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3 November 2016

Keston Ruxton
Manager, IM Review
Regulation Branch
Commerce Commission
Wellington

Dear Keston

IM REVIEW SUBMISSION

Introduction

1 Christchurch International Airport Limited (CIAL) appreciates the opportunity to comment on the Commerce Commission's (Commission) 13 October 2016:

1.1 technical consultation update paper;

1.2 revised draft amendments to the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010 (Revised ID Determination); and

1.3 revised draft Airports (Specified Airport Services) Input Methodologies Determination 2016 (Revised IM Draft).

2 CIAL has assisted the New Zealand Airports Association (NZ Airports) with its review of the update paper and revised drafts, and supports the NZ Airports submission. This submission comments briefly on specific topics of particular interest to CIAL, informed by work CIAL is currently undertaking in preparing its PSE3 pricing proposal for consultation.

Debt issuance costs

3 The Commission has proposed removing debt issuance costs from the calculation of WACC (see clause 5.1 of the Revised IM Draft). The Commission proposes instead that these debt issuance costs be recorded in opex.

4 The Commission's current drafting changes remove the debt issuance costs references from the WACC IM, but makes no corresponding changes to the wording of the opex IM.

5 For this change in treatment to be successful, we request that the Commission record in the opex IM its intention that opex now include debt issuance costs, including where debt issuance costs have been amortised over the term of the debt issuance.[1]

6 Without these clarifications, auditors are likely to be concerned that (i) the same definition of opex is purported to now cover a new category of costs, and (ii) the amortisation of a capitalised expense is included in opex.

Approach to depreciation

7 The Commission proposes that, for the first price setting event when non-standard depreciation is used, airports must disclose standard depreciation for the lesser of:

[1] For example, in CIAL's case debt issuance costs are not currently included as an operating expense in its annual financial accounts. Rather, CIAL amortises debt issuance costs over the term of the debt issuance. We assume CIAL will have to change this approach but clarification would be appreciated.

7.1 the duration of the relevant asset life; or

7.2 10 years.

(see clause 2.5(1)(p)(iv) of the Revised ID Determination).

8 CIAL makes two submissions on this proposal:

8.1 CIAL welcomes the clarifications proposed around non-standard depreciation methodologies. As the Commission has noted, different approaches to depreciation may be appropriate, and promote better outcomes, in different circumstances.

In this context:

(a) it is not clear why non-standard depreciation is singled out as needing explanation; and

(b) we request that any final wording clarifies that any special disclosure requirements for non-standard depreciation should not be read as an inherent preference for standard depreciation over alternative approaches.

8.2 It would be helpful if the Commission clarified whether the requirement, when using a non-standard approach, to disclose standard depreciation for up to 10 years is intended to also require disclosure of depreciation on capital expenditure for up to 10 years?

(a) If yes, airports would be required to disclose an extended capex forecast (i.e. longer than five years). Would a similar requirement apply where airports are applying standard depreciation?

(b) Either way, we request that the final wording clarify the intended approach to depreciation of capex.

Conclusion

9 If you have any questions about this submission, or CIAL's position on any aspect of the Input Methodologies Review, please contact Michael Singleton.

Yours sincerely

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