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CROSS-SUBMISSION ON DRAFT REPORT ON AUCKLAND AIRPORT'S PSE3 PRICING DECISION

Introduction

- 1 This is Christchurch International Airport Limited's (*CIAL*) cross-submission on the Commerce Commission's (*Commission*) draft report "Review of Auckland International Airport Limited's pricing decisions and expected performance (July 2017 – June 2022)" (*Draft Report*).
- 2 *CIAL* supports the cross-submission prepared by the New Zealand Airports Association (*NZ Airports*). We wish to highlight some key points.

General comments

- 3 *CIAL* shares the concern of *NZ Airports* that airlines and *BARNZ* are projecting to interested persons and the public an unhelpful characterisation of the Part 4 regime and the Commission's draft decision.
- 4 As highlighted by *NZ Airports*, the airline submissions present a reductive view of the regulatory framework. Airline submissions suggest the Commission's mid-point WACC is a bright and certain line; any target returns above that line are excessive; a head-line grabbing number can be calculated as to how much travellers and freight shippers will over-pay; and attention should focus solely on this feature of airport performance.
- 5 While Part 4 information disclosure regulation is intended to help stakeholders understand the performance of each airport, the narrow focus of the airlines on asserting a head-line grabbing calculation of what they consider to be excess returns means a lot gets lost in the noise.
- 6 This includes the fact that there are several features to consider when assessing airport performance; realism that assessments of performance are imprecise (including both the Commission's mid-point WACC estimate and an airport's target return); the Commission's intention that its mid-point WACC estimate facilitate a contextual analysis of target return and not act as a bright line between permissible and impermissible target returns; there is very little evidence available as to how airport pricing decisions are passed through to end customers by airlines; actual returns earned by airports over time are consistently different from the target inherent in the headline pricing decision; and the role of a draft decision in highlighting where more information is needed before drawing conclusions.

- 7 In contrast, the regulatory framework as described by the Commission and discussed at regulatory forums is more balanced and grapples with the real world uncertainties about how to measure all forms of airport performance to provide interested persons with an informed assessment. It also allows for a more contextual assessment of performance over time. This is something CIAL is sensitive to, having elected to make permanent its under-recovery in PSE2, and through its choice of depreciation methodology deferred recovery of allowable revenue in PSE3 with the effect that our airline customers pay in the order of \$40m less than they otherwise would in PSE3 with the risk of recovery shifting to CIAL. Part 4 emphasises there are a number of important features of performance, and the Commission's framework is directed toward facilitating a contextual analysis of the performance of each airport.
- 8 We appreciate the Commission can only do its utmost to communicate via the channels available to it the balanced and realistic assessment being made. In the current context we support the NZ Airport's suggestion that the Commission could assist by being more qualified in its draft and final conclusions, for example expressing likelihoods where real world assessment does not lend itself to bright line quantification, and giving greater balance to the range of performance measures that go toward an overall assessment of performance.
- 9 We look forward to discussing these topics further with the Commission.

Yours sincerely



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GENERAL MANAGER CORPORATE AFFAIRS