences for aircraft movements, which comprise the majority of projects at the regulated airports, require the application of considerable technical expertise from aviation experts to ensure that appropriate safety standards are maintained at all times. For example, to enable aircraft movements on the apron, the apron markings must be considered with movement lines required to be removed and repainted, sometimes for changes of little more than a metre.

188. For many projects this is a comprehensive, detailed and expensive process but the risk of failure cannot be tolerated.
189. In summary, the way aeronautical assets are used in practice, in combination with relevant regulatory obligations, already requires airports to maintain very disciplined asset management practices.

Master Planning

190. At paragraph 418 the Commission also comments that *"...the Commission considers that suppliers of infrastructural services subject to competitive market pressures would make the preparation and implementation of such a plan a priority, as part of good asset management practice."*
191. Day to day asset management is an important function for each of the airports. However, for the industry and consumer, asset management risks are greatest with respect to long-term planning, rather than day to day asset management where effective (but different) asset management practices exist between airports worldwide. The accompanying report by Peter D Smith,²⁰ explains how the airport industry has evolved its own 'industry specific' asset management discipline in the form of Master Plans for medium to long term planning. Airports consult with interested parties on major projects, and tend to consult well beyond that provided for in the AAA in order to understand the implications of major projects on interested parties and to ensure that price quality and efficiency trade-offs can be considered. In terms of annual asset management, airports must meet requirements mandated by the NZCAA and face annual compliance audits. Airlines, being extremely sophisticated users of airport services, also have significant opportunities to provide input on asset management through consultation under the AAA and through day to day management relationships between airline and airport operations personnel. This is a characteristic not found in the electricity industry.
192. Master Plans take account of 20 or more years into the future, require a considerable time period to complete, and incur a large cost – typically over \$500,000.
193. Master Plans are predominantly based on land use. This reflects the fact that the biggest risk to consumers is the airport's failure to plan for, and provide sufficient land to, meet capacity demand.
194. The fundamental components of Master Plans are:
- passenger and aircraft movement forecasts, both in terms of total numbers and expected peak hour volumes;
 - forecast of changes in aircraft types;
 - design of aircraft movement area requirements to accommodate aircraft types and forecast volumes;
 - design of terminal expansions to accommodate growth in passengers;

²⁰ See Annex to this submission, "Supporting Paper on Airport Masterplanning", prepared by Peter D Smith.

- consideration of long term land requirements including lay out and potential acquisitions;
 - consideration of long term environmental issues; and
 - financial feasibilities to ensure that the potential planning options are economically feasible.
195. Extensive consultation is required during preparation of Master Plans:
- With airlines to validate forecast and aircraft type assumptions.
 - With airlines to ensure design options best meet airlines anticipated requirements.
 - Regulatory agencies (civil aviation and border agencies) to cater for their requirements.
 - Local authorities concerning their planning requirements.
 - Any other interested parties, including residents in the locale of the airport.
 - The public at large may be surveyed in the project phase rather than when Master Plans are prepared. Nevertheless the Master Plans are typically readily available as public documents.
196. The comprehensiveness of the plans mean they take a long time to complete. In addition, due to the costs involved, the plans are usually only updated every 5-10 years.
197. In the intervening period, airport infrastructure can usually accommodate unanticipated short-term changes in volumes. This is because the construction of capacity enhancements is usually not commenced until existing assets are experiencing some degree of congestion, therefore justifying further construction. Construction projects then anticipate growth that will accommodate volumes for an estimated future period. Unanticipated growth will therefore shorten the period before consideration of further construction is required.
198. Master Plans consider these issues by linking anticipated future developments (both commercial and technological) to forecast volumes. While timelines of growth are included in Master Plans, if volume growth is faster or slower than forecasted, then the anticipated capacity enhancement projects can be commenced earlier or delayed as required.

The cost of AMPs is disproportionate to the benefits and is inconsistent with light-handed regulation

199. The nature of airport assets and Master Planning means that the proposed requirement for annual completion of an AMP will only lead to a costly additional process that adds no benefit under the purpose of information disclosure.
200. Whilst some information is currently collected as part of standard asset planning, the level of detail will differ and the technical nature of airport asset planning will mean that external advice would be required to prepare each plan and to review technical airfield planning assumptions. The publication of this information, along with the necessary

auditor and director certification will also add considerable cost for questionable benefit to an unidentified problem.

Sufficient information can be obtained in a more cost effective manner

- 201. Consumers need sufficient information to assess whether regulated suppliers face appropriate incentives to innovate, improve efficiency and provide services at a price and quality that reflects the demands of consumers.
- 202. NZ Airports submits that the Commission’s proposed purposes for AMP requirements (as listed in paragraph 419 of the Discussion Paper) can be met as follows:

Discussion Paper Objective (Paragraph 419)	NZ Airports’ alternative approach
Increase the amount of information thereby promoting the section 53A purpose statement	New disclosures in the form of innovation statements, quality /and reliability statistics Capital expenditure statements (included how consumer demands have been assessed) will allow interested parties to form an assessment.
Promote the engagement of suppliers and consumers	This already happens extensively with airport master planning, project planning and through a number of operational forums. Annual update comments on the Master Plans and capital expenditure will ensure the currency of the information and updates on supplier and consumer engagement is provided We note our earlier comments in this submission regarding the need to ensure information is designed for the appropriate audience.
Encourage suppliers to assess their own asset management processes and investment incentives	Airports assess their day to day asset management practices based on both the outcomes of reliability metrics included in service quality reports and NZCAA audits Commentary on capital expenditure and innovation, in conjunction with the service quality and capacity utilisation metrics will demonstrate the decisions airports are making to improve asset management and invest appropriately.

- 203. The Commission also indicated its objectives for AMPs in its 2006 Review of Electricity Information Disclosures. We note the Commission’s objectives below and we comment on how airports meet these objectives.²¹

“Asset management for electricity distribution business operations is the development and implementation of plans and processes, encompassing management, financial, consumer, engineering, information technology and other business inputs to:

²¹ Regulation of Electricity Lines Businesses Asset Management Plans Revised Information Disclosure Requirements and Handbook Decision Paper, 31 March 2006, para 10.

Commission's Requirements	NZ Airports' Suggestion
<ul style="list-style-type: none"> Assess and record the nature, location, condition and performance of its distribution system assets; 	<p>Airport assets are visible to users at a single location and consumers can form an immediate view on the suitability of assets through their personal travel experiences and/or experience as service providers that use aeronautical assets. These consumer perceptions will then be covered by service quality information disclosure.</p>
<ul style="list-style-type: none"> Develop and implement plans for the acquisition, creation, maintenance, operation, refurbishment, repair and disposal of its distribution system assets; 	<p>Master planning is undertaken. Annual service quality and fault reporting will provide information on maintenance of airport assets. Annual investment comment to interested parties by airports can address actual investment across these dimensions.</p>
<ul style="list-style-type: none"> Ensure that the level of service provided to consumers through the use of its distribution assets meets the business's internal targets and its regulatory and statutory obligations; 	<p>Annual service quality reporting as proposed by NZ Airports and BARNZ will provide advice of customer perceptions on service quality. Airport services targets to be considered when a time series of the customer data is obtained.</p> <p>Regulatory and statutory obligations for airports are overseen by the NZCAA including annual auditing of compliance.</p>
<ul style="list-style-type: none"> Minimise the risks associated with the failure or reduced performance of assets; 	<p>Annual service quality and fault/reliability reporting will report the failures of key assets with airports working with their airline customers to review significant failures.</p>
<ul style="list-style-type: none"> Develop, test or simulate and implement contingency plans to deal with events which have a low probability of occurring, but are realistic and would have a substantial impact on consumers; and 	<p>Considerable emergency planning requirements are mandated by the NZCAA and subject to annual audits. There are some circumstances where it is not appropriate for contingency planning to be made public given the airport security risks.</p>
<ul style="list-style-type: none"> In a way which minimises cost to consumers over the expected life cycle of assets." 	<p>The airport planning and regulatory management functions have been developed over many years and recognise the critical requirements for airport management. AMPs will not reduce the above functions but will add additional cost.</p>

204. In conclusion, the combination of the airport Master Plan, most recent capital expenditure analysis, and service quality reporting will enable interested persons to be informed over long-term planning and shorter-term asset management performance for each of the airports.

Recommended Information Disclosure Regime

205. NZ Airports is strongly of the view that an appropriate Information Disclosure regime can be developed that will meet the section 53A purpose statement whilst avoiding unnecessary duplication and cost for the airports, and ultimately higher costs to passengers.
206. The regime should recognise and not duplicate information that is already required to be provided to airlines under the AAA. It should also recognise that regulators have powers to obtain additional information if necessary. The primary objective should be to make the necessary level of information available to interested parties to enable them to consider if airports are achieving purpose statement objectives under section 52A.
207. NZ Airports agrees with the Commission that disclosures should be required in two tranches per year. NZ Airports proposes that the two tranches are:

Proposed information package:	Information to be included:	Information period	Timing of disclosure
Annual disclosure of financial performance	<ul style="list-style-type: none"> • Regulatory Profit Statement • Regulatory Asset Statement • Regulatory Tax Calculation (if the Commission retains tax payable approach) • Financial Performance Indicators <p>(All information to be provided through completion of the Commission's templates)</p>	12 months based on the financial year of the reporting airport	Within 5 months after balance date
Annual disclosure of service level performance and priorities comment on investment and innovation	<ul style="list-style-type: none"> • Customer perception survey outcomes • Reliability of aeronautical services (detailing service interruptions) • Capacity and utilisation statistics • Commentary on performance outcomes from service quality reporting • Update comment on Master Plan • Comment on investment and innovation including work undertaken and prospective expenditure by classification to address areas requiring consideration from the service quality reporting 	12 months to end of Q3	By balance date

Proposed information package:	Information to be included:	Information period	Timing of disclosure
	<ul style="list-style-type: none"> Innovation statement 		

208. With respect to the performance indicators summarised by the Commission we reproduce Table 23 from the Commission's report with NZ Airports' recommended approach shown below:

NZ Airports' Recommended Specified Airport Services Performance Indicators

Key Performance Area	Performance Indicator	Method of Calculating
Innovation and investment	Annual update comment on Master Plan	Commission assessment as part of the summary and analysis
	Annual comment on Capital Expenditure	Commission assessment as part of the summary and analysis
	Innovation statement	Commission assessment as part of the summary and analysis
Efficiency	Operational expenditure ratio	<u>Operational expenditure</u> Passengers
	Overhead operational expenditure ratio	<u>Overhead expenditure</u> Passengers
	Maintenance expenditure ratio	<u>Maintenance expenditure</u> Passengers
	Average price per unit	<u>Total aeronautical revenue</u> Passengers
Quality	Annual update comment on capital expenditure	Commission assessment as part of the summary and analysis
	Capacity Utilisation	Number of measures per NZ Airports/BARNZ proposal
	Customer Perception	Number of measures per NZ Airports/BARNZ proposal
	Service Interruption	Number of measures per NZ Airports/BARNZ proposal
Prices and Profits	ROI	<u>Regulatory profit</u> Asset base(s)*
	Operating return	<u>Regulatory profit</u> Passengers

* ROA can be reported against more than one feasible asset base.

209. NZ Airports submits that this combination of reporting and performance indicators will provide an appropriate balance of disclosures that will enable regulators, airlines and end consumers to form their own views on airport performance as required by section 53A.

PART 2: COMMERCE COMMISSION INFORMATION DISCLOSURE DISCUSSION PAPER QUESTIONS

- NZ Airports has not provided responses to the questions contained in chapters 11-13 of the Discussion Paper addressing the other regulated industries.
- In this submission NZ Airports has disagreed with some of the positions taken by the Commission, for example the necessity for AMPs. However, our responses to the questions provide feedback in the manner sought by the Commission.

Question No	Question	Page No	NZ Airports Response
1	<p>In your view, should the Commission's next steps in making information disclosure determinations for the regulated services be as outlined above?</p> <p>Please provide the reasons for your views.</p>	6	<p>The timetable proposed by the Commission is relatively tight, however NZ Airports appreciates that the Commission is working to a demanding statutory deadline.</p> <p>NZ Airports considers that the Commission should undertake the indicated workshops with NZ Airports and BARNZ in the final quarter of 2009 so they can seek to reach agreement on appropriate requirements for airport information disclosure. In particular, key topics that we consider need to be discussed further include quality measures and the level of information required for interested parties.</p> <p>NZ Airports is also cognisant of the Commission's development of input methodologies and notes the Commission's comment at paragraph 29 that the information disclosure determinations must also specify the input methodologies that apply. NZ Airports strongly submits that the workshops should also address further development of the input methodologies to enable cohesive consideration of information disclosure and input methodologies by the industry and the Commission.</p> <p>To date, the time frames given to airports to make submissions on the two Discussion Papers have been relatively short, despite the extensions provided by the Commission (which have been gratefully received). We would appreciate the Commission endeavouring to provide airports with further time to consider what will be critical long term issues and encourage the Commission to advance as much work as possible for airports into</p>

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			the final quarter of 2009.
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	<p>NZ Airports acknowledges that the Commission is taking a wide view of who may be considered as an <i>"interested person"</i>. In Part 1 of this submission we outline the prospective categories of interested persons and consider the information requirements for each category.</p> <p>The key point is that all interested persons, including the Commission, must be treated as having the same interest under the information disclosure regime. Subjective information preferences of different categories of interested parties should be irrelevant to the requirement to provide sufficient information for that party to assess whether the Part 4 purpose statement is being met. This means that:</p> <ul style="list-style-type: none"> • to allow all interested parties to make the assessment required by the purpose of information disclosure, the disclosed information should be simple, clear and understandable; and • the information disclosure requirements must not be set for the purpose of meeting potentially <i>"enhanced"</i> information requirements of particular interested parties. For example, information disclosure should not be tailored to the Commission's interests as regulator or the airlines' more sophisticated requirements. <p>We emphasise the comment from our submission that information disclosure must be fit for purpose and recognise that :</p> <ul style="list-style-type: none"> • Adhering to the principle of cost-effectiveness is important. This will require the Commission to be satisfied that the benefits of disclosure outweigh the cost of compliance.

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			<ul style="list-style-type: none"> • Those persons who require information for different purposes will have other ways of obtaining the necessary information. For example it would be inappropriate to require disclosure of information that should more properly be acquired under the AAA or the Commission’s information gathering powers under s53ZD and s 98. • As we have discussed in Part 1 of this submission, the AAA regime is intended to work in tandem with the Part 4 information disclosure regime. • Information disclosure processes already exist for owners of regulated suppliers, regulatory bodies (including the Commission), the public, consumers, suppliers and owners via the following forums <ul style="list-style-type: none"> ○ Incentives to innovate and invest – public Master Plans available to the broadest set of interested parties ○ Incentives to invest / efficiency / profits commentary contained with annual reports for owners ○ Prices and profits – consultation occurs with [suppliers], airlines and tenants • In determining whether the benefits of disclosure outweigh the cost we would expect to see some analysis of how the Commission has determined what information is necessary and how this has been informed. <p>We encourage the Commission to only require disclosure of information which will be relevant to the broader group of interested parties, particularly for passengers in a manner that is designed to enable them to form a view on the key areas of airport performance that are most critical to them.</p>
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	14	Properly designed performance indicators can assist interested persons to form a view on whether the Part 4 purpose is being met. However, in any published analysis the indicators can reflect a number of complex underlying causes and must be considered in

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	to be more appropriate.		<p>the right context, e.g. impact of other regulatory regimes, market circumstances, and timing issues. In addition, the interdependencies of performance indicators may need to be explained, e.g. lower prices may result in lower quality of service. These issues can be addressed by the airports commenting on the indicators in their annual information disclosure. This will be important to ensure the information is appropriately contextualised.</p> <p>NZ Airports believes that year on year comparisons of indicators will be most useful to interested parties. However the time frame over which indicators are assessed is critical with single year measures not being given undue weight. It may also be necessary to contextualise time series indicators. For example, an airport may have agreed to under-recover on a new asset in the initial years, with that under-recovery to be offset in later years. Without commentary this may be interpreted as “over earning”.</p> <p>Any comparison, by the Commission or other interested parties, to other suppliers must ensure that like is compared with like. For example, if New Zealand airports are compared to airports in other jurisdictions it must be ensured that the business models applied by each of the airports are comparable and remaining differences are explained.</p> <p>We note that the Commission intends to use its monitoring and analysis powers to help promote greater understanding of airport performance. We acknowledge that the Commission has an important role in this respect, but as we submit in the context of AMPs, these powers should not be used to justify the disclosure of technical and complex information that most interested parties are unlikely to understand or find useful.</p>
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 Part4 is being met? If not, please provide	18	NZ Airports supports the Commission's analysis of the legal and economic framework for information disclosure. That is, information disclosure is to facilitate an assessment, and it is not the Commission's role to directly, or indirectly, influence

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	<p>the reasons for your view, alternative principles and why you consider these are better aligned to the purpose of information disclosure.</p>		<p>behaviour or to try to directly promote the Part 4 purpose statement. NZ Airports is however concerned that the Commission's implementation and application of that analysis is problematic given the proposed detailed and prescriptive approach to information disclosure. We comment on each proposal of concern throughout this submission.</p> <p>We agree that normal returns and FCM are also only relevant to the extent that they assist with assessment of whether or not Part 4 is being met. It remains important FCM to be properly applied on an ex ante basis, as we submitted on the Input Methodologies Paper.</p> <p>The implementation principles are reasonable but the Commission gives little guidance as to how it will apply them. In respect of the proposals in the Discussion Paper we comment as follows:</p> <ul style="list-style-type: none"> • Cost effectiveness – NZ Airports appreciates the Commission's acceptance that disclosure should only be required where the benefits of disclosure outweigh the costs of compliance. However, NZ Airports would like to see greater clarity around how the Commission is assessing the cost effectiveness of the proposed increase in airport disclosures and how this is being weighed against the benefits conferred to interested parties. We refer to our comments in Part 1 of this submission, where we highlight the importance of the proportionality principle as an aspect of cost-effectiveness, and indicate various aspects of the proposals that are not cost-effective. • Consistency - NZ Airports accepts that consistency in disclosure is desirable in terms of information templates but not in terms of input methodologies; refer to our 31 July submission. The Commission comments that detailed and prescriptive requirements may be needed to ensure consistent disclosure. In our view, the Commission has incorrectly applied the "consistency" principle. Essentially, consistency should be about consistency in regulatory decision-making. The

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			<p>Commission appears to be using the principle as requiring consistency in the information disclosed by airports to promote comparability with regulated suppliers in other industries. This is not appropriate given the differences between the businesses.</p> <ul style="list-style-type: none"> Flexibility - NZ Airports supports the Commission's position that flexibility is required to allow regulated entities to disclose a fair reflection of their performance. This is critical, and in our view is more important than requiring prescriptiveness in an effort to facilitate comparability. We therefore appreciate the Commission's intention to consult with parties to identify where the proposed requirements may hinder the disclosure of actual outcomes. However, this is a limited consideration of the need for flexibility and we submit that the Commission needs to give further regard to this principle throughout the consultation process. <p>The aviation market is not static and as such significant changes in the industry can affect how outcomes from the industry can be considered. It is critical that any performance indicators are sufficiently high level to be enduring yet are capable of review should market circumstances warrant reconsideration. It is also important that the regime has enough flexibility that prescriptiveness does not hinder commercial outcomes, for example trends for some airlines to seek a single per passenger charge that covers airfield and terminal activities. Flexibility should also ensure the regime has the ability to recognise the individual characteristics of the individual suppliers. This may be achieved with a commentary from the supplier.</p> <ul style="list-style-type: none"> Transparency – NZ Airports endorse the principle of transparency. We agree that <i>"information must be disclosed in a way that is easy for interested parties to understand"</i>. However we are concerned that the Discussion Paper states

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			<p>that "the Commission's summary and analysis is an important part of this." The Commission's summary and analysis does not form part of the information disclosures - it has a distinct and separate purpose. We agree that the Commission's summary and analysis can take a more rounded view and explain emerging trends. However it is important to the purpose of information disclosure that interested parties can themselves readily understand the disclosed information. NZ Airports is therefore concerned that the Commission sees itself as the necessary interpreter of disclosed information. Whilst the Commission has this as part of its role, formulating information disclosure on this basis risks undermining the objective of developing information disclosures to be useful, understandable and relevant, which the Commission also endorses (at paragraph 74 of the Discussion Paper)</p> <p>There should also be reasonable limits to transparency – as there is in competitive markets. Furthermore, the disclosure requirements should also not constrain or limit business decisions that may be efficiency enhancing. For example, disclosure of commercial contracts with airlines would inhibit competition where airlines seek confidentiality of their route planning intentions. Potential route development is often considered as part of these agreements.</p> <ul style="list-style-type: none"> • Materiality –NZ Airports considers that this should be an additional principle considered by the Commission either separately or incorporated within its consideration of cost-effectiveness. Detailed information disclosure should not be required where it cannot be demonstrated that the disclosed information is material to interested parties. The Act only requires that "sufficient" information is made available, which the Commission has accepted requires only "necessary" information to be disclosed (paragraph 758). This will have natural limits in a cost effective information disclosure

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			environment.
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	<p>The Commission’s discussion of the areas of performance it initially proposes considering appears well-rounded and correlates to s52(1)(a) to (d). NZ Airports particularly supports acknowledgements of the inter-linkages between areas of performance and that no single indicator in a particular year will be sufficient to assess whether regulatory objectives are being achieved.</p> <p>NZ Airports has reservations that the areas of performance have been based on experience with information disclosure for electricity lines businesses, under the old Part 4A, and makes some suggested improvements. This is discussed in greater detail in Part 1 of our submission. The key point is that information disclosure under the old Part 4A was for a significantly different purpose.</p> <p>NZ Airports believes it will be useful to require airport commentary around the areas of performance so interested parties have greater understanding of the context which underlies the information and can therefore fully assess scenarios that may not arise in other sectors. For example, through a supply chain review it may be determined by interested parties and the airport that it is more efficient for the airport company to deliver a service than the current party. High level indicators are likely to show a deterioration of the airport cost indicators and an increase in prices, yet may deliver a net efficiency benefit to the industry. Performance indicators are also unlikely to show innovations around capital investment which reduce operating costs to the industry, but not necessarily the airport.</p> <p>NZ Airports therefore submits that when developing its performance indicators the Commission should have regard to the need to provide the ability for airports to properly contextualise such examples in information disclosure.</p>

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6	Do you agree that an indicator relating to investment is required? If not, please provide the reasons for your view.	24	<p>NZ Airports does not agree that an indicator relating to investment is appropriate.</p> <p>The intermittent nature of airport investment and long development times makes it unlikely that a performance indicator will be understandable or have any relevance for airport investment. An indicator could show a very high outcome in years of terminal expansion or significant land improvement works but in other years show a very low result as little major investment is undertaken. No conclusion can be drawn from this. There are elements of the passenger surveying which would be more useful in assessing whether these interested parties believe the appropriate investment has occurred.</p> <p>This is an issue where the Commission should demonstrate flexibility in its approach by recognised the different nature of airport investment (from, for example, ELBs).</p>
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	<p>As in question 6, the intermittent nature of airport investment means a capital expenditure ratio at a point in time will not provide a meaningful measure of the appropriateness of airport investment or demonstrate responsiveness of airports to timing of capacity requirements.</p> <p>Determining a ratio of capital expenditure to the asset base is also subject to distortion if the inputs to the ratio are constructed from different time periods. For example, new investment will reflect current costs while the asset base could bear no relationship to current costs using the Commission's proposed methodology for establishing an RAB. In this case the capital expenditure ratio would not provide a meaningful guide to asset renewal.</p>
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	<p>The Commission acknowledges in paragraph 117 that <i>"the separation of total capital expenditure into renewal, growth initiatives and other capital expenditure may require development"</i>. We understand it has been included to facilitate the assessment of disclosed information, however we do not believe it will allow interested parties to draw conclusions on</p>

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			<p>whether airports are making adequate investment in the appropriate areas.</p> <p>Assessment of renewal expenditure compared to depreciation profiles will not provide any relevant information unless it is over an extremely long time period. The most substantial airport assets - runway, other sealed surfaces and terminals - have long productive lives. Depreciation profiles are therefore spread over periods of 30 years or more. Renewal of these assets for some airports occurs in significant lump sums rather than progressively. Similarly, capital expenditure on growth initiatives is intermittent. Typically, such expenditure has a long gestation period including consultation with airlines and other parties, technical planning, resource or building consent processes and construction. In the airport environment passenger growth is not predictable over the medium term and therefore has to be anticipated in advance with airports taking a risk of overinvesting and subsequent optimisation of assets from asset valuations.</p> <p>We note the Commission's comment in paragraph 116 of the Discussion Paper that <i>"...it intends selecting a single measure in each of the regulated services to provide a single measurement of capital expenditure growth across suppliers."</i> NZ Airports does not consider there is a single measure which would suitably recognise the different business, asset and age profiles for any or all of the three Airports.</p> <p>The need for or effectiveness of renewal expenditure is more related to service quality issues concerning the suitability of facilities.</p> <p>We propose that a more appropriate alternative for airports will include:</p> <ul style="list-style-type: none"> • Publishing airport Master Plans; • In annual financial [and other] disclosures providing comment on any change in circumstances since the last Master Plan was completed;

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			<ul style="list-style-type: none"> • Annual investment comment by airports describing their investment for the previous year which will also specifically address innovations arising from that investment; and • Further comment on innovations from areas other than new capital expenditure.
9	Do you agree that the disclosure of an AMP is an appropriate means of demonstrating innovation and investment? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.	26	<p>NZ Airports does not agree that annual AMPs are appropriate for airports. Airport AMP's will duplicate outputs from the Master Plan process and the five yearly consultation regime under the AAA, and add considerable cost for little or no benefit. Specifically we note that:</p> <ul style="list-style-type: none"> • Airports prepare Master Plans every 5 to 10 years which establish long term investment planning for airports. They are prepared at considerable cost and involve extensive consultation with interested parties including airlines, residents in locales close to the airport, local authorities and other groups. These plans indicate potential airport development based upon expected passenger growth, and potential airline scenarios for meeting the passenger growth forecasts and an outlook against technological changes on the horizon. • Airports have long term planning horizons for a small number of very large assets. The Master Plans meet this need. • Master Plans are publicly available, and are also subject to public consultation during development. • As material significant investments become imminent airports must consult on the investments with airlines under the AAA. This enables the airlines to consider demand, design and cost issues concerning the investment. This consultation is largely with airlines, border agencies and affected tenants. The airlines and border agencies, in conjunction with the airports, are best placed to consider the processing requirements of passengers and the public in any new investments due to their experience and their own incentives for efficient processing. Sometimes it is also necessary to get feedback on critical experiential

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			<p>elements sought by passengers via focus groups. The real test of innovative and appropriate investment from the public perspective is the results in the passenger surveys, which NZ Airports and BARNZ have included in the proposed quality indicators.</p> <ul style="list-style-type: none"> • Maintenance capital expenditure and risks are significantly smaller for ELBs than airports. Forecasts of less material projects required to maintain safety and regulatory requirements form part of the AAA consultation and are overseen by the NZCAA. The airlines have the opportunity to question the airport proposals and seek whatever information they require to enable them to do this. • It is not appropriate to require airports to disclose AMPs on the ELB experience and it is misguided to seek “consistency” between regulated industries in this area. • AMPs cannot be demonstrated to be cost effective for airports. In paragraph 124 the Commission suggests that information disclosures for AMPs should be readily available from regulated supplier’s normal planning procedures. This is not the case for airports where an alternative regulatory regime applies. The New Zealand Civil Aviation Authority oversees a regulatory regime for the ongoing maintenance of airport assets and conducts annual audits to ensure compliance with the regulatory requirements. • The costs cannot be justified on the basis that disclosure of AMPs will provide incentives to improve efficiency, including innovating and investing, as the Commission suggests at paragraph. 123. The Commission clearly sets out at paragraph 69 to 70 that it is not the role of information disclosure to directly promote efficiency. The Commission also recognises that not all interested parties will have the ability to assess AMPs in any event. • Instead of AMPs information to demonstrate innovation and

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			<p>investment can more appropriately be provided to interested parties through:</p> <ul style="list-style-type: none"> ○ Airports publishing their Master Plans; ○ In annual financial [and other] disclosures providing comment on any change in circumstances in events since the last Master Plan was completed; ○ Annual investment comment by airports describing their investment for the previous year which will also specifically address innovations arising from that investment; and ○ Further comment on annual innovations from areas other than new capital expenditure. ○ The quality outcomes on asset reliability for airlines and facility satisfaction measures for passengers.
10	Do you have any views on appropriate indicators for measuring innovation? If so, please provide these reasons for your views.	27	<p>NZ Airports notes that the Commission has not provided guidance on its understanding of the definition of innovation, other than that which raises productivity above that previously possible. Innovation is a term which has evolved over time, from early definitions which focussed on changes in technology (Schumpeter 1934) to a broader understanding such as the Oslo Manual 3rd Edition ' <i>the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations</i>' (OECD 2005, pg. 46). It suggests that innovation activities include:</p> <ol style="list-style-type: none"> 1. Identifying new products, processes, marketing methods or organisational changes; 2. Buying technical information, paying fees or royalties for patented inventions or buying know-how and skills through engineering, design or other consultancy services; 3. Developing human skills through training or hiring; 4. Investing in innovative equipment, software or intermediate inputs; 5. Reorganising management systems and business activities;

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			<p>and</p> <p>6. Developing new marketing methods.</p> <p>R&D was previously used as proxy for all innovative inputs but is now, with a broader understanding of the term, is considered only to be a poor partial indicator.</p> <p>NZ Airports' view is that an annual innovation statement by airports is the most appropriate means of reporting on innovation. Innovation may be broader than innovations funded through capital expenditure. It is also important to note that in the airport environment innovations are often prompted by changes in business models of airlines, industry initiatives to simplify travel for passengers and cross border initiatives such as the recently announced border controls for Australasian travel. The innovation statements would reflect on efficiency or service quality initiatives, and the extent to which the airlines or other agencies at airports were involved. The track record of innovation can be assessed in a qualitative manner from initiatives in the innovation statement and be supported by quality surveys.</p>
11	Do you have any views on appropriate indicators for measuring quality? If so, please provide the reasons for your views.	28	<p>NZ Airports comments further in detail in response to question 54. However at a headline level we refer the Commission to the joint NZ Airports/BARNZ proposal to the Commission dated 29 June 2009 which we believe is consistent with the quality objectives indicated by the Commission and incorporates both survey and quantitative data.</p>
12	Do you have any views on appropriate indicators for measuring profits? If so, please provide the reasons for your views.	29	<p>Return on investment is a reasonable measure but it is important that it is applied with appropriate caution. Issues that can affect analysis of ROI include:</p> <ul style="list-style-type: none"> • A single year measure will provide little indication of the reasonableness or otherwise of the return. • Whether asset revaluations occur and the basis of their assessment, indexing or a periodic valuation to market in a particular year.

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			<ul style="list-style-type: none"> • Parameters in determining the ROI must emanate from consistent bases. Where revaluations are undertaken, the depreciation must be derived from that asset base and revaluations reported as income. Where revaluations are not undertaken, depreciation will be calculated off a different asset base and the revaluation to income will be zero. • The asset valuation approach. • Risk sharing outcomes between airports and airlines derived from consultation. <p>An alternative measure recorded by the ACCC in its monitoring of Australian airports is Operating Profit per Passenger. This measure can offer comparability with other airport performance and as it is a pre-tax measure can avoid the perceived need to develop financing assumptions.</p>
13	Do you have any views on appropriate indicators for measuring pricing efficiency? If so, please provide the reasons for your views.	30	<p>Paragraph 143 of the Discussion Paper states that <i>“The Commission’s preliminary view is that the relative price index measurement used to assess the price variance between consumer groups in the Part 4A EDB information disclosure regime is an effective means of assessing relative pricing.”</i></p> <p>NZ Airports’ understanding is that the EDB approach referred to by the Commission is determined by calculating the average revenue per connection for small connection points and then reporting other customer classes as a ratio compared to the small customers.</p> <p>NZ Airports agrees that using revenue to determine average income per customer is an appropriate methodology. However, comparing classes of customers in airports is not relevant. Airport passengers do not receive a homogeneous product (unlike the electricity customers) and therefore pricing relativity cannot be considered in the same way as EDB’s.</p> <p>As outlined in Part 1 of this submission the ACCC has used revenue per passenger as its primary indicator and NZ Airports would support the same indicator being adopted in New Zealand.</p>

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			Further comment is provided in the responses to questions 66 to 69.
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	<p>Cost based indicators (such as operating cost per passenger) of performance may be relevant for consideration of comparable airport efficiency if the comparison is performed between airports with the same characteristics. Examples of items that would naturally drive differences in indicator performance and that would need to be taken into account are:</p> <ul style="list-style-type: none"> • Mix of international and domestic passengers • Size of aircraft servicing the airport • Range of services provided by an airport • Age profile of major assets <p>Such a benchmarking comparison will enable an initial view of efficiency.</p> <p>A view on whether airports are improving efficiency will only be possible with a time series of data that is considered in conjunction with quality indicators. This is to ensure quality is not diminished if reductions in costs are indicated.</p> <p>NZAA considers that cost per passenger is the most appropriate measure.</p>
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	<p>NZ Airports primary concern with the proposed treatment of operational expenditure ratios is the use of the asset base as the denominator. This is inappropriate for airports and contrary to standard industry practice. In addition to the factors noted in question 12, using the asset base as the denominator also introduces noise into the operating efficiency indicator due to the differing time profiles of airport investment. Relating current cost outcomes to an asset base that does not reflect current cost values also makes the ratios questionable.</p> <p>Passenger numbers and aircraft movements are considered by industry analysts to be more appropriate bases for expense ratios. Passenger number and aircraft movement trends while variable</p>

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			are not exposed to the same lump sum changes as the asset base and cost efficiencies over time should be readily apparent as business volumes increase. NZ Airports would support primary indicators being expressed on a per passenger basis.
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	<p>The Commission's comments in the Discussion Paper appear to reflect its understanding of EDB's rather than airports. Capacity utilisation at airports is quite different to EDB's with capacity requiring consideration at numerous points in the service delivery process (e.g. runway, aircraft gates, terminal check in, international border processing etc).</p> <p>We support the Commission's views that it is inappropriate to assess capacity utilisation across regulated suppliers due to the specific characteristics of each of the regulated suppliers and that time series analysis in this area is more useful.</p> <p>The joint proposal from NZ Airports and BARNZ has considered capacity utilisation and has made recommendations to the Commission on appropriate capacity measures for airports. Requiring capacity utilisation (peak demand and non-coincident sum of maximum demand) for each point in the service delivery process will be very costly and is likely to be contentious. There is no single industry view on these measures. Cost benefit analysis in this area may require a more pragmatic approach to measurement of this type of efficiency for airports.</p>
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	Refer to response to question 12.
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	In the information disclosure context the treatment of all revaluation gains when rolling forward the RAB will depend on the approach allowed by the Commission for reporting of asset valuation. If the Commission accepts the NZ Airports recommendation that more than one asset base could be included

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			<p>in information disclosure then:</p> <ul style="list-style-type: none"> • For the asset base determined by applying the proposed airport information methodologies the extent of revaluations included in income would be determined by the outcome of consultation. All expected revaluations would be included, while the inclusion of unexpected changes would depend on the arrangement implemented from consultation. Depreciation through the income statement and balance sheet would be based on accounting depreciation. • For an asset base established on valuation methodologies determined by the Commission and then rolled forward with indexed revaluations it would be appropriate for all revaluation gains to be included in the regulatory profit, with depreciation calculated on a consistent basis. • Both of these approaches are consistent with FCM.
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	<p>NZ Airports does not believe it is necessary to prescribe an approach in this area, but rather that transparency is important. Capital contributions and asset vesting is not common for airports.</p> <p>It is appropriate that airports are able to determine which approach makes more sense given the circumstances at hand at the relevant time. NZ Airports believes the following two approaches will be appropriate for reporting of actual outcomes in information disclosure:</p> <ul style="list-style-type: none"> • Consistent recognition through the income and asset base in one year • Spreading of the value of capital contributions or vested assets over the life of the assets to which they relate. This approach would allow rental and lease arrangements to be recognised in the same way as for GAAP financial reporting.

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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	NZ Airports agrees with the Commission.
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	<p>NZ Airports agrees that the Commission will be analysing and reporting on actual returns achieved by the airports and not determining a WACC methodology for airports. However, the ROI approach for airports should reflect the approach applied by the airports in AAA consultation. This is typically a post tax nominal WACC.</p> <p>NZ Airports notes that the Commission is also proposing that returns will be reported on a pre tax basis. NZ Airports notes that this return will be a simple extrapolation from reported data in any event and consequently acknowledges that both returns can be reported.</p>
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	<p>NZ Airports sees the following limitations in the Commission's analysis:</p> <ul style="list-style-type: none"> • depreciation is not a yearend concept as stated by the Commission in paragraph 190, but continues throughout the year from the point of commissioning. Assertions otherwise are contrary to accounting or tax practice. Depreciation is recognised from the time assets are purchased or commissioned and as such should be recognised on this basis. This treatment is also consistent with the requirement for recognition of tax depreciation in determining annual tax obligations, and annual and interim financial reporting. • Whilst it might be reasonable to assume that maintenance capital expenditure will occur evenly through the year, major construction projects (depending on their timing) can significantly impact results and should be included in the asset base from the time they are commissioned. These projects can account for material changes to the asset base and an averaging assumption concerning the timing of their addition

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			<p>to the asset base could distort returns for that year.</p> <p>Nevertheless NZ Airports understands the need for some simplifying assumption when determining the RIV. On balance NZ Airports believes the <i>“more simplified approach to the RIV would be to use an average of the opening and closing balance of the RAB”</i> referred to by the Commission in paragraph 191, is more appropriate for airport information disclosure. Depreciation would need to be based on actual timing of asset commissioning.</p>
23	<p>Do you agree that assets acquired from or sold to another regulated supplier or business unit should be included in the RIV to the extent that the profit relating to those assets is recognised in the regulated supplier’s regulatory profit? If not, please detail how asset acquired from or sold to another regulated supplier or business unit should be treated and why you consider this to preferable.</p>	42	<p>Assets acquired from other sources are asset additions and consequently, they should be treated in the same way as additions. If they are significant they should be recognised when acquired, noting that there will not be a profit on acquisition for the supplier (or if there is it will be a revaluation which would be addressed separately).</p> <p>Assets that are sold can be treated consistently in the RIV with profit on sale, but noting NZ Airports concern over the amount that will be extracted from the asset base as outlined by NZ Airports' in its Input Methodologies submission.</p> <p>It is also unclear to NZ Airports if the Commission’s position is consistent. In the Input Methodologies Discussion Paper assets sold were to be removed from the asset base at the disposal value. Under this approach there should be no adjustment to the regulatory income statement.</p> <p><u>Changes in shared assets</u></p> <p>Airports have material assets that are used for both regulated and non regulated activities (refer questions 26 on response to allocation of capital costs).</p> <p>Changes in the allocation of shared assets happen annually as a consequence of changes in asset use (for example, this can arise from a wall being moved in a terminal) or from new investment that impacts on the allocation methodology.</p>

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			<p>NZ Airports view is that changes to shared asset allocation should be recognised in the same way that the Commission is proposing for lost or found assets. That is, the asset base is altered (which can be separately disclosed) but there is no recognition in the regulatory profit statement. This is currently provided for in the information disclosure by changing the asset allocation to appropriately reflect the new use.</p> <p>NZ Airports acknowledge this is a complex area, which may be less common in other regulated industries and is willing to demonstrate the asset allocation process at a workshop with the Commission.</p>
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	Refer to question 23 above.
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	NZ Airports agrees with the Commission that this approach is generally appropriate, so long as finance costs are provided for at the time of commissioning.
26	In your view, how should the capital costs associated with the use of regulated assets to provide regulated and unregulated services be attributed? Please provide the reasons for your view.	43	<p>Allocation of shared assets for information disclosure is not new for airports. At a high level the process involves firstly directly allocating assets to regulated or unregulated activities as is appropriate. Secondly shared assets are normally analysed by asset type and a methodology is developed for allocating a proportion of the asset to regulated and non-regulated businesses based on an appropriate allocation factor. The asset base assigned to the regulated business is therefore a combination of the directly allocated assets and a proportion of numerous shared assets. Consistent allocation methodologies are applied to the allocation of depreciation and asset revaluations.</p> <p>This process appears to have been applied similarly at each airport though allocation methods may vary. NZ Airports does not believe there is any need to change the current process. Airports</p>

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			<p>understand BARNZ has concerns regarding the methodologies for sharing particular assets (not all shared assets) and each airport continues to consider how it can improve methodologies /proxies in this area. NZ Airports welcomes working with the Commission to test how this process could be incorporated within the information disclosure templates.</p> <p>NZ Airports does not support inclusion of unregulated income based on an imputed rental value in regulated income nor can it see any improved asset disclosure through the inclusion of all shared assets in the regulated asset base with a deduction then made for the unregulated use of those shared assets.</p>
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	<p>NZ Airports agrees that GAAP principles should be maintained to be consistent with full company disclosure, but agrees that the scope of the disclosures needs not be as extensive as GAAP statements.</p> <p>The current information disclosure regime for airports under the AAA requires the airports to produce full GAAP financial statements for the regulated business. It appears that this approach will not be required under the Commission’s revised information disclosure requirements and if so this is a positive outcome as it will eliminate significant compliance costs which probably confer limited informational benefit for interested persons. We seek confirmation from the Commission that our understanding is correct.</p> <p>On the basis that full GAAP statements will not be required we agree that it is appropriate to exclude equity, financing and cash flow information from information disclosures. We also suggest that deferred tax should be excluded from information disclosures and this would accord with either the tax expense or tax payable methodologies.</p>

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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	NZ Airports agrees with the Commission, but we note that the Commission's proposed treatment of gains or losses on sale of assets in this Discussion Paper differs from the proposed treatment in the Input Methodologies Discussion Paper. In the latter paper, the sale proceeds were to be offset against the asset base if an asset was sold for more than its recorded value. NZ Airports submitted that it did not agree with this approach. We also note that reductions in shared asset allocations should not be considered as asset sales. Refer to our response to question 23.
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	N/A for airports.
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	NZ Airports agrees with the Commission. However for airports there will be no revenue recovery of pass through costs, unless consultation is undertaken with airlines. Separate disclosure of such costs in information disclosure will at least provide information on unexpected factors that impacted the airports ROI and also potentially enhance the interpretation of cost efficiency indicators.
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	NZ Airports does not believe this question is necessary for airports. None of the airports self-insure their own risks. Insurance costs to third parties should be included in operational expenses, but it is not necessary for these premiums to be separately disclosed in the calculation of regulatory profit.
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	NZ Airports agrees with the Commission.

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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	NZ Airports agrees with the Commission.
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	<p>NZ Airports understands that the Commission believes it is important to assess the financial viability of regulated suppliers as regulated suppliers may be discouraged from, or unable to, invest if their financial viability is at risk.</p> <p>All interested parties will be able to inform themselves on the financial viability of each airport company through the following public documents:</p> <ul style="list-style-type: none"> • annual financial reports • media releases on the company credit rating from an external credit rating agency.
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	<p>NZ Airports does not agree that it is necessary for the Commission to determine any financing assumptions for airports that relate to its debt structures or financing costs. The purpose of information disclosure can be met though the disclosure of airports assumptions behind the preparation of deductible interest and interest tax shield.</p> <p>The Commission should provide further information on its intentions in this area.</p>
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	<p>NZ Airports agrees with the Commission. GAAP provisions are appropriate for disclosure of transactions with parties external to the regulated business.</p> <p>It is important however that shared cost and asset allocations between the regulated and unregulated businesses should not be regarded as related party transactions and GAAP compliant disclosure required for movements in allocations between years. The GAAP requirements in this regard would add unnecessary complexity around how to define and value changes in allocations</p>

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			<p>and indeed could perversely require organisational structure changes.</p> <p>Cost and asset allocation issues can instead be addressed by separate disclosure of:</p> <ul style="list-style-type: none"> • Where and why there have been changes in allocation methodologies between the years, or Contextual changes which have materially impacted the proportional attribution of cost or asset allocations during the year (for example where direct investment in regulated or unregulated businesses impact the sharing rates for common assets or costs.) • Transfers of directly allocated assets between the regulated and unregulated business
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	Refer to question 36. Transfer pricing issues do not arise for airports.
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	<p>No. The management and Boards of each airport rely on the audit of information disclosures to satisfy themselves of compliance. NZ Airports does not understand there to be any additional benefits in the proposed reconciliation / consolidation statement, yet it is clear that this will add further cost to the process. Consistent with a relatively low cost information disclosure objective, NZ Airports would support requiring that the audit certification could include a statement that the regulated financial information has been properly extracted from audited consolidated information.</p> <p>It is also not clear that a reconciliation to a consolidated position will be relevant in circumstances where the required methodologies depart from GAAP. An example is the asset valuation and depreciation expense determined from a Commission asset base approach for the regulated entity that</p>

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			differs from the airport valuation approaches for GAAP financial reporting. Rather it will be important to ensure the auditors have a robust audit process to ensure the integrity of the informational requirements for information disclosure.
39	In your view, what form should the consolidation and reconciliation disclosures take? Please provide the reasons for your view.	57	Per question 38 NZ Airports does not believe the consolidation and reconciliation disclosures are appropriate but supports audit certification that the regulated financial information has been properly extracted from audited consolidated information.
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	<p>NZ Airports is generally supportive except that it does not agree that information disclosure needs to include a:</p> <ul style="list-style-type: none"> • A forecast statement. • Consolidated statement – refer to question 38. • A tax statement will not be required if the tax expense approach is adopted. <p>NZ Airports refers the Commission to its statements in Part 1 of this submission regarding the inappropriateness of requiring forecast statements to be disclosed.</p>
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	<p>NZ Airports strongly reaffirms its comments on valuation in its submission on the Input Methodologies Discussion Paper concerning the inappropriateness of establishing a RAB by updating an historic base valuation.</p> <p>However, it agrees that disclosure of the methodology and assumptions would be appropriate if the initial RAB is established in that way. Currently the AAA regime requires airports to make valuation reports containing methodologies and valuation assumptions publicly available for assets included in information disclosure.</p>
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	NZ Airports agrees with the Commission but subject to NZ Airports' submission on the Input Methodologies Discussion Paper. However NZ Airports will wish to review the proposed specific disclosure before it can provide final comment on this point.

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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	NZ Airports agrees with the Commission.
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	<p>No. The airports apply allocation methodologies in consultation, and for current information disclosure, that:</p> <ul style="list-style-type: none"> • Applies directly attributable assets to the regulated and unregulated businesses. • Allocates shared assets to the regulated and unregulated businesses using relevant criteria. <p>It is therefore not necessary for any value of shared assets to be removed from the regulated asset base because only the appropriate value is included in the first instance.</p> <p>The same methodology is applied for depreciation and revaluations.</p> <p>This approach has been applied for some time in information disclosure under AAA consultation and is appropriate for future information disclosures.</p> <p>NZ Airports recommends that the regulatory valuation roll-forward report includes a further category for changes in existing shared assets (i.e. transfers).</p>
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	NZ Airports agrees with the Commission.
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	NZ Airports agrees with the Commission on the basis that this question relates to other regulated suppliers. The principle of materiality should also be considered, as discussed in the response to question 4.

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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	<p>Actual capitalised finance costs of construction should be used for airports as per the Commission’s preliminary view in paragraph 322. This is consistent with the GAAP approach and with airport approaches to asset valuation.</p> <p>The FDC, or multiplier, approach is not appropriate for the irregular large lumpy construction projects in airports – it would be very difficult to standardise an FDC due to the different nature of the airport sites and the different complexities that this adds to construction projects.</p> <p>NZ Airports also agrees with the Commission that it is best to avoid the complexity of a multiplier approach that would require capitalised finance costs to be excluded from asset values to then enable the multiplier to be applied.</p> <p>NZ Airports does not agree with the Commission’s view in paragraph 319 that suppliers may be disadvantaged if they fund capital projects from equity financing. An adjustment for finance costs is made to compensate suppliers for external cash costs. If suppliers determine that the most efficient use of their equity funding is to finance new asset construction then they are exercising an ownership option.</p>
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	<p>The airports do not have any objections to providing roll forward reports of their asset bases but have some concerns with the Commission’s proposals as follows.</p> <ul style="list-style-type: none"> • The Commission is looking to implement considerable detailed rules around the establishment of initial and roll forward asset bases. Asset management is a complex exercise for airports and would require the creation and maintenance of new asset registers which will result in a significant increase in airport costs. • Airports already have depreciation asset profiles provided by external valuers. If the Commission persists with establishing its own asset profiles it will compound the complexity. By way of example Auckland Airport has in the order of [55,000

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			<p>assets), Wellington (12,000) and Christchurch (13,000) which would have to be maintained on yet another basis. NZ Airports does not believe that any cost / benefit analysis has been done to support the need for this.</p> <p>Development of new depreciation rates to affect all of these assets, which may then require a further asset base be maintained, seems inappropriate to the problem identified by BARNZ in their cross submission regarding a concern in 2000 over the depreciation of sealed surfaces and more recently of new terminal works for Auckland Airport.</p> <ul style="list-style-type: none"> • Revaluation of airport assets undertaken correctly to reflect competitive market values is not a simple process of applying an index to existing values. Valuers consider the valuation and characteristics of individual or small groups of assets to form a conclusion on the value change in those assets. The outcomes are then aggregated to show valuation changes at an asset class level. Assumptions supporting the valuation are then provided in valuation reports. <p>NZ Airports requests that the Commission seeks to eliminate, or at the very least minimise, these complexities. The Commission should be able to demonstrate the benefits provided by alternative approaches from those currently employed by airports that justify the additional regulatory cost.</p>
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	<p>In developing the NZ Airports/BARNZ joint Quality Monitoring for Airports report which was provided to the Commission on 29 June 2009 the focus was to develop robust measures. As a result, industry agreement was obtained for:</p> <ul style="list-style-type: none"> • 11 passenger perception metrics (22 if reporting domestic and international) • 7 metrics on reliability of aeronautical services • 14 capacity measures in the terminal (25 metrics if reporting domestic and international) and more on airfield and apron

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			<ul style="list-style-type: none"> • At least as many utilisation measures as capacity measures indicated above <p>In NZ Airports view there are practical difficulties in establishing requisite quality targets for passenger perceptions. We are not aware that ACI has been able to establish this from its extensive surveying in this area. We concur with the Commission that “assessing consumer preferences is a fairly complex undertaking, and is not easily observable.” Not all airports are party to the passenger perceptions report at present and would therefore not be in a position to set internal targets for the 11 – 22 passenger perception metrics.</p> <p>Interruptions to services – Together with BARNZ, NZ Airports identified seven key measures for reporting actual service quality to the interested parties. The discussion was largely focussed on actual quality measures rather than requisite or target quality. Such an approach is consistent with the current information disclosures which focus on reporting actual outcomes. It is also difficult in this area to summarise requisite quality as different acquirers have different preferences. Airlines meet regularly with airport managers to review areas of performance and have data on performance versus their own targets. These parties can have in depth discussions on root cause analysis and will understand third party complications. The airports have agreed to add new metrics such as “on time departure performance”. Again the requisite service level will differ by individual acquirer. In NZ Airports view the Commission must draw a line between a light handed information disclosure regime with information which is understandable to interested parties and a heavy handed approach which comes very close to running the business. The BARNZ / NZ Airports proposal is to report the number and duration of interruptions and that airports should annually disclose these actual results together with the process the airport has put in place for undertaking any operational improvements.</p>

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			<p>With respect to capacity measures there was some discussion of whether the IATA service level was an appropriate indicator of target capacity quality. However one of the airlines present believed this may indicate too high a target, which was below the expectations of that airline. This is perhaps another reason that the NZ Airports / BARNZ submission does not recommend requisite or target quality be reported in the information disclosure as it is unlikely that industry consensus can be found on such a broad set of indicators.</p> <p>NZ Airports and BARNZ sought feedback on their proposal from the Commission however in the absence of direct discussion on this NZ Airports recommends that the Commission adopt the industry's recommended approach.</p>
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	<p>NZ Airports agrees that suppliers should be responsible for determining requisite quality. However, as noted in question 49, there are practical difficulties in setting requisite targets and typically companies report actual outcomes which can be compared over time.</p> <p>In assessing what is required for information disclosure it must be determined that the information will provide useful information either by itself or with supporting explanation about quality outcomes with consideration of compliance costs.</p> <p>An AMP as conceived for electricity companies is not appropriate for airports and consequently this would not be the right vehicle for disclosure of requisite, or other, quality performance information. We are not aware of regulators of airports in other jurisdictions requiring such onerous disclosures and would be interested in any airport specific research the Commission has in relation to this proposed requirement for airports.</p> <p>Due to the more complex nature of customer service quality acknowledged by the Commission in paragraph 399, it may be that the Quality Disclosure also includes a higher level qualitative</p>

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			<p>discussion on quality of experience expected by passengers. If the benefits of disclosure in this area are determined to outweigh the costs a disclosure on requisite customer perception, reliability and other quality dimensions could be included as part of the Quality Disclosure or in another form to be discussed between the Commission and the industry.</p>
51	<p>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.</p>	79	<p>The Commission can undertake this assessment at its own discretion as part of its analysis and monitoring role. However, the Commission should ensure that it considers outcomes reported by suppliers, it is not the Commission's role to prescribe how the outcomes should be obtained. It is reasonable however, for suppliers to be asked to comment on the robustness of their data collection processes.</p> <p>Airports can provide explanation of the degree of supplier engagement in their service quality reporting.</p> <p>There is no industry standard for target passenger satisfaction under ACI ASQ or other surveys – airports are still forming their views on appropriate internal targets.</p> <p>In addition to engagement with consumers on service quality measures, airports also engage with consumers on Master Planning and for major investments. As each major investment is contemplated the design phase includes consultation or research is informed by consumer needs. A summary of the quality dimensions can be provided in an annual investment outlook statement.</p>
52	<p>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</p>	79	<p>The NZ Airports/BARNZ proposal describes how airports will obtain information on customer perceptions for a variety of key services as described in the proposal. NZ Airports also considers it reasonable that airports should comment on planning to achieve service improvements where these are feasible.</p> <p>The Commission appears to be seeking considerable disclosure and ongoing evaluation of service quality issues. The cost</p>

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	view, an alternative and why you consider this to be preferable.		<p>effectiveness of such an approach is questioned by NZ Airports and we request the Commission to consider whether the extensiveness and expense of this approach is warranted.</p> <p>The Commission states that such engagement is necessary to promote delivery of services that reflect customer demands (ie to promote the purpose statement objectives). Although that is a worthy objective and is entirely appropriate in the price control context, it is inappropriate when information disclosure only applies. As the Commission has acknowledged, it is outside the purpose of information disclosure to directly influence supplier behaviour.</p> <p>An alternative approach could simply be:</p> <ul style="list-style-type: none"> • Agree data to be collected (NZ Airports/BARNZ proposal). • Airports to comment on outcomes and its plans to achieve, or not achieve, improvements and how these have been informed by consumer quality requirements.
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	<p>An external review of the airports quality information is reasonable however it is not necessary that this is undertaken annually. Following initial confirmation that data collection and reporting processes are accurate external review, or audit, could be undertaken 2-3 yearly therefore reducing the cost to the industry.</p> <p>Furthermore, the utilisation of a third party such as ACI for the passenger service quality will ensure a standard approach is applied at each airport. Given the analysis of this data is completed by an independent party, subject to its own quality assurance; the audit requirement should be minimal in this area.</p> <p>NZ Airports would welcome further discussion with the Commission on this matter as stated in question 151.</p>

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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	NZ Airports agrees this is reasonable.
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	<p>NZ Airports agrees with the Commission. The NZ Airports/BARNZ proposal comments on demand and capacity information and recommends approaches for this – indeed we believe this is most relevant for informing an assessment of whether the investment is appropriate and airports are seeking to <i>“improve efficiency and provide services at a quality that reflects consumer demands”</i> as per the section 52A purpose statement.</p> <p>Under existing information disclosure descriptive asset information is provided as part of periodic valuation reports. NZ Airports does not believe it is cost effective to require disclosure of asset information at this level of detail. The Commission should demonstrate how this information will be useful in the assessment of performance indicators, capital expenditure ratios or operating expending ratios. Once there is better understanding of this NZ Airports may be able to suggest a more cost effective method for providing alternative information.</p>
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	<p>As explained in Part 1 of this submission, NZ Airports does not consider that disclosure of AMPs is warranted or appropriate for airports.</p> <p>The British Standards Institution PAS 55 is a very comprehensive document that would require considerable resource to implement. It is unquestionable that New Zealand airports have many components referred to by the PAS in place however the effort of drawing a plan together in the PAS form would be extensive. NZ Airports notes that the Commission is not intending to implement the standard and we agree with this.</p> <p>NZ Airports is not aware of other recognised standards. In NZ Airports’ view, disclosure of particular asset management plans should only be considered if it is demonstrated through quality</p>

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			and service standard reporting that assets are not being appropriately upgraded, replaced or maintained as required.
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	Master Plans completed by the airports address longer time horizons than 10 years due to the land intensive nature of airport development and the long-lead times in development of aeronautical assets. The primary objective of Master Plans is to demonstrate expected long term demand and how airports intend to respond to expected increases in demand. Forecasts of capital expenditure may or may not be included in a Master Plan. It is not necessary for them to be included as capital expenditure forecasts are reviewed as part of consultation under the AAA. The Master Planning process, supplemented by annual investment comment and the quality indicators and monitoring forms an appropriate alternative to the requirement for airports to complete detailed AMPs.
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	<p>NZ Airports agrees that certification may be appropriate in respect of Master Plans and our proposed annual investment comment only. Given the uncertainty around the precise content of or requirements for AMPs, we refrain from commenting on whether certification would be appropriate. A concern is that the due diligence required would not be cost-effective. Further, to include the additional proposed "<i>enhanced certification</i>" for AMPs would require significant increased external advisor costs and compliance costs to enable appropriate comfort to be provided for Directors.</p> <p>We note that the publication of any prospective or forecast information requires extensive due diligence work to be undertaken. This would result in a corresponding increase in airport costs.</p> <p>We also note that the Commission states that its objective regarding "<i>enhanced certification</i>" is to promote good corporate governance. This is a worthy objective, but not in the information</p>

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			disclosure context. The Commission's power to require certification is pursuant to its general power to <i>"impose any other requirements that the Commission considers necessary or desirable to promote the purpose of information disclosure regulation"</i> (section 53C(3)(f)). We accept that certification is necessary or desirable to help ensure that interested parties receive accurate information to make their assessment. However we do not accept that this power includes the objective of promoting good corporate governance. Generally, the <i>"enhanced certification"</i> proposal appears to be a further example of the Commission seeking to directly influence and control pricing and investment planning, which is inappropriate in the information disclosure context.
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	Question not applicable to airports
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	AMPs should not be required for airports. Refer to our response to question 9.
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	AMPs should not be required for airports. Refer to our response to question 9.
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	AMPs should not be required for airports. Refer to our response to question 9. For the Commission's information we note that an airport Master Planning cycle is long term for periods of 20+ years. Most capacity enhancement is undertaken by way of large construction projects which in themselves take years for planning, consultation and construction.

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			<p>Expanding capacity is also a complex exercise and considerable expertise is needed to engage with airlines on technical aircraft performance issues to enable airports to accommodate airline development plans.</p> <p>This planning exercise takes 12-18 months, including consultation, and occurs at considerable cost.</p> <p>It is not realistic for the Commission to require such a plan to be reconsidered annually in the form of an AMP. Master Plans and the annual investment comment proposed by the airports will meet the AMP purpose in a form more suitable for airports.</p>
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	AMPs should not be required for airports. Refer to our response to question 9.
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	<p>AMPs should not be required for airports. Refer to our response to question 9.</p> <p>However NZ Airports also queries whether the Commerce Commission has had due regard to the differing nature of risks in the airport environment to the risks in other industries for which it has required AMPs. A considerable regulatory regime administered by the NZ Civil Aviation Authority governs the physical operations of the airports with extensive safety and emergency response procedures required among others. It is unnecessary for information disclosure to describe how this regime works and to duplicate the formal documentation required by the CAA. Note also that the CAA undertakes periodic audits to ensure the appropriate regulatory requirements are being met. Similarly asset management and maintenance requirements are addressed by the CAA regime meaning duplication in an AMP is not warranted.</p> <p>It is not appropriate for the Commission to propose adding to compliance costs in this area when another regulatory agency has this monitoring as its core role. It is important to note that some</p>

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			contingency plans by their nature must be confidential in the airport environment to limit border security risks.
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	<p>AMPs should not be required for airports. Refer to our response to question 9.</p> <p>In paragraph 462 the Commission comments that <i>"a key aim of the AMP disclosure is to identify significant asset performance gaps that need to be addressed, or to highlight the need for adjustments to service level and asset performance targets that may be, for example, required to meet consumer demands as intended under the purpose of Part 4."</i> NZ Airports supports such an objective, but considers this can be discharged through the quality statement and that the detail required in the AMPs is not fit for purpose for airports.</p> <p>Consistent with its previous submission on input methodologies, NZ Airport submits that the Commission has not yet adapted its traditional approach taken in a price control environment to one that is appropriate in an information disclosure only environment. The information requested is done so in a manner to promote the purpose of Part 4, rather than to provide sufficient information to enable interested parties to assess if the purpose is being met. This is evident in the following statements by the Commission:</p> <p><i>"The self-evaluation of performance against financial and service quality related targets is intended to:</i></p> <ul style="list-style-type: none"> • <i>encourage suppliers to set realistically achievable goals.</i> • <i>serve the purpose statement by, in part, focussing a regulated supplier's attentions upon the tenets of good asset management practice."</i> [extract paragraph 462] <p>Further, the Commission also suggests that disclosure of self-evaluations in AMPs is necessary to <i>"ensure the interests of consumers are protected against "gaming" by the regulated businesses when regulated revenues are set based on forecasts of efficient capital expenditures"</i>. The Commission also recounts the</p>

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			<p>ELB experience and concludes that the same requirements should apply for all regulated suppliers.</p> <p>NZ Airports therefore reiterates its submission that the Commission is proposing to apply inappropriate price control standards to airports that are subject to information disclosure only. Regarding potential "gaming" on forecasts, this is a matter appropriately addressed under AAA consultation.</p> <p>NZ Airports believes the Commission's proposed supplier assessment in this area is inappropriate and too broadly specified. NZ Airports understands the most important additional information to airlines in this area to be comparisons of actual capital expenditure, to that which was included in aeronautical pricing forecasts. It would be appropriate to include a disclosure of actual capital expenditure, a comparison to the historic price forecast and commentary on material differences. This information is already provided by some airports but could be summarised in the proposed comment on investment and innovation.</p>
66	Do you agree that all regulated suppliers should disclose and publish their pricing methodologies? Please provide the reasons for your view.	107	<p>NZ Airports agrees that it is appropriate for airports to provide information on their pricing methodologies but does not agree that this should include the public provision of forecast information on revenues and costs allocated to customer groups as described in paragraph 484 of the Discussion Paper.</p> <p>Aeronautical revenues are set via a number of discrete consultations using several different price methodologies. Whilst the Commission asserts that the information required for disclosure should be readily available, given the consultations are spread over a number of interested parties, it would be very costly to provide the information requested by the Commission.</p> <p>Furthermore the interested party directly affected will have participated in an individual negotiation or consultation. This is entirely different to situations where prices are set for consumers without direct consultation with those parties. For the most</p>

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			<p>material consultation, (which is represented in this forum by BARNZ, Air New Zealand and other airlines), pricing methodologies have been consulted and multi-page worksheets shared which outline detailed assumptions and the supporting information is documented in proposals consulted under the AAA.</p> <p>NZ Airports submits that the proposal will add further cost in an area where information exchange has already been mandated. The information cannot be easily summarised due to its complexity. We strongly oppose the proposed disclosure outlined in paragraph 484. We would be interested in better understanding where there may be particular information gaps that can be filled in information disclosure which will therefore meet any cost benefit test.</p> <p>We are not aware of regulators of airports in other jurisdictions requiring such onerous disclosures and would be interested in receiving any airport specific research the Commission has performed in this regard.</p>
67	Do you agree that regulated suppliers should disclose prices? If not, please provide the reasons for your view.	107	We agree with the Commission for non lease based prices.
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	<p>NZ Airports agrees that airports should publish their pricing schedules and terms for core aeronautical services (non lease). However specific contracts with individual airlines should not be disclosed, and to do so would jeopardise ongoing commercial relationships with these airlines and would make it difficult for New Zealand airports to compete with other countries for increased international services.</p> <p>The confidentiality of these contracts is of critical importance to the airline parties; they do not wish other airlines to gain any forward knowledge of what an airline may be planning at a particular airport.</p> <p>Various parties associated with regulated activities also enter into property leases with the airports. While lease revenue can be</p>

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			disclosed it would be inappropriate for other commercial terms of the lease arrangements to be published.
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	<p>NZ Airports submits that the proposed inclusion of these policies reflects an overly intrusive approach to information disclosure. They do not meet a proportionality test discussed in Part 1 of this submission. NZ Airports is unclear why this information is relevant, nor what cost benefit analysis supports its collation, presentation and audit. The Commission does not demonstrate how publication of these policies would contribute to the assessment of the outcomes in section 52A(1)(a)-(d). NZ Airports requests the Commission to further demonstrate how these disclosures contribute to interested persons forming a view as to how the section 52A purpose statement will be met.</p> <p>Specifically for airports we note:</p> <ul style="list-style-type: none"> • Credit terms are transparently disclosed and discussed as part of the AAA consultation. • Delegated authorities – this is a management function and has no credible relationship to the purpose statement. • Profit distribution policy – this is irrelevant to information disclosure. The Commission itself acknowledges this by excluding equity from the annual financial information to be presented. The Commissions reference in paragraph 499 to customer rebates and employee bonuses as profit distributions is not correct for airports. Both of these items are operating costs to the business before profits can be determined. • Sponsorship policy – if this is at all relevant it may be in the quality measures and how businesses engage with the community, however it is difficult to understand an economic rationale for its disclosure. • Insurance policy – NZ Airports has interpreted from the

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			<p>Commission's comments that some EDB's choose to self insure, perhaps through captive insurance companies, while others resort to the insurance market.</p> <p>The extent of airport risks at single location sites, and the potential liability from aircraft damage, means that airports must resort to the commercial insurance market.</p> <p>Airports would be willing to make an overall statement about the nature of the insurance they hold however particular insurance terms are often required to be confidential between insurers and the insured to preserve negotiation options in renewals. However, the economic rationale for and net benefit of this compliance ought to first be demonstrated.</p>
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	<p>Airports make copies of their information disclosure financial statements publicly available, including via website, when they are completed.</p> <p>Notification in the Gazette will not improve this process, but given the minor cost/resource involved airports could publish notices in the Gazette if required.</p>
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	<p>NZ Airports understands the Commission's question to be whether the information should be notified in the Gazette (ie the Commission's definition of "publicly disclose"). Again, we will publish the information in the Gazette if required, but we consider making the information publicly available to be sufficient.</p>
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	<p>NZ Airports is able to provide a consolidated pricing schedule as an addendum to information disclosure similar to that provided under the current disclosure accounts. The schedules are published on airport websites and can be notified in the Gazette if required.</p> <p>However airports do not know in advance who consumers will ultimately be, and therefore it is impractical for airports to notify individual consumers of changes to charges that may affect them</p>

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			<p>directly at the time the charges may be altered.</p> <p>All charges are however available, and where directly payable by the consumer, notified to them prior to making a purchase. Examples of this are airline websites where departure fees payable at airports are noted as charges that are not included in ticket prices.</p>
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	<p>NZ Airports agrees that standard templates for information collection are likely to be the most efficient means of collecting information. NZ Airports is willing to assist the Commission to develop appropriate templates for airports and considers the prospective quarter 4 workshops would be an effective means to develop these.</p>
74	Do you agree with the proposed timing for disclosures? If not, please provide the reasons for your view.	115	<p>NZ Airports agrees that five months following the end of a financial year is appropriate for financial disclosures.</p> <p>With respect to the service quality airports will be reliant on a third party to analyse the survey results. Service quality disclosure analysis is on a calendar quarterly basis and normally received four to six weeks following the quarter. Interested parties have previously commented that the timeliness of quality information ought to be improved from the five month standard.</p> <p>NZ Airports believes it is possible to make this information more useful to interested parties by accelerating the timetable for Quality Statements. This is also consistent with being able to contextualise proposed initiatives and investments with observations on quality outcomes and aspirations.</p> <p>All of the NZ airports also operate with very small Finance teams so would be beneficial to split the timing of Quality, Asset and Financial statement disclosures. NZ Airports recommends Quality and Asset statements be reported by balance date (ie five months in advance of Financial Statements), with the actual quality results covering financial periods Q4 to Q3.</p>

Question No	Question	Page No	NZ Airports Response
75	Do you agree with the proposed regulatory year end dates? If not, please provide the reasons for your view.	115	<p>The Commission is not correct in respect of the airport financial year ends. These are:</p> <p>31 March – WIAL</p> <p>30 June – AIAL and CIAL</p> <p>The Commission’s financial disclosure requirements should recognise each airport’s financial year ends.</p> <p>Requiring any of the airports to provide regulatory reporting for periods that are not consistent with financial year ends will introduce considerable additional cost including the requirement for an additional audit of airport financial results.</p>
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	<p>NZ Airports is unclear on the benefits of retaining regulatory information for a seven year period however the airports have no concerns over meeting this requirement.</p> <p>Airport Master Plans remain current until replaced and as such should be retained until updated.</p>
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	<p>NZ Airports agrees in principle that it is reasonable for directors to certify that disclosures comply with relevant requirements.</p> <p>As indicated in response to question 58, until the position regarding AMPs is clear it would be premature to agree certification is appropriate. The cost and due diligence process required for certification is not yet known. A concern is that any certification of prospective or forecast information will require extensive due diligence that is inappropriate in the information disclosure context (as further discussed in the context of auditing below).</p>
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	<p>It is reasonable for annual financial disclosures to be audited. However, as noted earlier in the submission we do not support audit of prospective information. Requiring prospective information to be audited to an assurance level required by Securities Regulation 1983 for equity securities will be costly, with</p>

Question No	Question	Page No	NZ Airports Response
			little benefit. An audit and directors certification of forecasts will require a high level of due diligence that should not be required at the same level of entities requesting equity investments from investors.
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	NZ Airports agrees with the Commission.
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	NZ Airports agrees with the Commission.
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	This is normal audit practice although the definition of, "material" for non financial measures will need clarification.
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	NZ Airports agrees that the Commission's comments in Table 13 of the Discussion Paper are appropriate for historical information. Comments from WIAL's auditor advise that audits of prospective information are complex and incur considerable cost and will add a further layer to the regulatory cost burden.
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	It is appropriate that the audit reports are addressed to " <i>Interested Persons</i> ". NZ Airports does not consider that any separate acknowledgement of a duty of care to the Commission should be required. Auditors must comply with their own professional standards irrespective of the addressee of audit reports and consequently the Commission should rely on audit reports addressed to Interested Persons.

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84	What do you consider to be an appropriate level of independence for auditors? Please provide the reasons for your view.	120	The New Zealand Institute of Chartered Accountants independence guidelines are appropriate.
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	NZ Airports does not oppose the proposal for directors to declare that information provided to the Commission is a true copy of the publicly disclosed information.
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	<p>The specific characteristics of airports have been identified in the prior submissions of NZ Airports and each regulated airport. NZ Airports stresses however the importance of the Commission having a clear understanding of the New Zealand airport operating model.</p> <p>New Zealand airports operate as landlords providing physical infrastructure to enable the provision of aviation services to consumers. New Zealand airports undertake very limited²² activities that facilitate the movement of aircraft or passengers. Airlines and Government agencies undertake those roles.</p> <p>The role of service staff employed by the airports is to ensure that airport facilities are fulfilling their functions at an appropriate level of quality/service and to assist the other service providers to deal with problems as they arise. A complimentary effort is therefore required from all parties to ensure an efficient experience for passengers at airports.</p> <p>We emphasise this operating model following comment in paragraph 750 of the Discussion Paper that airports may provide services such as ground handling or air traffic control themselves. This does not occur in New Zealand.</p>

²² AIAL undertakes apron control services for aircraft movements and provides buses for transfer of passengers to/from remote aircraft stands to the international terminal.

Question No	Question	Page No	NZ Airports Response
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	NZ Airports does not agree with the summary of measures outlined by the Commission in Table 23 of the Discussion Paper. We have commented in this submission on what we consider will be an appropriate information disclosure regime for airports, including performance indicators, and have replicated the table with the alternative airport proposals included, in Part 1 of our submission.
139	What do you consider to be the appropriate denominator for the capital expenditure growth ratio? Please provide the reasons for your view.	181	Refer to comments in question 8. The intermittent nature of airport investment makes this ratio meaningless without a long time frame, reflecting airport 10-20 year investment cycles.
140	What do you consider to be the appropriate denominator in the average price per unit performance indicator? Please provide the reasons for your view.	181	The appropriate base in an airport context is passengers. They are the ultimate consumers of airport services and as such the indicator will show an average cost to passengers for airport services albeit (as we have commented previously) there is no direct link between this and the manner in which airlines recover this cost from passengers. Adopting this indicator with passengers as a base enables a relatively simple comparison of airports in New Zealand and other jurisdictions (albeit care has to be taken to ensure like is being compared to like. For example in Australia airports collect security levies but do not meet the cost of rescue fire services.)
141	What do you consider to be the appropriate calculation for the capacity utilisation performance indicator? Please provide the reasons for your view.	181	There is no single capacity utilisation measure that is appropriate given the significant and varied core components of airport assets. For example key capacities are runways for aircraft movements, airport gates for aircraft parking and terminal facilities for passenger throughput. The NZ Airports/BARNZ proposal for quality monitoring of airports addresses capacity issues.
142	What do you consider to be the appropriate method for calculating a customer perception performance indicator? Please provide reasons for your view.	181	Refer to the NZ Airports/BARNZ proposal for quality monitoring which lists the areas for which the collection of passenger perception information is proposed; this list is similar to that noted

Question No	Question	Page No	NZ Airports Response
			by the Commission at paragraph 801 of the Discussion Paper. The list of items suggests that indicators should be provided separately for each measure.
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	NZ Airports agrees that it is appropriate for total levels of property rent and lease income to be disclosed for specified airport activities. This is currently reported in airport financial statements.
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	<p>It is very difficult to use the level of overheads as an indicator of efficiency as this often reflects the business structure adopted. In principle, costs that can be directly allocated to an operating activity should be included in the costs of that activity with general management and overheads reflecting the residual cost that cannot be directly allocated.</p> <p>NZ Airports agrees that several broad headings of costs are appropriate but comments as follows:</p> <ul style="list-style-type: none"> • Costs of complying with the Commerce Act and AAA regulatory regimes should be disclosed as a separate category to enable consideration of the costs of regulation and efficiency of the regime • The Commission should also consider a separate cost category for Property Management. This would include items such as property insurance (as distinct from liability insurance), rates, cleaning, building compliance etc. • Insurance costs for property or aviation activities are direct costs that should be allocated to the appropriate cost heading and not retained in overhead costs. For example insurance of the terminal or the airport owners and operators liability policy

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			<p>which provides airport cover for risk of damage to aircraft or passengers while on the aircraft.</p> <ul style="list-style-type: none"> • Legal, planning and other advisory costs directly related to the regulated activities should be included in direct costs and not included as overhead expenses. <p>Similarly for IT costs where the costs are directly related to facilities required for aviation these should form part of asset management and operating costs depending on the purpose of the expenditure – eg flight display systems, baggage system.</p>
145	<p>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.</p>	184	<p>NZ Airports believes the categories proposed by the Commission could cause confusion. For example:</p> <ul style="list-style-type: none"> • Capacity growth - what about capacity growth of security areas? • Reliability, safety and environment - can fall into growth, security or asset replacement and renewal categories? • Security requirements and • Asset replacement and renewal - often assets are replaced in order to improve or maintain reliability. <p>Capital expenditure for capacity growth is usually for significant lump sum capital projects typical at airports. As such it is appropriate that this is shown separately. The remaining capital expenditure can be very low in other years and not lend itself well to the Commission's proposed four categories. NZ Airports proposes that a more appropriate classification would be capital expenditure for:</p> <ul style="list-style-type: none"> • Capacity growth; • Renewal, maintenance and other expenditure; and • Mandatory / compliance expenditure due to changed regulatory requirements (could include CAA requirements for safety issues or Government requirements security and/or border control).

Question No	Question	Page No	NZ Airports Response
			Again we note NZ Airports proposal that airports would supplement the asset movement analysis with an annual investment comment.
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	<p>No.</p> <p>NZ Airports also notes that the Commission proposes to request depreciation standard lives from the airports as certified by qualified valuers and directors and then proposes to consult with other interested parties on the appropriateness of those asset lives. This is also a very technical area where considerable expert judgement is required to assess asset economic lives as there can be no standard lives which are appropriate. The difference in asset construction between buildings and sealed surfaces means that each large asset has to be considered individually for each airport. This is what airport valuers are paid to do and their reports must stand up to reasonable scrutiny.</p> <p>We note that the ACCC does not refer to standard asset lives in the Airports Reporting Guideline 2007 for Australian airports. NZ Airports believes it is appropriate to disclose asset lives for major categories of property plant and equipment as currently occurs with further detail available in valuation reports.</p>
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	<p>No, there is no requirement for the Commission to specify any financing parameters. To the extent that they influence information disclosures airports should report actual outcomes. The Commission should provide further comments on its intentions in this area.</p>
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	Yes, refer to the NZ Airports/BARNZ proposal for quality monitoring.

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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	Yes, refer to the NZ Airports/BARNZ proposal for quality monitoring. The appropriate balance has been established in this submission.
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	<p>Passenger perception surveys are critical for establishing the importance of different service or availability metrics and how satisfied passengers are with that service or supply. Whilst it is possible to collect data on the quantity of supply of some dimensions in NZ Airports experience this is not as powerful as it does not reflect passenger expectations.</p> <p>NZ Airports supports the passenger perception measures in the NZ Airports/BARNZ proposal for quality monitoring.</p> <p>We note there is a difference between the Commission and industry view in the third element of the customer perception measures at paragraph 801 of the Discussion Paper. This should refer to Flight Information Displays only. The second metric in the list addresses signage issues.</p>
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 most appropriate and details of why an alternative survey would be more appropriate.	188	<p>NZ Airports supports the use of the ACI ASQ survey for collecting passenger perception data and is not aware of a better alternative survey. Nevertheless it is not necessary for the Commission to prescribe that the ACI ASQ survey be used. To do so would reduce the airports bargaining strength with the surveying party and risk the possibility that the supplier may not be able to meet airport requirement if their ownership or scope of services change. It is for these reasons that the joint submission stopped short of mandating the supplier.</p> <p>Rather the industry proposal was that the information disclosure should outline the high level methodological requirements so that the airport is required to demonstrate the robustness of the survey process they choose to adopt and report on the agreed measures.</p>

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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	The NZ Airports/BARNZ proposal for quality monitoring lists the services areas where passenger perception data is appropriate. These are consistent with the items listed by the Commission from the ACI ASQ survey with the exception noted in our response to question 150.
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	Yes, refer to the NZ Airports/BARNZ proposal for quality monitoring which specifically addresses disclosures for reliability. Detailed reviews concerning the causes and potential remedial action for the breakdown of facilities should however be left for airports, airlines and agencies to address at an operational level. This requires accountability by the airport but also a joint approach for consideration of corrective action. Inclusion of this material in information disclosure would not aid the remedial process and is not proposed by NZ Airports and BARNZ. It is possible that airports could provide annual comment summarising the key issues that occurred during the year if outages were persistent and confirming the key remedial works undertaken.
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	Refer to the NZ Airports/BARNZ proposal for quality monitoring for the proposed disclosure of interruptions for the following categories: <ul style="list-style-type: none"> • Unplanned interruptions to material services • Unavailability of facilities or services which caused an on time departure delay
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	Refer to the NZ Airports/BARNZ proposal for quality monitoring. The only measureable impact on customers that airports can determine is the extent of on time delays and it is proposed that this be reported.
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	Yes, refer to the NZ Airports/BARNZ proposal for quality monitoring. This considers capacity and utilisation for critical assets and service points within those assets.

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157	Do you agree that capacity and utilisation should be measured at the above points? If not, please provide details of where capacity and utilisation should or should not be measured and the reasons for your view.	190	Refer to the NZ Airports/BARNZ proposal for quality monitoring. This is largely consistent with the Commission list of points.
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	There are customary peak time measurement practices for airports that the NZ Airports/BARNZ proposal for quality monitoring has referred to.
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	Summary descriptions can be provided in the manner described in the NZ Airports/BARNZ proposal for quality monitoring.
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	Yes, but subject to the receipt of freight volumes from third parties: <ul style="list-style-type: none"> • International freight volumes are reported by Statistics NZ. • Airlines operating passenger services would need to advise airports of freight volumes carried. • Dedicated freight companies such as NZ Post for mail transport would need to advise airports of freight volumes carried.
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	Yes, this is the only logical basis. However we note that any Commission analysis of the outcomes would have to be cognisant of the different characteristics of the airports and what is and is not included in this total revenue figure. For example, if Australia is used for some benchmark comparative information the Commission would need to be clear on the treatment of recoveries for security and rescue fire services, which are treated differently in the two countries. Information published in the ACCC monitoring reports allows the appropriate adjustments to be made.

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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	Yes. It would not be appropriate to assess prices for consumers. There is no transparent link from these prices to the end travel cost paid by consumers. Hence, NZ Airports considers that total revenue per passenger is the most appropriate statistic.
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	<p>The requirement to produce separate disclosures for Airfield, Specified Terminal and Aircraft and Freight activities as outlined under the AAA has not to date been particularly useful for allowing the assessment of regulated performance. Therefore NZ Airports queries whether this level of complexity is required. Reasons for this include:</p> <ul style="list-style-type: none"> • That the end to end process for a passenger encompasses both airfield and terminal activities; • The commercial drivers for some airlines which prefer a bundling of airfield and terminal services into a single passenger charge; • A lack of meaning in any comparison between airports of segment results due to differences in customer base, airlines and aircraft operating at airports and asset profiles; • In practice the segments as defined encompass a broader set of services than that consumed by any consulting party; • The existence of common assets which support services to all three segments results and overheads which are attributable to all three segments infers a greater level of precision than is logical when allocators are required between these regulated segments. <p>It is important when developing the information disclosure that interested parties are able to form high level views of the suppliers overall performance.</p> <p>Different time profiles of airfield and terminal investment, as well as different volatility characteristics of unit revenue drivers will create variability in the returns from each “segment”; albeit that</p>

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			<p>the variability in the returns would be appropriate at a segment or total aeronautical level. NZ Airports believe a much clearer picture will be obtained from the combination of financial analysis across the entire aeronautical base and quality indicators tailored to interested parties. This is consistent with the approach taken by the ACCC which assesses financial performance for aeronautical services in totality, despite having sub elements to that definition.</p>
164	<p>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.</p>	196	<p>Yes, although the Commission has not listed deferred tax which could also be excluded from the new disclosures.</p> <p>It appears to NZ Airports that airports will no longer have to apply full GAAP statements for regulated activities which will be replaced by the regulatory statements noted by the Commission. NZ Airports considers this is a positive change. We would appreciate confirmation from the Commission that our interpretation is correct.</p> <p>NZ Airports confirms that the airports do not have any concerns over disclosing their cost of capital assumptions used to determine pricing.</p>

APPENDIX 1: NZ Airports/ BARNZ Proposal for Quality Monitoring

29 June 2009

John Hamill
Manager
Network Performance Branch
Commerce Commission
PO Box 2351
WELLINGTON

Dear John

Quality Monitoring for Airports

Please find enclosed a joint working document which has been produced by NZ Airports and BARNZ on possible service quality measures for inclusion in the information disclosure requirements under Part 4 of the Commerce Act for the three specified airports.

A number of meetings have been held, which were attended by representatives of Auckland, Wellington and Christchurch airports and Air NZ along with NZ Airports and BARNZ staff. In addition, independent expert advice has been sought from Iain Munro of Airbiz, particularly in relation to the capacity and utilisation measures included within the joint working document.

Initially the airports and airlines each presented their views on the principles which they considered should underlie the development of the quality measures, and the key areas they felt should be included within the disclosure requirements. All parties were broadly agreed that the quality measures should:

- Be strongly linked to facilitating an understanding of whether the purpose statement of Part 4 is being met, and in particular inform interested persons:
 - Whether the quality at which airports are providing airport activities is enabling the efficient, timely and safe movement of aircraft and fulfilment of passenger processing needs; and
 - Whether airport processes are being improved and capital investment has occurred, or provide an early indication of areas where processes need improvement or capital expenditure is required
- Reflect matters which are most material or important to airports, passengers, airlines or other major users
- Align with specified activities and reflect matters that are within the control of the airports
- Demonstrate movements in service quality and operational efficiency over time

- Be able to be complied with by airports at a reasonable cost (i.e. pass a cost/benefit test)
- Be matters which are (or ought to be) monitored as part of standard management practice and strategic master / planning
- Be verifiable and not subject to manipulation
- Be enduring and able to stand the test of time

Having reached a broad consensus on the underlying principles, participants then participated in a number of meetings of the wider group (supplemented by smaller more focused drafting sessions). The outcome is the attached working document which contains a joint view from NZ Airports and BARNZ of what quality metrics the aviation industry considers would be desirable to include in the information disclosure requirements being developed by the Commerce Commission.

It will be noted that there is still further work to be undertaken by AirBiz on the most appropriate means of determining the peak day and hour in the New Zealand environment. NZ Airports and BARNZ will provide the outcome of this to the Commission.

BARNZ and NZ Airports now seek feedback from the Commission on this working document, to the extent that the Commission feels able to provide this.

AirBiz has recommended that the three identified airports trial data collection of the measures contained in the joint working document for the 2008/09 financial year (to the extent possible) in order to test the processes for data collection, identify any definitional issues which arise in practice and confirm that the measures will be useful and likely to drive improved processes, efficiency and investment decisions as well as informing interested persons. As the proposed measures include some new metrics which will require investment in systems and processes and collaboration from the industry, the airports would like to emphasise the importance of timely response if the Commission is likely to have different approach to the above agreed position.

NZ Airports and BARNZ both consider that the joint process which has been undertaken by the airports and airlines has been valuable. Not only has it enabled the industry to work together to develop a joint view of what quality measures are considered important by the industry as a whole, it has also allowed a constructive dialogue to occur over what type of information is able to be collected at a reasonable compliance cost, and what information would be too costly or problematic to collect.

To date the work undertaken by NZ Airports and BARNZ has focused on quality metrics. It is hoped that going forward the two organisations will also be able to work collaboratively on some other aspects of the disclosure requirements, such as financial metrics and other statistics.

NZ Airports and BARNZ hope that the joint working document provides a useful insight to the Commission and its advisors of the quality metrics which the industry considers important and suitable for inclusion in the information disclosure requirements being developed under the Commerce Act. As noted above, the parties now await feedback from the Commission before proceeding with the planned work by AirBiz on measurement of the relevant peak hour and peak day, and the trial collection of data.

If the Commission or its advisors have any queries on the process undertaken or the outcome, please feel free to contact either Kevin Ward, Chief Executive, NZ Airports Association or John Beckett, Executive Director, BARNZ.

Yours sincerely,

Kevin Ward
Chief Executive
NZ Airports Association
04 384 3217

John Beckett
Executive Director
BARNZ
09 358 0696

Quality Service Monitoring for Specified Airport Companies

A joint working document produced by the NZ Airports Association, BARNZ 24 June 2009

It is proposed to monitor three types of service quality measures for specified airport companies through information disclosure:

1. **Passenger perception** – The quality of services and facilities provided by the airport to passengers will be monitored through surveys measuring passenger satisfaction on matters provided by the airport which contribute to the passenger's experience of identified airport activity facilities.
2. **Reliability of aeronautical services** – The reliability of identified airport activity services and facilities provided by the airport will be measured via two means:
 - the withdrawal of material services by the airport;
 - delays to on time departures resulting from withdrawal of identified airport activity services by the airport, that ought to have been reasonably expected by users.
3. **Capacity and utilisation** – The capacity of facilities is described at a high level in terms of physical dimensions, processing capacity or technical specifications (as most appropriate for the particular service or facility) augmented by analysis of peak hour utilisation of particular facilities.

It is proposed that the three identified airports will trial data collection for the 2008/09 Financial year (to the extent possible) in order to test the processes for data collection, identify any definitional issues which arise in practice and ascertain whether the measures will be useful and likely to drive improved processes, efficiency and investment decisions as well as informing interested persons.

1. Passenger perceptions

The perception by the end consumer of the quality of service received is most appropriately collected via surveys of airline passengers. Information should result in quantitative statistically robust outputs, based on qualitative inputs. This will then be able to be related to the outputs of the airport capacity and utilisation measures, so as to then have both qualitative and quantitative measures of quality of service to passengers.

Passenger perceptions of services provided by the airport	Domestic	International	Combined
Availability of baggage carts / trolleys	AKL	AKL	*
Ease of finding your way through airport	AKL	AKL	*
Flight information screens	AKL	AKL	*
Walking distance inside the terminal	AKL	AKL	*
Ease of making connections with other flights	AKL	AKL	*
Courtesy / helpfulness of airport staff	AKL	AKL	*
Availability of washrooms / toilets	AKL	AKL	*
Cleanliness of washrooms / toilets	AKL	AKL	*
Comfort waiting / gate areas	AKL	AKL	*
Cleanliness of airport terminal	AKL	AKL	*
Ambience of terminal	AKL	AKL	*

* Where international and domestic terminals are not separated (as at CHC and WLG) the airport can elect to report results for Domestic, International or combined

Methodology:

The airport can either undertake this survey itself or can utilise the services of an organisation which undertakes similar surveys (such as the ACI ASQ survey). In all cases robust and objectively independent sampling methods and data collection processes must be able to be demonstrated, and a statistically significant sample should be obtained. When designing its survey and means of data collection, the airport should strive to ensure that, as far as possible, the information is collected and disclosed in a means which is comparable with other identified airports.

The airport's disclosure should include:

- A description of the sampling methodology used
- The annual score across a number of services offered
- Any commentary which the airport wishes to provide regarding these statistics including steps undertaken during the year or planned to be undertaken to address any issues highlighted by the survey.

2. Reliability of Aeronautical Services

It is proposed to measure the quality of service delivered to airlines via two main types of metrics:

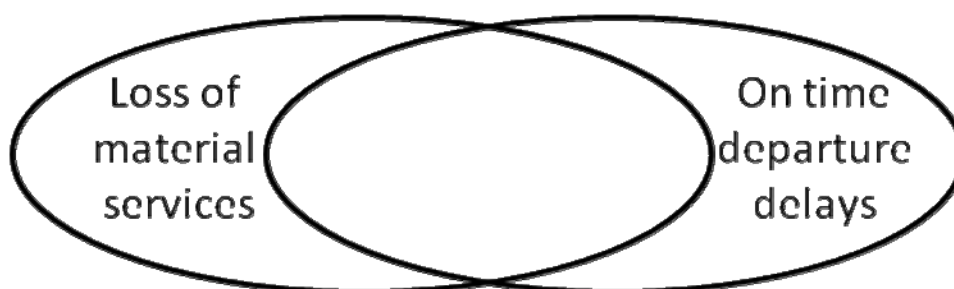
- Loss of material services
- On time departure delays

Loss of material services, measures 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.

On time departure delays, measures whether the unavailability of facilities provided by the airport (whether material services or not), caused an on time departure delay. On time departures is an important cost driver for airlines and is a measure that NZ Airport and BARNZ supports as a key indicator of airport operational efficiency.

When interpreting these metrics it is important to note that:

- Loss of material services and on time departure delays are not mutually exclusive
- Not all interruptions / loss of material service will result in an on time departure delay (as material services are both on arrival and on departures)
- Some on time departure delays will be caused by the loss of material services
- Some on time departure delays will be caused by services other than those listed under material
- One withdrawal of a material service could result in more than one flight delay



Material services	Other services (examples)
<ul style="list-style-type: none"> Reliability metrics will be recorded for interruptions to all material services 	<ul style="list-style-type: none"> Reliability metrics will be recorded for interruptions to other services to the extent that they result in an on time departure delay
<ul style="list-style-type: none"> Runway Taxiway Contact stand and airbridge Remote stand and means of embarking or disembarking the aircraft Baggage sortation system (departing) Baggage reclaim. 	<ul style="list-style-type: none"> NIGs GPU PCA FIDs IT systems PA system Late allocation of gate A secure gate lounge Common use counters

Supporting process	Outside of Information Disclosure
Root cause analysis	All interruptions should where possible describe who was responsible and what the primary cause was. Where a party sub-contracts activities they remain responsible for those activities and therefore any interruptions to subcontracted activities.
On time departure delay root cause analysis	Airlines and airports to meet reasonably soon after the delay in on-time departure to determine if the interruption to service was due to airport, airline, security, or third party.
Operational Improvement Forums	<p>Airlines and airports to meet regularly to identify any measures available either to reduce the likelihood of service losses which have caused loss of material services or on time departure delays from re-occurring or to better manage such losses of service or on time departure delays so as to reduce the impact.</p> <p>Airlines and airports to meet regularly to review passenger perception survey results (quarterly available) to identify areas where remedial action is required by the airport, airline or border agencies</p>

Supporting definitions and process	Within Information Disclosure
Interruption	<p>Interruption, in relation to a service provided by a specified airport company, - Means the withdrawal by the company of the service, during operational hours, for a period of 15 minutes or longer; but Does not include an interruption to runway services due to weather conditions: Does not include planned interruptions</p> <p>Operational hours, in relation to a service provided by a specified airport company, means the periods when the service is normally made available</p> <p>Planned interruption, in relation to a service provided by a specified airport company, means an interruption of which the customers affected by it had 24 hours or more notice</p>
Scheduled operation	An aircraft was scheduled to arrive or depart and arrived or departed within 15 minutes of schedule
Airport	To include their subcontracted services
Process for Operational Improvement Forums	Airports should annually disclosure the process the airport has put in place for undertaking Operational Improvement Forums. Minutes of such meetings are to be available to the Commission upon request but are not to be included within the Disclosure.

Metrics for Information Disclosure – Airport Service to Airlines

Services	Loss of material services	# of interruptions	Duration of interruptions
Runway	<p><u>Interruption to runway services</u> A scheduled aircraft cannot land or depart due to closure of runway, e.g. a plane leaves debris on the runway which results in a closure affecting scheduled services. 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. E.g. 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.</p>	#	00:00
Taxiway	<p><u>Interruption to taxiway services</u> For all practical purposes the taxiway is unusable by scheduled aircraft and there is no alternative path reasonably available. E. g scheduled operator cannot use material portions of the taxiway.</p>	#	00:00
Remote stands and means of embarkation /	<p><u>Interruptions to remote stands</u> A remote stand with bussing operations or walking to or from the terminal was</p>	#	00:00

disembarkation	scheduled, but the remote stand and/or means of passengers accessing the terminal was not available and no alternative was provided. The operator had to wait for another stand or for the means of passengers accessing the terminal.		
Contact stands / airbridge	<u>Interruption to contact stands</u> A contact stand / airbridge was scheduled and no alternative contact stand / airbridge alternative was provided. The operator either had to use a remote stand alternative or wait. This would include interruptions due to another airline not using the equipment correctly, i.e. if a second airline was affected.	#	00:00
Baggage sortation system – departing baggage	<u>Interruption to baggage sortation system on departures</u> The baggage sortation system for departing bags was unavailable for more than 15 minutes, irrespective of where the breakdown was within the system	#	00:00
Baggage reclaim	<u>Interruption to baggage reclaim belts</u> The baggage reclaim unit scheduled was not available and no baggage reclaim unit alternative was available for use	#	00:00
On time departure delay	A scheduled service has been delayed by more than 15 minutes primarily as a result of unavailability of identified airport activity services or facilities e.g. a major IT outage affects check-in and FIDs and results in an OTDD	# of flights affected	Data quality to be assessed during trial

Note: On time departure delay is a new metric for which the data quality is yet to be assessed, particularly with regard to the duration of the departure delay. Airlines and airports are committed to trialling the inclusion of this statistic. 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. This will require a sufficient lead time.

3. Capacity and Utilisation

It is proposed to measure the capacity and utilisation of key infrastructure and facilities using standardised metrics which provide an overall picture of facilities which are transparent, readily applied at each airport and which should generate outcomes that are consistent over time.

The reporting of capacity is intended only to provide an ongoing description of each airport's facilities without judgment of whether these are fit for purpose at any particular point in time. The reporting of utilisation is to provide a summary of indicative utilisation of the facilities at peak hour without any particular judgments of meeting targets or acceptable standards.

The utilisation measures should be able to be compared as trends over time at each airport, but not between airports. It is recognised that comparisons across airports will be attempted. However there will be reasons why there will be differences between airports.

Capacity reporting

It is proposed the capacity reporting will cover the following:

Airfield

- Description of runway(s) including orientation, length of pavement, width, and runway code.
- Description of main taxiway(s) stating whether full length, single or dual
- Declared capacity by Airways or the Airport for each runway (aircraft movements per hour)
- Category of Instrument Landing System

Apron

- Number of aircraft parking stands, categorised by principal purpose (international, domestic, cargo), principal aircraft type (jet, turboprop), terminal access (airbridge, walkway, remote/bussed).

Terminal

- The specific terminal facilities to be described and the proposed method of measurement as follows:

Terminal functional area	Area Available	Notional Capacity	Categories
Check-in	<p>Overall functional floor space (m²) including areas utilised by passengers and staff in direct contact with passengers as part of the process – check-in counters, kiosks, help desks, service desks, ticketing counters, baggage scales, baggage injector feeds, takeaway baggage conveyors, bag drop belts, queuing zones, seating and waiting areas associated with the check-in area, and circulation areas directly associated with the function.</p> <p>Excludes airline and airport offices, unless used directly by passengers as part of normal processing and services.</p> <p>Excludes retail and concession areas and floor curtilage area of 1m width at entries/exits to retail/concessions and adjacent to shop-front window displays for retail/concessions.</p>	Not applicable	International, domestic, integrated
Outbound baggage system	Description of the type of baggage system(s) (manual or automated sortation).	Nominal (realistic) processing capacity of the system measured in bags/hour.	International, domestic, integrated
Baggage Make-up area	Overall functional floor space (m ²) of areas occupied by baggage make-up conveyors, loops and laterals, dolly circulation and staging, staff sorting and loading space and Hold Baggage Screening Equipment.	Not applicable	International, domestic, integrated
Landside circulation	<p>Overall functional floor space (m²) of areas providing general circulation to provide access for passengers to/from check-in, security and landside retail/concessions.</p> <p>Excludes retail and concession areas and floor curtilage area of 1m width at entries/exits to retail/concessions and adjacent to shop-front window displays for retail/concessions.</p>	Not applicable	International, domestic, integrated

Security screening	Overall functional floor space (m ²) of areas providing security screening services for passengers including the areas occupied by screening equipment and tables, and the staff operating the screening, queuing zones and an area up to 2m after the tables on the airside of the screening zone. Excludes Avsec offices.	Notional (realistic) throughput capacity based on the number of screening stations and Avsec's advised sustainable processing rate (for domestic and international separately)	International, domestic, integrated
Passport control (outbound)	Overall functional floor space (m ²) of areas providing passport control for departing passengers including the areas occupied by counters, and the Customs staff operating the control point screening, queuing zones and an area up to 2m after the booths on the airside of the control point. Excludes Customs and Immigration offices.	Notional (realistic) throughput capacity based on the number of Customs counters and Smartgate portals, and Customs' advised sustainable processing rates for each method separately.	International
Departure lounges	Overall functional floor space (m ²) of areas occupied by departure gate lounges including seating and waiting areas, and airline boarding control desks and areas occupied airline staff controlling boarding. Excludes retail and concession areas and floor curtilage area of 1m width at entries/exits to retail/concessions and adjacent to shopfront window displays for retail/concessions. Excludes airline lounges and pay-per-use lounges and facilities such as showers.	Not applicable	Domestic and International

Airside circulation	<p>Overall functional floor space (m²) of areas providing general circulation, travelators and concourse areas that provide access for passengers to/from security screening, outbound and inbound passport control (for international), departure lounges , airbridge/terminal doorways (where passengers depart or arrive into corridors) and airside retail/concessions.</p> <p>Excludes retail and concession areas and floor curtilage area of 1m width at entries/exits to retail/concessions and adjacent to shopfront window displays for retail/concessions.</p>	Not applicable	International, domestic, integrated
Passport control (inbound)	<p>Overall functional floor space (m²) of areas providing passport control for arriving passengers including the areas occupied by counters, and the Customs staff operating the control point screening, queuing zones and an area up to 2m after the booths on the airside of the control point.</p> <p>Excludes Customs and Immigration offices.</p>	Notional (realistic) throughput capacity based on the number of Customs counters and Smartgate portals, and Customs' advised sustainable processing rates for each method separately.	International
Baggage reclaim	<p>Overall functional floor space (m²) of areas occupied by baggage reclaim belts, waiting areas, trolley storage areas, baggage service counters and areas occupied airline staff directly interfacing with passengers.</p> <p>Excludes areas in the baggage room such as the drop-off belt.</p>	Notional (realistic) capacity of passengers and bags based on practical number of narrow-body jets per reclaim unit per hour for domestic, and of wide-body jets per reclaim unit per hour for international.	Domestic and International

Biosecurity screening and inspection and Customs secondary inspection	Overall functional floor space (m ²) of areas providing biosecurity screening and inspection, Customs secondary inspection for arriving passengers including the areas occupied by counters, screening equipment, and the MAF and Customs staff operating the screening and inspection areas, queuing zones and an area up to 2m after the screening equipment or counters on the landside of the screening and inspection points. Excludes MAF and Customs offices and search rooms.	Notional (realistic) throughput capacity based on the number of MAF screening stations and MAF's advised sustainable processing rate	International
Arrivals concourse	Overall functional floor space (m ²) of areas occupied by the landside public meeting areas including seating and waiting areas. Excludes retail and concession areas and floor curtilage area of 1m width at entries/exits to retail/concessions and adjacent to shopfront window displays for retail/concessions.	Not applicable	International, domestic, integrated
Passenger facilities	Overall functional floor space (m ²) of areas providing general facilities for passengers such as toilets, help desks, information desks, telephone and internet facilities etc. Excludes plant/services areas, cleaners rooms etc.	Not applicable	International, domestic, integrated
Total terminal functional areas	Aggregate of terminal functional floor space (m ²) of all areas described above (except outbound baggage system) providing facilities and service directly for passengers.	Notional capacity of the terminal, based on the limiting throughput capacity assessed for the various components described above.	International, domestic, integrated. Reported for total areas relating to departures and arrivals separately, and for the overall total of departures plus arrivals.

UTILISATION REPORTING

It is proposed that the monitoring and reporting of utilisation will be in the following ways:

Runway

- Number of aircraft movements during the selected representative Busy Hour for runway activity for each airport, categorised by Arrivals, Departures, Total.

Aprons

- Averaged number of aircraft turnarounds for the selected representative Busy Day for each airport, for each of the categories reported in the capacity description (a turnaround is an arrival and departure of a particular aircraft).

Terminal

- Throughput of passengers per 100m² in the various selected busy hours for departing and arriving, domestic and international passengers, for each of the separate terminal functional areas identified above, and for the various aggregated areas described above.
- Estimated throughput of baggage through the inbound and outbound baggage systems in the selected busy hours for domestic passengers and the hour prior to the selected busy hour for international passengers, measured in bags per hour. For reclaim units and manual sortation outbound systems, this will be estimated using estimated numbers of bags per passenger. For automated outbound baggage systems, this may be able to be estimated by reference to historical records of actual bags processed through the system during the relevant hour.

Methodology	Definition
Busy period demand	<p>The busy hour for runway and terminal utilisation will be selected by an independent expert third party following a detailed analysis of various methodologies across each of the regulated airports. A trial will be necessary to determine the appropriate methodology which can then be included in the information disclosure requirement.</p> <p>It is also probable that there will be different busy hours identified for departing and arriving passengers, for both domestic and international.</p> <p>The selected historical busy day or hour should also be a day or period of normal busy activity during which capacity was not being affected by constraints such as poor weather or fog.</p>

Commonly used include busy hour definitions are:

- 90th Percentile Hour (or Day) – Ranked hour (or day) of the year, above which 10% of the ranked hours or days are busier
- 95th Percentile Hour (or Day) – Ranked hour (or day) of the year, above which 5% of the ranked hours or days are busier
- 30th Busy Hour (or Day) – Ranked hour (or day) of the year, above which 29 of the ranked hours or days are busier

- Alternatively the appropriate measure may be the busy hour on the busy day, which in turn can be assessed by these measures:
 - IATA Busy Day – defined as 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.
 - Peak Month Average Day (PMAD) – FAA Method
 - Peak Month Average Weekday (PMAWD)
 - Busy Day Typical Week Peak Month (BDTWPM)