

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

2 November 2009

Introduction	2
Executive Summary.....	3
Key Issues Identified from Airline Submissions on Discussion Paper.....	5
Context for Information Disclosure	5
Airline Comments	5
The Section 53A Purpose Statement.....	6
Interested Persons.....	7
Sufficient Information	8
What Information is Necessary to Demonstrate the Outcomes?	8
Summary.....	8
Specified Airport Activities	10
Key Performance Indicators	14
Quality and Service Monitoring - Extent of Statistical Information Required.....	14
AMPs.....	16
Treatment of Shared Costs and Assets.....	17
Allowance for financing during construction	18
Commercial Information.....	19
Unregulated Activities	19
Contracts with Airlines	19
Audit and Certification.....	21
Workshops.....	22
Supplemental Comments on Questions in Discussion Paper.....	23

Introduction

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

This Cross 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, the Input Methodologies Discussion Paper published on 19 June 2009, the Information Disclosure Discussion Paper published on 29 July 2009 and the Airport Conference held on 15 September 2009 ("**Conference**").

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

NZ Airport's contact for matters regarding this submission is:

Kevin Ward
Chief Executive
New Zealand Airports Association
PO Box 11 369
Manners Street
Wellington 6011

DDI: 04 384 3217
Mobile: 021 384 524
Email: kevin.ward@nzairports.co.nz

3. This Cross Submission addresses comments made by Air New Zealand Limited ("**Air NZ**") and the Board of Airline Representatives of New Zealand Inc ("**BARNZ**"), together "**the Airlines**", in their submissions on the Discussion Paper ("**the Airline submissions**").

Structure of this Cross Submission

This Cross Submission comprises two key parts:

- Comment on key issues NZ Airports has identified in the Airline submissions.
- Where necessary, supplementary comment on the questions posed by the Commission in the Discussion Paper.

Executive Summary

4. NZ Airports has reviewed the Airline submissions and provides this Cross Submission to respond to comments made by the airlines.
5. NZ Airports reiterates that it supports enhanced information disclosure. However, as NZ Airports stated in its earlier submission on Information Disclosure “one size should not fit all” and information disclosure requirements should not be so overly prescriptive that they are not cost effective (one of the Commission’s key principles) nor result in de facto price control.
6. Information disclosure must consider the nature of interested persons and be fit for purpose. It is reasonable to assume that interested persons may have a special interest in airports and therefore, seek disclosure on this basis. However the level of specificity and detail in the disclosure should make it feasible for interested passengers or other individuals to undertake analysis that enables them to form their own views on airport performance. *Paragraphs 23-24*
7. The section 53A Information Disclosure Purpose Statement ("**Purpose Statement**") under Part 4 of the Commerce Act 1986 ("**Act**") requires that “*sufficient*” information is provided. The Commission has accepted that only information necessary to meet the Purpose Statement should be required to be disclosed. It is not evident that due regard has been given to this limitation. *Paragraphs 27-29*
8. Disclosure of separate financial results for each specified activity, as indicated by the Commission and supported by the Airlines, is not warranted nor is it required to meet the Purpose Statement. *Paragraphs 38-50*
9. Publication of statistical ratios must be rational and justified under the Purpose Statement. This is not demonstrated in the Airline submissions: a combination of the Commission's and the Airlines' approach to capital expenditure ratios would require the publication of 75 annual ratios. *Paragraphs 51-56*
10. Similarly, statistics additional to those proposed by NZ Airports and BARNZ for Quality Monitoring will not assist in the analysis of quality information and are in fact likely to be confusing. *Paragraph 61*
11. In considering the requirement for Asset Management Plans ("**AMPs**") NZ Airports urges the Commission to consider more *Paragraphs 62- 64*

cost effective means that are available to allow interested parties to assess asset management practices, and recognise the existing airport processes for asset management including the provision of Master Plans, as proposed by NZ Airports in its initial Discussion Paper submission.

12. The Airlines have proposed that a level of unregulated income should be imputed to regulated income to compensate for the use of shared assets by unregulated businesses. The Airlines ignore the fact that shared assets are not income producing assets (which differs from the energy sector) and consequently apportionment of airport shared assets is an overhead allocation. *Paragraphs 68-71*
13. NZ Airports strongly resists the provision of any information on its unregulated businesses to interested parties, with the exception being the provision of information that the Commission may properly require for its compliance monitoring role. *Paragraphs 79-81*
14. This includes publication of contracts with airlines to achieve business growth. Publication of such contracts may result in constraints being placed on airports to seek further enhancements to the competitive aviation market in New Zealand which would ultimately produce better outcomes for consumers. *Paragraphs 82-97*
15. The requirement for the audit of information disclosures needs to be balanced and recognise the cost and complexity of audits. Director certification of non-financial information should provide sufficient assurance for the Commission and other interested parties. We note that director certification is deemed appropriate for compliance reporting to external financiers and is similarly considered sufficient by NZ Airports for reporting to the Commission. *Paragraphs 98-102*
16. NZ Airports continues to encourage the Commission to consider workshops with airports and airlines to resolve issues. In particular workshops could be scheduled to:
 - Resolve the final quality monitoring requirements; and
 - Establish information disclosure templates for airports. *Paragraph 103*

Key Issues Identified from Airline Submissions on Discussion Paper

Context for Information Disclosure

Airline Comments

17. BARNZ commented in the introduction to their Submission¹ that:

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

18. NZ Airports has not had access to the BARNZ paper prepared for the Ministry of Transport (“MOT”) but irrespective of this it has been supplanted by the process now being undertaken by the Commission. We note in particular that:

- The airlines, as is evident from their submissions throughout the current Commerce Act process, do not have regard to the requirements of the Part 4 Purpose Statement when they conclude that monopoly profits exist.
- The MOT did not amend the Regulations (referred to by BARNZ) or seek amended disclosures from airports in response to the BARNZ paper. Airports were therefore complying with the statutory requirements that applied.
- The responsibility for establishing information disclosure requirements now falls to the Commerce Commission, hence the current process.
- The affected airports have recommended, and in the case of quality measures agreed to, substantial enhancements to annual information disclosures.
- As part of the new information disclosure regime the Commission will be required to undertake annual monitoring of annual disclosures. This was not a compulsory requirement for the MOT under the AAA regime.

19. Air NZ has stressed the need to establish a robust information disclosure regime so that the 2012 review and report can be effectively undertaken, and/or to avoid a situation where the only conclusion available to the Commission is that further regulation is required.

20. NZ Airports acknowledges that the 2012 review is important, but submits that the consideration of the various proposed information requirements needs to be undertaken with the Purpose Statement as the primary guide. It is important that the information disclosure regime is not primarily designed for the purpose of the 2012 report, which is not what Parliament intended. In NZ Airports' view these considerations have not been understood by the Airlines in their submissions. We evaluate aspects of their proposed information requirements against the Purpose Statement in this Cross Submission.

¹ BARNZ Submission on Commerce Commission Information Disclosure Discussion Paper, 11 September 2009, page 1

21. Air NZ has also suggested in its Conference Cross Submission that the Commission should require disclosure for several years prior to 2011. It cites certain sections in the Act which it believes support an argument that Parliament intended to displace the general presumption against retrospective legislation. NZ Airports does not wish to dwell on this point, given the weakness of those arguments. It is sufficient to submit that there is clearly nothing in Part 4 which can reasonably be interpreted as an express and clear direction by Parliament that information disclosure regulation should be retrospective. In the absence of such clear intent, as explained by the Chair during the Conference, the general presumption against retrospectivity prevails.
22. In fact contrary to Air NZ's submission we refer to our Cross Submission following the Input Methodologies Conference where we noted clear statements from the Government that retrospective application of the changes in the Act to airports was not appropriate. For the Commission's convenience we reproduce these comments below:

*"The new regime takes account of international best-practice, and focuses on **forward-looking** incentives for businesses rather than looking backward for breaches of thresholds."² [Our emphasis.]*

And:

"25. We do not agree with the airlines proposal for a mechanism to address perceived over-recovery during the 2007-2012 period (if an enquiry found that over-recovery had occurred). The 2007 price reset was carried out in accordance with the existing legislative framework. Therefore, any attempt to claw back profits earned during this period would have a significant element of retrospectivity. In general regulation should be forward looking. Retrospective action of this nature may deter airport companies from investing and innovating in the future out of concern that the Government may take similar retrospective action in the future. Even if there were a case for clawing back any excess profits, there would be practical problems in attempting to do so for the following reasons:

- a) The excess would have been contributed to by a combination of airlines, passengers, air cargo service providers and their customers. It would be a complex and somewhat arbitrary exercise to allocate the amounts;*
- b) The refund proportionate to the overall cost to passengers would be so small (i.e. a few cents) as to not justify the transaction costs; and*
- c) Any decision to give the full amount to the airlines would effectively give the airlines windfall gains. There is no public policy reason to make such an arbitrary decision."³*

The Section 53A Purpose Statement

23. The Purpose Statement states that the purpose of Information Disclosure *"is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of this Part is being met."*

² Greater Certainty for Businesses after Commerce Act Review - Minister of Commerce and Minister of Energy Media Statement 23/11/07

³ Cabinet Paper, Options on Scope of Further Work on Airport Regulation, Signed 27/5/08 Minister of Commerce/ 08/06/08 Minister of Transport

24. The two key terms in the Purpose Statement are “sufficient information” and “interested persons”. We consider these two terms below..

Interested Persons

25. We have commented extensively in our past submissions on appropriate considerations when determining what information “interested persons” require. Given the significance of this issue to the design of the airport information disclosure requirements we repeat several of the key comments from our previous submissions.

Submission on Information Disclosure Discussion Paper (page 5)

“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.

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.”

Cross Submission following the Commerce Commission Input Methodologies Conference for Airports (page 20)

“NZ Airports acknowledges that section 53A requires that enough information be disclosed to ensure that interested persons can assess whether the purpose of Part 4 is being met. This does not require a prescriptive “one size fits all approach”. In particular:

- *Contrary to assertions made by other Conference participants, given the complexities in assessing airport performance “interested persons” can be expected to have a greater than normal interest in airport outcomes. Therefore, it does not mean the general lay public, and information disclosure is not directed at that group. We consider that interested persons means the Commission, airlines (actual and potential), shippers and perhaps some passengers.*
- *To the extent that the travelling public has an interest in the financial and valuation issues (which in practical terms is fairly unlikely) the Commission’s monitoring and analysis role will ensure that the information is sufficiently comprehensible. There can scarcely be any doubt about the Commission’s ability to undertake this role. NZ Airports accepts that the Commission would have a role in commenting on the implications of the different approaches used by airports - to the extent that they are material, and therefore supplementing the analysis that other interested parties may undertake in their own right.*
- *We commented in our submission on the Information Disclosure Discussion Paper that the travelling public is more likely to be interested in service performance issues and these comments are not impacted by the discussion concerning valuation methodologies.*

In our submission on the Information Disclosure Discussion Paper we also commented that Information Disclosures need to be fit for purpose for interested persons and importantly was not required to replicate parties’ access to information to fulfil other regulatory functions requirements (i.e. the Commission for 2012 report and airlines for consultation.)”

26. In short NZ Airports accepts and submits that:

- a broad interpretation of interested persons is appropriate;

- the Commission will have a role in assisting non-expert parties in analysing financial information;
- the travelling public are more likely to be interested in quality and service aspects of information disclosure; and
- information disclosure should not be designed to provide access to information available to major parties (airlines and the Commission) from other sources.

Sufficient Information

27. The Commission has accepted that "information disclosure requirements should only require suppliers to disclose information that is **necessary** to achieve the purpose of information disclosure regulation" (paragraph 758 of the Discussion Paper).
28. In determining whether particular information disclosures are necessary to meet the Purpose Statement, proposed disclosures should be evaluated against some form of criteria. NZ Airports submits that the following questions should form the basis of this evaluation:
- What information is necessary to demonstrate the outcomes of the Part 4 Purpose Statement?

NZ Airports notes that the Commission is seeking to address this issue in its consultation on the Information Disclosure Requirements.
 - What level of detail is necessary to allow an assessment of the Part 4 Purpose Statement outcomes?

Or, is it demonstrable that the benefits of disclosure clearly outweigh the cost, in an individual and collective sense?
 - Whether the cost of producing new information disclosures is justified based on the significance of that information in making the assessment required under the Purpose Statement.
29. These simple questions have not been considered in the information disclosures proposed by the Airlines and NZ Airports seeks to provide this clarity below.

What Information is Necessary to Demonstrate the Outcomes?

Summary

30. The Airlines have submitted that the three Airports should provide a considerable level of detailed information. This demonstrates an approach of seeking disclosure of every type of information they think might potentially be of some relevance or would be nice to have. They do not demonstrate how much of this information provides a meaningful contribution to assessment of whether the Part 4 Purpose Statement is being met. They have proposed a vast array of disclosures that would make it extremely challenging for any interested party to make an information assessment of information disclosures. Nor have the Airlines demonstrated how they have considered the Commission's requirement for cost effectiveness of information disclosures.

31. NZ Airports submits that not only will such an approach add to the collective cost of the information disclosure, but it may well impair the benefits of the disclosures as interested parties may instead be overwhelmed by information and find themselves unable to conclude on balance what outcomes have been demonstrated – ie they will not be able to see the woods for the trees.
32. NZ Airports refers to the summary of recommended key performance indicators it provided in its initial submission (page 41) and as repeated below. These disclosures, together with the Financial Statements for the Regulated business, provide clear relationships to the outcomes sought by the Part 4 Purpose Statement:

NZ Airports' Recommended Specified Airport Services Performance Indicators

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

33. The Commission indicates in the Discussion Paper that it appreciates that information disclosure is intended to be a relatively light-handed and cost effective type of regulation⁴. However, there appears to have been little or no consideration of the overall cost of the added information disclosures or any analysis of whether it is a proportionate regulatory response consistent with the objective of information

⁴ Commerce Commission Information Disclosure Discussion Paper, 29 July 2009, paragraph 85

disclosure being a light-handed form of regulation. While collection of much of the data may not come at a high specific cost the collective cost will be substantial.

34. In our initial Information Disclosure submission (page 16) NZ Airports provided a summary of the estimated costs for development of the revised disclosure regime. This cost is substantial as shown in the table below, which has been reproduced from the initial submission.

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

The airports will not be able to form a view of the ongoing annual costs until a more definite position is taken on what the annual disclosure requirements will be. The additional recommendations by BARNZ are likely to materially increase the cost of compliance for limited benefit.

Irrespective of what the final outcome may be the additional annual cost for airports will be substantial. NZ Airports also notes that this cost is in addition to the costs already incurred by the airports for participating in the current consultation process.

35. The disclosures proposed by BARNZ in particular are irrational and will produce a volume of data that is so extensive that it would prohibit any reasonable assessment by interested parties. We comment further below on several examples were this situation occurs, for example:
- A combination of the Commission’s four capital expenditure categories (plus the total), times three specified activities, times five types of asset (as proposed by BARNZ) would produce 75 capital expenditure ratios for each airport; and
 - Physical details of the number of wash rooms per 1,000 passengers or the bacteria count will not supplement the Passenger Perception Survey outcome on the availability of wash rooms; rather this information will confuse it.
36. NZ Airports submits that the Commission must act consistently with the Purpose Statement and test each proposed disclosure to ensure that the information required is “sufficient” (ie necessary to meet the Purpose Statement). Information disclosure must not be required if it cannot be justified by this test.
37. We evaluate the main types of information being proposed by the Commission and the airlines below.

Specified Airport Activities

38. NZ Airports acknowledges that the definition of specified airport activities has an important role in determining information disclosure requirements. Critically it:
- Determines the details of what services are to be regulated; and
 - Governs what assets and costs may be allocated to regulated activities.

NZ Airports accepts that the Commission will need to be satisfied that appropriate processes are in place to ensure these allocations are appropriate.

39. However this is different from the Commission proposal at paragraphs 816 to 819 of the Discussion Paper that financial outcomes should be reported separately for each specified airport activity. The Airlines supported this disclosure in their submissions on the Discussion Paper.
40. A key rationale expressed by the airlines was that the customer bases for each of the specified activities were different and therefore separate disclosure was appropriate. NZ Airports accepts that the customer base for the Aircraft and Freight activity is distinct, but submits that this activity is not material in comparison to the other two activities. The majority of airport regulated revenues are received from the Airfield and Specified Terminal Activities, which comprise a bundle of services provided to the same passengers (we acknowledge there will be some airfield revenue from aircraft that do not carry passengers, however, this is not a material proportion of total revenues at any of the three Airports).
41. Consider the following summary of revenues published in the latest airport Disclosure Financial Statements.

	Airfield (\$000)	Specified Terminal (\$000)	Aircraft & Freight (\$000)	Total (\$000)
Auckland (2008)				
Landing and terminal charges	70,129	89,849		159,978
Other income	1,030	14,990	9,393	25,413
<i>Total Revenue</i>	<i>71,159</i>	<i>104,839</i>	<i>9,393</i>	<i>185,391</i>
Wellington (2009)				
Landing and terminal charges	24,051	24,682		48,733
Other income	501		1,739	2,240
<i>Total Revenue</i>	<i>24,552</i>	<i>24,682</i>	<i>1,739</i>	<i>50,973</i>
Christchurch (2008)				
Landing and terminal charges	15,528	24,824		40,352
Other income	625	3,894	4,212	8,731
<i>Total Revenue</i>	<i>16,153</i>	<i>28,718</i>	<i>4,212</i>	<i>49,083</i>

	Airfield %	Specified Terminal %	Aircraft & Freight %	Total %
Core Landing and Terminal Charges as % of Total Segment Revenue				
Auckland	99%	86%	0%	86%
Wellington	98%	100%	0%	96%
Christchurch	96%	86%	0%	82%

Specified Activity Revenue as % of Total Aeronautical Revenue				
Auckland	38%	57%	5%	
Wellington	48%	49%	3%	
Christchurch	33%	58%	9%	

42. Landing and terminal charge revenues from materially the same passenger bases account for between 82% and 96% of regulated revenues. Given the dominance of revenues generated from passenger activities, NZ Airports does not agree that the airfield and terminal are separate markets that justify distinct financial reporting. The same information could be obtained from a single disclosure of revenues which vertically splits out passenger charges, aircraft charges and other charges - ie as is currently provided in consolidated annual reports.
43. Aircraft and freight revenues account for between 3% and 9% of total regulated revenues.
44. Given these financial outcomes it is therefore reasonable to question whether reporting of financial outcomes separately for each activity is necessary.
45. Consideration must then be given to the outcomes sought by the Part 4 Purpose Statement. For convenience we reproduce these below:
- (a) *have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and*
 - (b) *have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and*
 - (c) *share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and*
 - (d) *are limited in their ability to extract excessive profits.*
46. NZ Airports questions how assessment of any of these outcomes will be enhanced by separate reporting of the financial outcomes for the specified airport activities. To the contrary, NZ Airports submits that separate financial reporting will add complexity to the assessment that is unnecessary. Consider:
- The high degree of commonality between end users of the airfield and specified terminal activities.
 - That the specified activities delineation prescribed in the Airport Authorities Amendment Act 1997 has been superseded by new business operating models and none of the airports manage their businesses using the same structure as the specified activities.
 - New airlines seek pricing structures that match their risk profiles and do not provide a distinction between airfield or terminal services. The distinction between the specified airport activities is meaningless for these carriers.
 - The scope of aeronautical services as a whole is likely to be more stable than the scope of activities within each specified activity. For example BARNZ has previously submitted to the Minister of Transport that the definitions of specified

airport activities require review to provide further clarification for asset allocations.

- Changes to these definitions is not unprecedented, but can be managed by taking a high level view. The Australian Productivity Commission recommended a review of the Australian Definitions – which resulted in the dissolution of its third classification – “aeronautical related activities”. The new definition allocates most “aircraft and freight” type activities to aircraft related services and facilities. Whilst there continues to be two types of aeronautical activities most of the ACCC’s monitoring relates to the performance of “aeronautical services” in their totality.
 - Incentives to improve efficiency and share the benefits of efficiency gains are not enhanced by the reporting of separate activities. Key performance indicators at a total regulated business level will be sufficient to achieve these outcomes.
 - The investment cycles for the different activities means that it is possible that under and over recoveries may be incurred in the individual activities for some periods. However if this is occurring it does not provide any indication of excessive profits by airports and is only reflective of asset life cycles. It is the total outcome from the regulated activities that will demonstrate whether airports are constrained from making excessive profits.
47. Each of the airport businesses are also vastly different in terms of asset composition and markets served. Comparability of outcomes at a specified activity level between the airports will require full analysis of the differences at a detailed level taking into account the significance of the differences in business models as they impact each individual activity. This is likely to be difficult to achieve, require considerable analytical resource and be of limited benefit in enabling the assessment of information disclosures.
48. NZ Airports also notes that internationally it is standard industry practice for this analysis to be conducted for aeronautical services in their entirety, (eg ACCC Annual Monitoring Reports and Jacobs Consultancy airport surveys).
49. The Commission commented in paragraph 818 of the Discussion Paper that *“...the Commission considers the cost of collecting the required information to be relatively low compared to the contribution it makes to the purpose of information disclosure regulation by allowing an appropriate assessment of performance.”*
50. NZ Airports agrees that each airport has developed methods to report on this basis to comply with the existing Information Disclosure regulations, so there is not significant cost incurred in providing this information for the financial statements. However NZ Airports would appreciate receiving further clarification from the Commission on how this level of disclosure will enhance the assessment of airport performance, and why such disclosure is necessary to allow the purpose of information disclosure to be met. Furthermore, NZ Airport believes there would be limited utility and a material additional cost as a result of the BARNZ request for “segmented” data to be provided for most disclosed information.

Key Performance Indicators

51. NZ Airports commented on the Commission's proposed key indicators in its Discussion Paper submission. The key differences between NZ Airports and the Commission are:
 - NZ Airports believes that revenue and operational expenditure ratios should be related to passenger volumes rather than to the asset base. The Airlines agree with this view.
 - Capital expenditure ratios will not be meaningful and should be replaced by an annual investment and innovation statement from each of the airports together with annual comment on variances between actual capital expenditure and the forecast for the particular year included in pricing determinations.
52. In the Airline submissions, the Airlines have agreed that the ratios are appropriate, but go further by proposing that these ratios should be provided separately for each asset segment and for each asset type.
53. The outcome of the Airlines' proposal is that 75 capital expenditure ratios would be published. This is made up of the four capital expenditure categories proposed by the Commission (paragraph 779) plus a total of those categories, times three specified airport activities, times five categories of assets (eg land, buildings, and civil works) proposed by BARNZ.
54. This is an extraordinary number of indicators that defies any rational justification that such a level of detail is required to demonstrate that incentives exist to invest and innovate. Certainly the time involved for airports to produce ratios at this level and to analyse variances, of which many would be immaterial in the context of the total regulated activity, would be significant. Time and effort would also be required to try to interpret the ratios, but would provide limited internal insights as the airports are not managed on such a basis.
55. Equally the level of resource for the Commission, or other interested parties, to analyse this level of detail would be significant.
56. NZ Airports submits that this is a clear example of where the proposed disclosures exceed the requirements of the Purpose Statement and would in fact make comparison of airport performance an even more complex task.

Quality and Service Monitoring - Extent of Statistical Information Required

57. NZ Airports and BARNZ undertook discussions concerning appropriate quality monitoring for airports earlier in 2009 and provided the Commission with a joint recommendation on appropriate reporting for New Zealand airports. Air NZ also participated in the discussions.
58. The parties 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 process 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 airports
 - Demonstrate movements in service quality and operational efficiency over time
 - Be able to be complied with by airports at a reasonable cost (ie 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”.
59. These objectives for quality monitoring reflect that a comprehensive and informed consultation process was undertaken.
60. NZ Airports maintains that this recommendation remains an appropriate balance of information to be disclosed by airports and notes that feedback is still to be received from the Commission on this proposal.
61. NZ Airports has concerns about comments made by the Commission and the Airlines since this recommendation was made, which we comment on below.

(a) Requisite quality

The industry recommendation suggests reporting in three categories – Passenger Perception, Reliability of Aeronautical Services, and Capacity and Utilisation.

The Passenger Perception ratios will reflect opinion surveys and therefore can lend themselves to a time series of data which can monitor airport improvements. NZ Airports however finds it difficult to contemplate how requisite quality measures could be developed for such surveys. This is quite different from the utility industries where requisite quality can be set by technical means.

NZ Airports proposes that establishment of at least two years of initial actual survey data may then provide the basis for airports to establish target quality measures and comment on planning to achieve this. Without a series of initial data it would be unrealistic for targets to be set. This is particularly necessary for a number of the measures that have not previously been surveyed and where the surveys have not been undertaken in the past on a regular basis.

(b) Proposal for additional measures

NZ Airports and the airports invested considerable time and resource with BARNZ to produce the joint proposal. NZ Airports is disappointed that BARNZ are now

submitting that further data could be reported to supplement this information, particularly the Passenger Perception surveys. We do not consider that BARNZ has considered their proposals against the requirements of the Purpose Statement and the jointly drafted criteria for prioritising measures and they have exceeded reasonable bounds.

Consider the following example:

One of the items where passenger perceptions will be sought is “*Availability of wash rooms / toilets.*” BARNZ proposes that this measure could be supplemented by airports reporting the number of toilets per 1000 passengers.

If Auckland has 100 toilets available to service 13 million passengers this will produce a ration of 0.0077 toilets per passenger. If Wellington has 20 toilets to service 5 million passengers this would produce a ratio of 0.004 toilets per passenger. At face value Auckland’s passengers may be better served than Wellington’s however it is the availability of facilities in peak periods that is more relevant and the extent to which passengers have to wait for facilities to be available. This would of course require considerable analysis.

Alternatively the Passenger Perception survey will indicate whether passengers consider availability of facilities is sufficient and a low rating will require consideration from airports.

The additional statistical information proposed by BARNZ will incur cost to produce, will provide no indication of whether a shortage of facilities exists, and will not influence airport incentives to respond to passenger views. It will also detract from the overall information disclosure by adding data which may serve to confuse or mislead interested parties.

In short further statistical measures to support the passenger survey cannot be justified and will not enhance the ability of interested persons to assess the performance of airports in terms of achieving the Part 4 Purpose Statement.

AMPs

62. NZ Airports commented at length on the requirement for AMPs in its initial Information Disclosure submission and in its Cross Submission on the Input Methodologies Conference.
63. NZ Airports will not repeat these comments in this Cross Submission but poses the following questions for the Commission to consider before it reaches a conclusion on this issue:
 - Does any evidence exist that there has been any systemic failure of airport assets?
 - How should the regulatory asset supervision, including compliance audits, undertaken by the Civil Aviation Authority influence the requirement for AMPs?
 - Do Master Plans provide an appropriate public indication of prospective material airport future development?

- Are alternative and more cost effective options available to enable interested parties to consider whether the Part 4 Purpose Statement, particularly subsection (a), is being achieved?
 - Which parties are seeking this information and what alternative sources of information might be available?
64. NZ Airports submits that any reasoned assessment of these issues will demonstrate that airport asset management processes are already robust and that publication of comprehensive annual AMPs will simply add a significant layer of cost that can be avoided.

Treatment of Shared Costs and Assets

65. Airports have undertaken cost allocation methodologies as part of consultation with airlines for a number of years. These methodologies:
- Allocate direct costs or assets to the specified airport activities; and
 - Allocate shared costs or assets on nominated criteria.
66. This process results in identification of appropriate regulated costs and assets. The overall approach to these allocations have not typically been challenged by the airlines in consultations, with airline disagreements typically focussed on allocation of specific items within the asset base where they may not agree with the allocation. The Auckland Airport entrance road was the example discussed at the Input Methodologies Conference.
67. The Commission discusses this approach in paragraphs 308 to 310 of the Discussion Paper and notes that shared asset costs would be excluded from the regulated asset base at the end of the period. This is consistent with the approach taken by airports.
68. The Commission at paragraph 202 also noted that an alternative approach existed which would be to include the full value of shared assets in the asset base and to impute a share of unregulated income to the asset base as a rental for these assets. The Airlines, as would be expected, have supported this approach without considering the rationale for it.
69. Energy utility companies can use regulated assets to produce regulated and unregulated revenues. The Commission sought specific comment on Ofgem's consideration of this issue and how the asset might be treated in this situation (refer to NZ Airports Cross Submission on the Input Methodologies Conference).
70. This is however a considerably different situation for airports because:
- The same assets are not used to generate regulated and unregulated revenues (terminals are broken down for instance into discrete assets that are then allocated to regulated and unregulated assets); and
 - Shared assets in airports do not generate revenues - they are overhead costs.

71. Consequently as the shared assets in question do not generate any revenue it would be entirely inappropriate to apply any process that resulted in an imputation of unregulated revenues.
72. The appropriate approach by the Commission is to ensure that only a justifiable share of the overhead assets is included in regulated assets.

Allowance for financing during construction

73. The Commission discusses in its discussion paper various possible ways to provide an allowance for financing projects during their construction and up to the point at which the project is commissioned and enters the asset base. This issue is raised in question 47 of the discussion paper, and in the answers of both NZ Airports and the Airlines to that question.
74. In economic terms the price for capital deployed by an airport to deliver a service (with a given risk profile) does not vary with respect to the particular input that is to be financed (i.e. whether it is working capital, the purchase of completed fixed assets, or the financing of a capital expenditure project over time). It is normal to estimate the price of capital as a blend of equity and debt, termed the weighted average cost of capital (or WACC). It follows, from an economic perspective, that the WACC should be used to price the capital used to finance a capital expenditure project, prior to that project being commissioned and reflected in the RAB.
75. The Airlines ignore this rationale in their responses to the Commission's question and instead comment that airports should not receive any allowance for financing of projects if they are funded from equity capital, and infer manipulation of project financing if debt capital is ascribed to fund projects and the associated costs of debt recognised in the project capital value. It is not economically rational to suggest that equity providers should not receive a return on project funding during construction and consequently any inference of manipulation is misguided.
76. GAAP however take a different approach and address only the measurable cash flows. The relevant standard (NZ IAS 23) therefore deals only with borrowing costs that are attributable directly to the purchase of assets and does not take into account the opportunity cost of equity that an asset purchase may give rise to. To the extent that borrowing costs are lower than WACC, this approach to the measurement of financing costs during construction will understate the economic costs.
77. While the GAAP method for measuring financing during construction typically understates the economic costs, consistent application of the GAAP method in financial and regulatory reported will result in reduced complexity and lower compliance costs for the airports.
78. NZ Airports has submitted previously that the GAAP approach is appropriate and continues to support this. However if an economic approach were taken it would be rational for airports to be given the option to report costs of financing during construction either consistent with GAAP or by calculating these amounts using the airport's estimate of WACC. In this way the airport would be in a position to make the

trade-off between compliance costs and precision and adopt the approach it considers most appropriate. Airlines and others would be assured that the airports would be reporting no more than the opportunity cost of the capital employed to finance construction projects.

Commercial Information

Unregulated Activities

79. NZ Airports notes that section 53D(3)(a) of the Act permits the Commission to request information regarding unregulated activities that it considers necessary to assist it complete its monitoring function for regulated activities.
80. The airports will of course respond appropriately to any request from the Commission.
81. NZ Airports is strongly opposed to information on unregulated businesses being provided to any other interested party and notes that there is no provision in the Act requiring such disclosure. Our position is not altered by the BARNZ proposal that such information could be provided following confidentiality undertakings by the airlines.

Contracts with Airlines

82. BARNZ has noted comments made by WIAL; in particular that it has entered commercial contracts and pricing with airlines. BARNZ has expressed the view that descriptions of the contracts should be disclosed.
83. The aviation industry has become considerably more competitive in New Zealand in the last decade, particularly with the advent of lower cost airline models in Australasia. The operation of more efficient single aisled aircraft has also increased the number of airports in New Zealand that can accommodate short haul international services.
84. This has led to increased competition between airports and local authorities to secure airline services either through expansion of existing services or establishment of new services. It is now customary that airlines seek support, including financial, from airports and local authorities to assist them to grow services. It typically can take six months or more for new services to become established and profitable and airlines seek assistance in the early stages.
85. Airlines are also extremely protective of their route planning to protect their competitive position, and require airports to execute confidentiality agreements before discussions can be undertaken regarding prospective services.
86. Airports therefore undertake contracts with airlines that:
 - Are based on establishment of new services or growth of passengers on existing routes;
 - May assist airlines with establishment costs in preparing to service a new route;
 - May provide marketing support to airlines to help generate passengers for new routes; and
 - May rebate some charges if growth targets are exceeded.

87. Typically the contracts require full payment of scheduled landing charges by all airlines.
88. As these contracts do not in of themselves report on the performance of the airports, the disclosure of the contracts would be unlikely to materially increase the information available to interested parties in assessing whether airports were operating in the long-term benefits of consumers. Disclosure therefore is unlikely to be justified by section 53A. Disclosure of the contracts could also be contrary to the overall purpose of Part 4.
89. In a report attached to the NZ Airports Input Methodologies Conference Cross Submission, LECG explained how the Part 4 Purpose Statement establishes a series of test for the Commission to apply in considering a regulatory intervention (such as a requirement to disclose contracts). The Purpose Statement requires the Commission to regulate by promoting outcomes which:
- Are consistent with outcomes produced in workably competitive markets.
 - Support economically efficiency decision-making because economic efficiency is necessary to support the long-term interests of consumers.
 - Produce the consequences specified in paragraphs (a)-(d) of Section 52A(1).
90. In workably competitive markets, where services are contracted directly between supplier and customer, it is unusual for contract terms to be disclosed. The exception is organised markets, such as commodity and futures markets. As economist Dennis Carlton observed “organised spot and futures markets exist for only a handful of commodities ... the paucity of organized markets emphasises that it must be costly to create them.”⁵ BARNZ has invited the Commission to regulate to promote an outcome – contract disclosure – which is atypical of competitive markets.
91. The economic incentives on airports are to enter into contracts with airlines which maximise competition for airlines services. These incentives have long been recognised in economics. The classic example given in economic literature is an owner of a railway bridge used by a number of competing railroad companies; the greater the competition among the railroad companies, the lower the profits downstream, and the greater the gains to the bridge owner. The presumption therefore must be that non-disclosure is pro-competitive and efficiency enhancing (because for example, non-disclosure allows airlines to plan entry and new services in commercial confidence). BARNZ have not offered an explanation as to why these presumptions do not hold with regard to aeronautical services.
92. Finally, it is not clear how disclosure of contracts would produce the consequences specified in paragraphs (a)-(d) of Section 52A(1). If disclosure of contracts frustrates entry of new airlines or the development of new services, then disclosure would most likely impede rather than produce the consequences in paragraphs (a)-(d) of Section 52A(1).

⁵ Dennis W Carlton, “The Theory and Factors of How Markets Clear: Is Industrial Organisation Valuable for Understanding Macroeconomics?” in *Handbook of Industrial Organization, Volume 1*, 1989.

93. NZ Airports also notes that at least every five years airports must consult with airlines regarding future charges. Consultations require open book disclosure of their regulated business information to airlines participating in the consultations. This therefore requires airports to ensure longer term pricing is applied uniformly across all airlines.
94. Fundamentally contracts therefore:
- tend to be protected by confidentiality requirements expressed by the airline (or new airlines);
 - tend to respond to performance within a pricing period that is above pricing expectations either through development of new routes or services;
 - require airlines to pay full landing charges as scheduled; and
 - involve airports providing some form of financial support to airlines.
95. NZ Airports is concerned that any requirement for these contracts to be included in information disclosure will reduce the opportunity for airports and airlines to seek new services. Airlines will not provide information that may be made public and this may consequently curb the opportunity for the airports to promote increased competition in the New Zealand aviation market.
96. If such an outcome occurs it would be for the benefit of the established, and particularly dominant, airlines. It is therefore commercially rational that these airlines would seek to achieve this outcome.
97. NZ Airports submits that the Commission should not allow any threat to the promotion of competition as this would not be to the long term benefit of consumers, and therefore would not be consistent with the Part 4 Purpose Statement. NZ Airports does note that the Commission may seek copies of these contracts to support its monitoring role.

Audit and Certification

98. NZ Airports is concerned that BARNZ has proposed that all information disclosures published by airports should be subject to external audit. They also go further by suggesting that requirements for the types of auditors used by airports should be established.
99. Audit of any information is a complex and costly exercise. It is traditional and critical for published financial information to be audited because external investors use this information to make investment decisions.
100. Publication of non-financial information cannot have the same critical consequences for personal welfare excepting safety and security related issues. For airports, such issues are overseen by the Civil Aviation Authority.
101. For non-financial information airports will be incentivised to ensure that information published is accurate because:
- Operational review procedures will be, or are, established with airlines to review breakdowns in facilities;

- The Commission can request further information it requires for its monitoring role, and could quite conceivably seek support material to analyse changes in published statistics;
- Airlines are provided with comprehensive information disclosure in consultations which will enable airlines to review consistency with disclosed information; and
- Most fundamentally, airport company directors will certify the accuracy of information disclosures.

102. Such processes should be considered sufficient by the Commission to provide confidence in the integrity of published data and make costly audits of non-financial information unnecessary.

Workshops

103. NZ Airports continues to believe that industry workshops will be an effective option to resolve key information disclosure issues. NZ Airports submits that the Commission could initially consider workshops with the airports and airlines that could address:

- Service quality and performance measures – a joint proposal has been presented and a workshop would allow the Commission to resolve any outstanding questions it may have to enable the service quality reporting requirements to be finalised; and
- Prospective information disclosure templates for airports.

Supplemental Comments on Questions in Discussion Paper

NZ Airports has provided further comment on the questions contained in the Discussion Paper where it considers further comment is warranted. Consequently only these questions are reproduced below.

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> 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>	<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 the final quarter of 2009.</p>	<p>NZ Airports emphasises its support for workshops to resolve information disclosure requirements where appropriate. Particular examples where workshops will be beneficial are:</p> <ul style="list-style-type: none"> • Resolution of requirements for quality monitoring by airports. • Development of information disclosure templates for airports. <p>NZ Airports continues to support commencement of the new regime for airports from 1 July 2010.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
2	<p>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.</p>	<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. • 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 	<p>NZ Airports notes the airline cross submissions following the Conference that information disclosure should recognise that not all interested persons have the expertise required to analyse airport performance.</p> <p>This reinforces the views expressed by NZ Airports in its submission that Information Disclosure should seek to respond to the interests of the broad definition of interested parties and be fit for this purpose.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>intended to work in tandem with the Part 4 information disclosure regime.</p> <ul style="list-style-type: none"> • 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>	
6	Do you agree that an indicator relating to investment is required? If not, please provide the reasons for your view.	<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>	<p>NZ Airports has proposed an alternative approach which would require annual investment and innovation commentary by airports together with reporting of actual investment outcomes.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
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.	<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>	<p>NZ Airports reaffirms the views in its Discussion Paper submission.</p> <p>If, however, the Commission persists with a ratio related to the asset base NZ Airports does not agree with Air NZ that land should be excluded from the asset base. Land is not a fixed resource for airports and is subject to change over long time periods either through:</p> <ul style="list-style-type: none"> • Acquisition of further land; or • Reconfiguration of the established airport sites.
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.	<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 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.</p> <p>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</p>	<p>NZ Airports considers that the disclosure of ratios by asset type, as proposed by BARNZ, would provide an excessive array of data that is not warranted. For example if the Commission requires four capital expenditure ratios, plus a total, and</p> <ul style="list-style-type: none"> • ratios are required for five asset types, and • data is disclosed separately by airlines for each specified activity as indicated in other questions, then 75 capital expenditure ratios would be required. This cannot be construed as necessary to provide <i>"sufficient"</i> information as per the information disclosure purpose statement, nor will it make it easy for

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>optimisation of assets from asset valuations.</p> <p>We note the Commission’s comment in paragraph 116 of the Discussion Paper that “...it intends selecting a single measure in each of the regulated services to provide a single measurement of capital expenditure growth across suppliers.” 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; • 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. 	<p>interested parties to assess whether the Part 4 Purpose Statement is being met.</p> <p>These ratios, if required, should be necessary at the total asset level only. Interested parties will still have the opportunity to drill down below these ratios if they chose by referring to the asset movement statements which would provide data by asset category.</p>
9	<p>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.</p>	<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. 	<p>NZ Airports refers to its proposed annual investment and innovation statements as being sufficient to demonstrate investment and innovation. We have made further comment on the requirement for AMP’s earlier in this cross submission.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<ul style="list-style-type: none"> • 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 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. • 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 	

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>conducts annual audits to ensure compliance with the regulatory requirements.</p> <ul style="list-style-type: none"> • 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. <p>The Commission also recognises that not all interested parties will have the ability to assess AMPs in any event.</p> <ul style="list-style-type: none"> • Instead of AMPs information to demonstrate innovation and investment can more appropriately be provided to interested parties through: <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.	<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</i></p>	<p>Airlines agree that measuring innovation is a complex area and that there is unlikely to be a suitable single indicator for measuring innovation. BARNZ has proposed disclosure of:</p> <ul style="list-style-type: none"> • Capacity measures for key assets; and • Comment on innovations

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p><i>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; and 6. Developing new marketing methods. <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>	<p>undertaken and planned. This is consistent with NZ Airports proposed approach through an annual investment and innovation statement and publication of service quality measures which include capacity information.</p>
11	Do you have any views on appropriate indicators for measuring quality? If so, please provide the reasons for your views.	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.	In NZ Airports view it is important that the extent of information required is appropriate and is concentrated on the critical airport assets. The joint NZ Airports/BARNZ Quality Monitoring provides an appropriate

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			<p>balance.</p> <p>BARNZ has suggested that further detailed statistics to supplement customer perception surveys could be appropriate and cites toilets as an example. In NZ Airports view this is going too far and will detract airports from focussing on core asset management. In this case the customer perception survey outcome will provide sufficient indication as to whether an airport is managing this resource appropriately with a published poor survey outcome providing an incentive for the airport to comment on their plans to seek improvements</p> <p>Provision of the additional statistics will not advance the ability of interested persons to assess whether the Part 4 purpose statement is being met and is more likely to make an assessment more confusing.</p> <p>For example, if the customer perception survey outcome is 4/5 for availability of toilets and the ratio was 0.0010 per thousand passengers at one airport while at another the perception was 3.5/5 but the ratio was 0.0015 no useful assessment or comparison between airports could be</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			made.
13	Do you have any views on appropriate indicators for measuring pricing efficiency? If so, please provide the reasons for your views.	<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> <p>Further comment is provided in the responses to questions 66 to 69.</p>	<p>NZ Airports notes the airlines references to providing a pricing indicator <u>for each regulated service</u>. Refer to the key issues section of this cross submission for comment on the adverse implications of requiring disclosures for each regulated service.</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.	<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 are not exposed to the same lump sum changes as the asset base and cost efficiencies over time should be</p>	<p>NZ Airports notes that the airlines agree with NZ Airports that expenditure ratios should relate to volume outputs and not the asset base.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		readily apparent as business volumes increase. NZ Airports would support primary indicators being expressed on a per passenger basis.	
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.	<p>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 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. 	<p>NZ Airports has provided a retailed recommendation on two appropriate asset base disclosures in its Cross Submission following the Input Methodologies Conference.</p> <p>All revaluations and depreciation would be included in Regulatory Profit under either approach.</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.	<p>NZ Airports sees the following limitations in the Commission's analysis:</p> <ul style="list-style-type: none"> • depreciation is not a year end 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 	<p>NZ Airports notes that the airports do apply an averaging approach in their financial models for pricing as commented by the airlines. The practical approach of taking an average of the asset opening and closing balance noted in NZ Airports original response is consistent with this treatment.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>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 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>	
26	<p>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.</p>	<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 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</p>	<p>NZ Airports wishes to emphasise the difference between airport businesses and energy utilities. In airports the vast majority of assets can be ascribed directly to regulated or unregulated businesses and are not used for both purposes. This can be distinct from an energy company where a lines asset can be used to provide regulated and unregulated services. Income attribution considerations do not therefore arise in the same manner between the two types of businesses. NZ Airports also notes that other than the Auckland access road there have been no examples cited of concerns over airport shared asset allocation, which suggests that the current processes used by airports have been</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		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.	effective. We note that in the BARNZ Input Methodologies Conference Cross Submission (page 9) they refer to the dollar value (the actual amount has been omitted in the public version) of the Auckland roads to indicate it was a significant item. NZ Airports is not aware of what this amount is, but submits that the Commission must consider the materiality of this item in the total Auckland asset base and pricing contexts. Auckland has advised that the road at question accounts for less than 2% of its asset base.
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.	<p>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.</p> <p>We also note that reductions in shared asset allocations should not be considered as asset sales. Refer to our response to question 23.</p>	<p>NZ Airports commented in detail on its proposed treatment of shared asset allocations in its Discussion Paper submission and we do repeat these comments here.</p> <p>BARNZ in its Submission expressed concern over a transfer of assets by WIAL from aeronautical activities to retail activities and whether the objective of this transfer was to obtain an increase in asset value from the commercial asset. WIAL commented on this issue specifically in its Cross Submission on the Input Methodologies Discussion Paper. It suffices to say that WIAL noted that</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			valuation reports were provided to the airlines which demonstrated that the valuation approach taken by WIAL would not have produced a valuation increase following this transfer.
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.	NZ Airports agrees with the Commission.	NZ Airports does not believe a distinction should be drawn between successful or unsuccessful merger, acquisition activity, or whether the company is the acquirer or the target. Takeover costs, like Annual General Meeting costs are the natural consequence of a corporate structure and where such structure exists, are a corporate cost, borne by all activities of the business. NZ Airports recommends that the appropriate focus for material non operating costs is transparent reporting by way of a separate note.
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.	NZ Airports agrees with the Commission.	NZ Airports submits that the most appropriate approach is to ensure the reasonableness of the WACC assumptions can be justified and consequently financing issues can be excluded from information disclosure. Actual financing is undertaken at a corporate level reflecting the entire airport businesses and consequently the allocation of this funding does not reflect the specific funding

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			assumptions applicable to a separate and stand-alone business.
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.	<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. 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. 	<p>The airport regulated businesses are not rated in their own right and as such it is not possible for the Commission to mandate a minimum rating for the regulated businesses. The Act does not enable the Commission to make determinations for unregulated activities and consequently it would be inappropriate for the Commission to specify minimum credit ratings as proposed by the airlines. The Commission is required to ensure sufficient information is available for assessment by interested persons and the public information referred to in NZ Airport's submission on the Discussion Paper will enable this to occur.</p>
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.	<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>	NZ Airports agrees with the airlines that actual finance cost outcomes should be used in the interest tax shield calculation.

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
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.	<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 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 	<p>Specific transfers of assets between regulated and regulated businesses may be disclosed in asset movement statements with airports providing comment on material transfers.</p> <p>However NZ Airports reemphasises that it does not consider the allocation of shared assets should be treated in the same way as related party transactions as the allocation can change simply as a result of investment in other assets. Disclosure of shared asset allocation would still be appropriate in asset movement statements.</p>
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.	Refer to question 36. Transfer pricing issues do not arise for airports.	<p>BARNZ comments on the potential disclosure of commercial information relating to unregulated businesses and submits that airports should have to justify why this information should not be publicly disclosed.</p> <p>NZ Airports simply comments that the Information Disclosure requirements do not apply to unregulated activities and consequently this information cannot be required to be publicly disclosed.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
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.	<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 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.</p>	<p>BARNZ commented that without such reconciliation it could not ensure that costs were allocated appropriately. NZ Airports notes that BARNZ has full access to cost allocation processes in consultation and consequently has an existing opportunity to consider this issue.</p> <p>The Commission's cost allocation input methodology will also specify the processes to be used for cost allocation. Auditors will be tasked with ensuring that these processes are followed and consequently will provide the airlines with the necessary assurance that cost allocation is appropriate and that double counting does not occur.</p> <p>NZ Airports also wishes to reemphasise that information disclosure methods may start from GAAP approaches but will then depart from these to meet regulatory requirements. Consequently reconciliation back to these consolidated GAAP accounts will not be appropriate for a number of the inputs to information disclosure.</p>
39	In your view, what form should the consolidation and reconciliation disclosures take? Please provide the	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	NZ Airports rejects the suggestion made by BARNZ that commercially confidential information should be

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	reasons for your view.	consolidated information.	<p>included as part of any reconciliation. Nor are there any circumstances where this information should be provided to interested parties, other than the Commission in fulfilling its regulatory function, regardless of any willingness from those interested parties to agree to confidentiality requirements.</p> <p>As noted in question 38 many of the inputs to information disclosure will not be consistent with GAAP accounting and therefore a reconciliation of these items will not be possible.</p> <p>Where the treatment of items between GAAP and information disclosure is consistent reconciliation need only show how relevant inputs are split between the regulated and unrelated businesses.</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.	<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>	<p>BARNZ has shown an analysis of the 2002 Commission's asset valuation outcomes for the airports and compared this to the published disclosure financial statements. The analysis however omits several important facts:</p> <ul style="list-style-type: none"> • The Commission's opportunity cost of land does not reflect workably competitive market outcomes

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			<ul style="list-style-type: none"> • The “used and useful” assessment by the Commission inappropriately excludes some specialised assets. • BARNZ is using the forecast 2002 numbers from the Commission and has not endeavoured to determine whether changes to the asset base were correctly estimated by the Commission. • The airport asset base includes current assets, at least in WIAL’s case, where the Commission’s asset base does not. <p>The fact that the airports revalued in 2002 was appropriate as the outcome of the Government’s determination was not known and in WIAL’s case the valuation methodologies applied in 2002 were subject to independent arbitration. BARNZ also does not recognise any allowances provided in pricing for revaluation gains.</p> <p>NZ Airports submits that this analysis is incomplete at best.</p>
47	<p>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?</p>	<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</p>	<p>NZ Airports acknowledges the airline comments that there are two considerations for this issue.</p> <ul style="list-style-type: none"> • Finance costs on construction – these are capitalised by airports to reflect the actual cost of debt incurred as required by financial

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>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>	<p>reporting standards.</p> <p>Actual finance costs incurred may be retained for these assets to enable consistency with accounting requirements.</p> <ul style="list-style-type: none"> • An allowance in current cost (ODRC) valuations to recognise the finance costs for all constructed assets. <p>Valuing assets at their equivalent current cost ensures optimisation of all asset values with changes in values reflected in revaluations which are included in regulatory income. Asset records are therefore maintained consistently with valuation treatment.</p> <p>The combination of these two approaches enables consistency with accounting requirements and therefore minimises the costs of differing treatments.</p> <p>The airlines suggest that airports could manipulate their funding to ensure that debt funding is assigned to capital projects and therefore maximise the finance costs included in capital projects.</p> <p>The airlines give no recognition to the approach an economist might take. That is, the source of funding for</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			<p>projects need not be determined and that using the airports WACC to compensate for all project funding is the correct conceptual approach.</p> <p>NZ Airports submits that airports should be provided the option to determine their own preferred approach following consideration of the complexity and additional compliance cost required if a separate asset base to the GAAP approach was required.</p>
48	<p>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.</p>	<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 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>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</p>	<p>NZ Airports does not agree with the BARNZ submission that airports subject to information disclosure only should be required to undertake “capital expenditure reviews” as might be undertaken by the Commission in a price control environment.</p> <p>Airports are subject to capital expenditure review requirements in consultation and the retention of the AAA regime ensures that prospective new investments are considered in this regime.</p> <p>Retention of the ODRC methodology for specialised assets also requires consideration of optimisation issues and therefore the BARNZ proposal is not warranted.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>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	<p>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.</p>	<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 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>NZ Airports is concerned that the Commission may be over simplifying this issue for airports based on its experience with energy utilities. The utilities have a homogenous product that is relatively simple to assess and measure with consumer expectations related to security of product supply. Airports have a considerably wider range of service points provided to consumers and these are often provided in conjunction with a third party. NZ Airports does not consider that requisite quality targets are necessary. The airports should instead establish a profile of customer perceptions from initial survey data and then establish targets to achieve</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<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> <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>	<p>with future reporting commenting on airport initiatives to achieve the targets. At least two years of actual data should be gathered before targets are established.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
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.	<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 discussion on quality of experience expected by passengers.</p> <p>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>	<p>If requisite targets are to be established NZ Airports does not agree that a third party such as airlines should establish the targets. Inevitably improvements in service quality outcomes will require investment by airports which will need to be discussed with airlines in consultation to ensure that airport investment costs can be recovered.</p> <p>It is not appropriate for third parties to create expectations of investment by airports when those third parties have no accountability for recovery of that investment.</p> <p>It is also evident to airports that airlines have different service expectations amongst themselves which also may not be consistent with passenger expectations.</p>
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.	<p>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</p>	<p>Comments are made earlier in this cross submission concerning the requirement for AMPs.</p> <p>We note however the comment in the BARNZ submission that AMP's "<i>should be disclosed at the beginning of the financial year.</i>" If the Commission persists with requiring AMP's, and these are required at the start of the</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		an appropriate alternative to the requirement for airports to complete detailed AMPs.	financial year, this would mean the airports having to complete them in April and July 2010 (given the different financial years). This is clearly not appropriate given the process for developing the information disclosure requirements. NZ Airports has submitted that asset and quality disclosures should occur in the last month of each financial year with financial disclosures five months after year end. This provides a practical separation of the tasks required to meet the more extensive information disclosure requirements.
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.	AMPs should not be required for airports. Refer to our response to question 9.	NZ Airports notes that if the airports are required to provide maps of their facilities these should necessarily be at an overview level. The sheer volume of airport assets (11,000-55,000) does not make it practical for a degree of specificity.
66	Do you agree that all regulated suppliers should disclose and publish their pricing methodologies? Please provide the reasons for your view.	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. 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. Furthermore	BARNZ has submitted that the descriptions and methodologies applied by the airports for pricing have for the most part been meaningless. NZ Airports refutes this statement and reiterates that methodologies are reported in the Disclosure Accounts. NZ Airports notes, as we have previously on a number of occasions,

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>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 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. 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. 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>	<p>that the role of information disclosure is not to replicate consultation requirements under the AAA. Information disclosures are required to be sufficient while airlines receive considerably more information in the separate AAA regulatory regime. NZ Airports also reiterates that the Commission can request additional information should it consider that this is required.</p>
67	Do you agree that regulated suppliers should disclose prices? If not, please provide the reasons for your view.	We agree with the Commission for non lease based prices.	<p>NZ Airports does not agree with the airline submissions that contractual terms with individual airlines should be disclosed for several reasons:</p> <ul style="list-style-type: none"> • Airports consult with airlines on all known information to establish future prices required to generate the appropriate cost of capital. • Airports are continuously seeking increases in traffic volumes from expansion of routes by existing carriers or through the attraction of new carriers. Airlines always require confidentiality of any service changes and it would be

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			<p>inappropriate for airports to break this confidentiality.</p> <ul style="list-style-type: none"> Airlines receive support from airports or other local bodies to assist airlines to establish services on new routes. It is the airports prerogative to reduce or cap their returns from new services if this assists an airline to develop route profitability that will allow the new route to be established for the long term. <p>Fundamentally airports are seeking to foster competition in the aviation sector and any compromising of this activity though regulatory requirements can only be to the detriment of consumers.</p>
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?	<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. 	<p>NZ Airports continues to query how the disclosure of these policies contributes to assessment of whether the Part 4 Purpose Statement is being achieved.</p> <p>NZ Airports notes the additional proposal from BARNZ that airports could disclose their competitive tendering policy and accepts that there is merit in this. NZ Airports propose that this would be part of the annual non financial disclosures.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<ul style="list-style-type: none"> • 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 Commission's 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 Commission's comments that some EDB's choose to self insure, perhaps through captive insurance companies, while others resort to the insurance market. 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. 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. 	
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.	Airports make copies of their information disclosure financial statements publicly available, including via website, when they are completed. 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.	NZ Airports confirms that airports are prepared to maintain registers of interested persons, as suggested by the airlines. This may also enable a useful consideration of the costs incurred for information disclosure regulation in relation to the level of external

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			interest in the information disclosures.
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.	<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 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>	<p>NZ Airports notes that section 53B(1)(a) of the Act requires information to be publicly disclosed but leaves it to the Commission to determine how this should be achieved. NZ Airports agrees with the airlines that it is impractical to inform all consumers in advance and it is also questionable as to how meaningful such disclosure would be.</p> <p>Charges paid by airlines are recovered from passengers in the manner airlines determine with transparency of airport charges at the discretion of the airlines. Consider two examples:</p> <ul style="list-style-type: none"> • A domestic fare booked on Air NZ does not show any additional charges – that is the total cost to the passenger is included in the air fare. • A one way international fare from Wellington or Christchurch to Sydney incurs a total levy of \$46.30. \$16.00 is shown as a security charge and \$30.30 as a Passenger Service Charge. Two issues are evident from this disclosure: <ul style="list-style-type: none"> ○ The charge is the same for the

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			<p>two airports and therefore is not influenced by different landing charges at Wellington and Christchurch.</p> <ul style="list-style-type: none"> ○ The Services Charge levy presumably includes fees for the departure and arrival airports with the NZ airport charges not shown separately. <p>Consequently it is the airlines that determine whether airport charges are shown; not the airports.</p> <p>Note: the same charges are levied for Auckland however a third charges of \$13.50 is also levied. This represents the airline collection of the Auckland international departure fee which continues to be collected by the airports at Wellington and Christchurch.</p>
74	Do you agree with the proposed timing for disclosures? If not, please provide the reasons for your view.	<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>Financial disclosures for information disclosure are additional to those for normal company financial reporting and therefore it is reasonable for airports to have a longer period than is permitted for financial reporting by listed companies. That is completion of both sets of financial reporting within three months as submitted by the airlines would be difficult to achieve within current resourcing, and</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<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>	<p>would lead to increased resourcing being required for that short period. As a result, NZ Airports considers that it would not be efficient or cost effective for each of the airports to report any earlier than the current period of 5 months after balance date. Non financial disclosures should not be completed during this same period as submitted by BARNZ. Service quality reporting is not dependent on the balance date concept as is financial reporting and should be separated from this as proposed by the Commission.</p> <p>NZ Airports therefore reiterates that appropriate timing for disclosure of information is:</p> <p>The end of the financial year – quality monitoring and annual investment and innovation statements</p> <p>Five months after the end of the financial year – regulatory financial statements and financial performance measures</p>
75	<p>Do you agree with the proposed regulatory year end dates? If not, please provide the reasons for your view.</p>	<p>The Commission is not correct in respect of the airport financial year ends. These are: 31 March – WIAL 30 June – AIAL and CIAL The Commission’s financial disclosure requirements should recognise each</p>	<p>NZ Airports does not agree that it is necessary for the airports to have the same regulatory year end. Adopting a 30 June year end for WIAL regulatory reporting would substantially increase the cost of the</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
		<p>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>	<p>regulatory regime to WIAL with two year end financial reporting processes being required at 31 March and 30 June each with separate annual external audits and separate periodic revaluations. The current preparation of financial reporting and disclosure accounts by WIAL at the same date of 31 March enables efficiencies of preparation since the disclosure accounts are effectively prepared as a subset of the financial reporting and in addition external audit costs are currently priced based on the same balance date. Should regulatory reporting be required at 30 June, WIAL would still need to prepare financial reporting as at 31 March in line with its parent and group reporting date. As a result, there would be a duplication of internal time to prepare two sets of reports plus duplication of external audit costs and duplication of periodic revaluation costs.</p> <p>NZ Airports does not consider that a three month difference between the year end data will compromise comparability between the airports.</p>
78	Do you agree that audit reports should be required for Annual Disclosures? If not, please provide the reasons for	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	NZ Airports submits that it is for airports to determine the suitability of auditors for reviewing respective

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	your view, an alternative to obtaining independent assurance and why you consider this to be preferable.	level required by Securities Regulation 1983 for equity securities will be costly, with 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.-	financial and non financial information, so long as they are independent. The level of expertise required will depend on the level of assurance required and the scope of information to be reviewed. Until this is clear consideration cannot be given to the level of audit expertise required.
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.	NZ Airports agrees with the Commission.	NZ Airports submits that sufficient assurance will be provided by directors' certification. Requiring audit of other non financial measures will substantially increase the cost and time required to meet the information disclosure requirements. NZ Airports submits that the benefits of this would have to be clear to justify the cost. NZ Airports is not clear what these benefits would be.
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.	This is normal audit practice although the definition of, "material" for non financial measures will need clarification.	NZ Airports notes that auditors determine the form of their own reports have regard to the nature of the assurances that they are required to provide.
137	Are there any additional characteristics of specified airport services that would affect how the information disclosure regime for	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	Refer to earlier comment in this cross submission.

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	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.	<p>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 limited⁶ 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>	
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.	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.	NZ Airports notes that the airlines agree that expenditure ratios should relate to volume outputs and not the asset base.
140	What do you consider to be the appropriate denominator in the average price per unit performance indicator? Please provide the reasons	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	Separating revenue received per activity (airfield and specified terminal) as proposed by the airlines using different denominators will not show

⁶ AIAL undertakes apron control services for aircraft movements and provides buses for transfer of passengers to/from remote aircraft stands to the international terminal.

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	for your view.	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.)	the cost of services to the passenger, the ultimate consumer of services.
141	What do you consider to be the appropriate calculation for the capacity utilisation performance indicator? Please provide the reasons for your view.	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.	The airlines have noted several specific measures that are not entirely consistent with the industry proposal on quality monitoring. The airlines have grouped the ratios into several high level metrics for the terminal that may or may not provide an indication of particular choke points in the passenger processing process. This is a complex area and NZ Airports restates its view that these measures should be developed in a workshop with the industry to develop a practical, and cost effective, solution.
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,	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.	The BARNZ proposal for a greater level of breakdown of revenues characterises its overall approach to information disclosure which seeks considerable detail on every issue. This is neither conducive to a cost effective regime nor consistent with the emphasis on “sufficient” information in the information disclosure purpose statement.

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	please provide examples of disclosures that will allow interested persons to gain this understanding.		
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.	<p>It is very difficult to use the level of overheads as an indicator of efficiency as this often reflects the business structure adopted.</p> <p>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 which provides airport cover for risk of damage to aircraft or passengers while on the aircraft. • 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>	<p>NZ Airports wishes to emphasise that all costs, irrespective of the nature of the cost, should be directly allocated to the appropriate regulated and unregulated businesses wherever possible.</p> <p>The airports are willing to continue disclosing total HR costs and full time employee numbers as proposed by BARNZ.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
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>	<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. <p>Again we note NZ Airports proposal that airports would supplement the asset movement analysis with an annual investment comment.</p>	<p>NZ Airports does not consider separate disclosure of asset relocation is warranted. This new category would not be mutually exclusive to that proposed by the Commission or recommended by NZ Airports. This information and the associated costs are addressed as part of consultation on new investment and within the AAA regime and would be included in disclosed capital expenditure.</p>
147	<p>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</p>	<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.</p> <p>The Commission should provide further comments on its intentions in this area.</p>	<p>NZ Airports notes that the Commission has subsequently indicated that it is to give consideration to a cost of capital methodology for airports. NZ Airports has commented on this change of view in its Cross Submission following the Input Methodologies Conference. Notwithstanding its opposition to a</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	and why you consider this to be preferable.		WACC methodology, in NZ Airports' view it remains appropriate that airports should use actual financing outcomes to the extent that they will be relevant for information disclosure. This would enable interested parties to assess airports actual performance against their own expectations rather than actual outcomes being disguised by application of the Commission's assumptions.
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.	Yes, refer to the NZ Airports/BARNZ proposal for quality monitoring.	NZ Airports does not agree that members of the general public should have access to airport safety information. The information is contained in documents mandated by the Civil Aviation Authority and includes information on security and technical issues. The CAA audits compliance with its procedural requirements for safety and security issues. NZ Airports notes its view is supported by Air NZ.
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.	Yes, refer to the NZ Airports/BARNZ proposal for quality monitoring. The appropriate balance has been established in this submission.	NZ Airports notes that BARNZ comments that the trade off between complexity and cost does not arise for quantitative measures. NZ Airports does not agree that this is so noting that an excessive level of statistical data will introduce complexity to analysis of airport performance and

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			incur additional costs for airports to maintain the data.
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.	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.	<p>NZ Airports is concerned that BARNZ does not have a reasonable perspective on the level of information disclosure that is appropriate. The customer perception survey outcomes will indicate whether airports need to take action in respect of the items surveyed and in their reporting comment on how they intend to do this. Disclosure of the additional physical statistics proposed by BARNZ will not change the perceptions nor affect the requirement for airports to consider actions required. The additional data will simply add another level of costs for airports in data collection.</p> <p>It is also important to recognise that the quality monitoring proposal agreed with BARNZ has defined the core facilities where capacity and utilisation statistics will be provided and monitored and this represents an appropriate balance in the data management required from airports.</p>
154	Are there any additional services that should require disclosure of interruption information? If so, please provide of the reasons why the	<p>Refer to the NZ Airports/BARNZ proposal for quality monitoring for the proposed disclosure of interruptions for the following categories:</p> <ul style="list-style-type: none"> • Unplanned interruptions to material services • Unavailability of facilities or services which caused an on time departure 	NZ Airports agrees with the views expressed in the BARNZ submission.

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	additional categories are important to the purpose of information disclosure.	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.	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.	NZ Airports agrees with the comments in the BARNZ submission that the industry needs to develop the means to enable reporting of on time delays due to failure of airport facilities. Airports cannot achieve this without information from airlines.
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.	Refer to the NZ Airports/BARNZ proposal for quality monitoring. This is largely consistent with the Commission list of points.	NZ Airports agrees with the comments in the BARNZ submission.
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.	There are customary peak time measurement practices for airports that the NZ Airports/BARNZ proposal for quality monitoring has referred to.	NZ Airports notes that the industry has commissioned AirBiz Limited to recommend appropriate timings (of the day or week) for each of the airports to report capacity and utilisation data.
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	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. 	NZ Airports notes the BARNZ comment that establishment of a system to collect domestic freight volumes is not warranted. Airports cannot provide this data without advice from the airlines.

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
	or should not be disclosed and the reasons for your view.		<p>NZ Airports also query the benefit of measuring this data in any event. We note:</p> <ul style="list-style-type: none"> • A significant portion of the aircraft and freight revenue is earned from property leases and therefore has no relationship to volumes. A large proportion of freight is carried in the hold of passenger aircraft, and is therefore incidental to that business. • Airports do not levy a charge that relates to freight volumes. • Airports earn revenue from aircraft carrying freight as landing charges, in the same manner as aircraft carrying passengers. <p>NZ Airports cannot identify the benefit of this information being provided separately.</p>
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.	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.	<p>NZ Airports agrees with the Air NZ submission that revenues may be reported by key output categories reflecting the major passenger segments.</p> <p>NZ Airports is less supportive of providing indicative turnaround costs for specified aircraft types as proposed by BARNZ. Difficulties with this calculation are:</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
			<ul style="list-style-type: none"> • For airports that charge on a passenger basis an assumption needs to be made about the passenger load to calculate the charge. • The charge is influenced by the mix of aircraft operating at an airport. Eg at airports with considerable long haul movements tonnage charges for short haul aircraft tend to be lower. This is not cross subsidisation but results from the weight relativities of the different aircraft. • The amount an airport may receive for a passenger can vary at the same airport depending on the type of aircraft used by the airline. Airports will receive more per passenger for larger aircraft as there is a greater ratio of aircraft weight per passenger. <p>These complexities are reflective of the difficulties of comparing airport charges and why such comparisons must be considered with care. Concentrating on actual revenue received per passenger is an effective means of avoiding the complexities.</p>

Qn No	Question	NZ Airports Response in Submission on Discussion Paper	NZ Airports <u>Supplementary</u> Response
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.	<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. 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 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>	<p>NZ Airports does not agree with the airlines that separate disclosure of the segmented activities should be required.</p> <p>We note the Air NZ comment in particular that there are separate customer bases for each activity. This statement is simply incorrect for the majority of airport regulated revenues which are derived from scheduled passenger services. It cannot be argued that there are separate customer bases for the use of runway and terminal facilities for passenger services.</p> <p>Refer to earlier comments in this cross submission for more detailed comment.</p>