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Airports ID Amendment 2026 – Process and Issues Paper cross-submission

Wellington International Airport Ltd (WIAL) thanks the Commission for the opportunity to provide a cross-submission on the Airports ID Amendment 2026 Process and Issues Paper.

This cross-submission firstly responds to airlines' characterisation of the current context, before discussing matters that can be resolved within the bounds of current regulation, and finally looking at the additional substantive proposals made by airlines.

We reiterate that there has only been one identifiable major disagreement in 15 years of the ID regime. The Commission should respond to this proportionately, and should first look at using and/or repurposing existing information before imposing new requirements on airports. We also urge the Commission to consider the cost of any change to the ID regime, as this will ultimately be borne by airports and recovered from airlines.

WIAL's response to airline characterisation of the current context

In WIAL's view, under-investment has a greater impact than airport charge increases

The airline submissions essentially argue that anything beyond BAU airport investment has negative outcomes for consumers.

Air NZ states that airports' capital expenditure programmes "will impact aeronautical charges, service levels, and national connectivity for decades"; and "Consumers lose when airports can persist with an excessive capex programme". We urge the Commission to think of the countervailing impact if capital projects are delayed or stopped. Without the ability to invest in new facilities, attract competition and enable airline growth:

- Aeronautical charges will remain high as cost recovery will continue to be spread over a suppressed number of passengers;
- Passengers will be crowded into terminals that are not fit for purpose and do not accommodate passenger numbers, leading to queuing, delays, missed connections and loss of amenity;
- Airfares will remain high as new competition and new routes are limited;
- The overall resilience of New Zealand's aviation system will be impacted;
- National and international connectivity will be affected as airports will be unable to attract new capacity and airline investment.

The real economic impacts of delayed investment are widespread and significant, and pale in comparison to the impact of small-dollar increases in aeronautical charges. The Commission, as it weighs proposals, should err on the side of too-much investment rather than too-little to optimise end consumer (passenger) outcomes.

We also note that airline fleet management and investment decisions "impact aeronautical charges, service levels, and national connectivity for decades", and have proven "difficult to unwind". The key difference is that airport investments are subject to consultation, assessment and regulation;

while airline investment decisions and asset management are not. We continue to say airline investment decisions should receive an equal level of scrutiny in this debate.

Passenger delivery and capex delivery go hand in hand

Airlines argue that airports are under-delivering on capex. On the other side of this equation, airlines are under-delivering on passenger forecasts.

In the current environment with available air capacity suppressed, passenger numbers are substantially below forecast. These forecasts are based on airline forward schedules and fully consulted with airlines, and airports defer to airlines' knowledge in this area. It is not in the interests of airports to over-forecast passenger numbers and if forecasts seem inaccurate, airlines have plenty of opportunities to argue for correction. Therefore any underdelivery occurs due to genuine changes in events or airline decisions, rather than deliberate overforecasting by airports.

When passenger numbers do not materialise, this has the effect of significantly lowering airport returns below the cost of capital. Airlines cannot fairly suggest airports are currently materially over-recovering based on lower capex spend, when on the other hand airports are under-recovering due to underdelivery of traffic.

In this situation, airports may quite rightly delay capex project delivery until incomes can support that delivery, or until passenger numbers place the forecast pressure on assets. The ability to flex capex depending on passenger outcomes is a deliberate feature of the regime. This enables airports to respond to circumstances, while the rate of return achieved within pricing periods can be scrutinised via annual disclosures. As long as lower capex and lower passenger numbers roughly balance out in the outturn IRR, the Commission should not be overly concerned. Existing annual disclosures shed plenty of light.

Airports are subject to constant regulatory threat

Airline submissions state that airports are not subject to a realistic regulatory threat without changes to the Commerce Act. This is completely untrue. For at least the last seven years, airports have existed in a perpetual state of regulatory threat. This has real impacts on pricing decisions and makes investment more costly and difficult in the event of airline disagreement. It has also served as a major distraction for airports, airlines and the regulator.

When decisions are made that airlines disagree with, those airlines are able to wield huge power across media and government to ensure their perspective is heard. Because of this, airports have been subject to numerous regulatory reviews as a result of the AIAL capex dispute. Those reviews have not progressed as far as airlines would like. The evidence shows clearly this is because each review has found the regulatory system is working well. While airlines might not like it, this is not evidence that the regulatory threat doesn't exist; merely evidence that government agencies have decided not to exercise their full regulatory power in this instance.

Air NZ's statement that "some disagreement on capex decision-making will inevitably occur, [but] this does not need to be adversarial", requires scrutiny. Airports have never sought to make disagreements adversarial. Airlines, on the other hand, have run a sustained campaign against airports for years. We have been subject to misstatements, negativity and threat while airlines have used every available media opportunity and political engagement to seek greater regulation of airports.

WIAL says enough is enough. The airline proposals in this consultation are unwarranted, and extend a messy debate where airlines' end game is simply to delay and obstruct airport investment. We continue to make the case that infrastructure investment is good and necessary, and will support better consumer outcomes in the future.

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Furthermore, with the goal of optimising forward looking outcomes for end consumers, the Commerce Commission should carefully examine the recent AIAL capital investment example. As clearly recorded in the consultation history, the need for terminal expansion was identified over a decade ago. Airlines, acting rationally to defer increases in their cost base, mobilised their considerable lobbying power to delay, question and generally criticise development plans over an extended period.

The outcome of this activity was to defer the required investment until such time as a) completing the expansion became substantially more complex on a heavily utilised/congested site; and b) construction cost escalation has materially increased the cost of the work required in real terms. This has resulted in a substantially higher investment cost, which must be recovered from fewer passengers due in part to the congestion limiting air capacity expansion over the period leading up to and during the construction.

Looking at the evidence, with the AIAL example being one of many similar instances in New Zealand and Australia, the Commission should be considering mechanisms to streamline airport investment and limit the ability for dominant airlines to obstruct it.

Airline submissions ignore the existing oversight that already exists

Regulatory oversight already exists

BARNZ states, somewhat hyperbolically, "It is completely appropriate to allow for the regulatory regime to have oversight of substantial capex of this nature – otherwise regulatory settings are operating as Nero's mythological fiddle while Rome burns". We hardly think airport charge increases (which exist in the small dollars and cents) are evidence of Rome burning. Nor do we think the Commission is merely playing the fiddle; we have found the Commission's analyses to be well informed and appropriately gauged to the level of oversight required. Regardless, the regulatory regime already *does* have oversight of substantial capex, and the Commission already has the tools available to it to assess capex plans more thoroughly should it choose to do so.

Air NZ points to "limited transparency" and "time and cost implications of insufficient airport information disclosure", and "lack of clarity on future airport capital projects" as material problems. This is an unfair characterisation. The information disclosed to airlines, including complete and usable airport pricing models, is more than sufficient for airlines to fill in any perceived information gaps. A wealth of material is provided on capex plans, as any interrogation of the record would reveal. WIAL has never declined a request for additional information and, in fact, these requests are few and far between. Disputes over AIAL's PSE4 demonstrably did not occur due to a lack of information; they occurred due to different perspectives on that information.

The current debate will not be resolved by more documents. Plenty of documentation and disclosure already exists. Adding more material and processes will simply delay investment and create a headache for airports while adding additional costs without yielding more useful information or stopping disputes.

Existing disclosures are under-utilised

It is evident from airline submissions that existing disclosures are under-utilised. Much of the information sought by airlines (alternatives considered, stakeholder consultation overview, tracking of capex delivery, independent reports used, air traffic forecasts, transparent cost allocation) is already disclosed. Other matters, such as ensuring airline feedback is taken into account and ensuring Board decisions are not finalised prior to airline consultation, are already covered by existing legislation.

WIAL is resistant to the idea that the answer is producing thousands of pages of additional disclosure material. The real answer is for airlines to engage with the material already provided, and for the Commission to supplement its own expertise if it feels ill-equipped to assess performance.

Statements like "There is effectively no continuity of regulation through airport lifecycles" and "Airports should be required to disclose, at least annually, actual capex incurred" are disingenuous. Airlines should engage properly with existing annual disclosures before requesting additional layers of regulation.

Airlines are already well-equipped to offer feedback

Airlines do not require independent verification reports to inform their feedback to airports.

Qantas notes, "airlines manage the relationship with, interact with and tend to better understand the expectations of their customers than the airports". While we do not fully agree with this characterisation, we do agree that airlines have a deep and nuanced understanding of airport development and its impact on passenger outcomes. Airlines are already fully equipped to respond to airport consultations and do not require more reports and greater disclosures in order to make these assessments.

The Commission may feel that it requires independent verification in order to make its own assessments. In that case, the Commission should simply engage external or internal engineering support for this purpose. It does not need to make changes to regulation.

Disputes already have a "landing place"

BARNZ states that under current regulatory settings, disputes do not have a 'landing place' and tend to persist where resolution is not possible.

This is not correct. Disputes do have a landing place, and that is the long-standing backstop that enables airports to proceed with investment plans. This is by deliberate policy design, because certainty and the ability to invest are vital to underpin good infrastructure planning. Any different dispute resolution mechanism would actually extend and encourage disputes rather than resolving them. The current regime places a hard line in the sand which enables airports to get on with the job. Any move away from this should be treated with extreme caution by a Government that claims to support infrastructure investment.

Mechanisms for challenge already exist

BARNZ and Qantas note their view that AIAL made decisions to invest prior to PSE4 airline consultation. BARNZ notes that "in this scenario, substantial customers were left with judicial review actions as the only option". It is not clear to WIAL why airlines would not simply pursue judicial review if this characterisation is correct. The law already requires airlines to be consulted before capex decisions are made. This example does not demand legislative or regulatory change. If the law has not been followed, that is a different matter that airlines are welcome to test.

We also disagree with Air NZ that "There is no requirement to provide updates during the course of the project to signal significant design changes and/or changes to forecast cost to complete". If the project begins to differ significantly from the consulted parameters, in our view this would trigger a new consultation requirement under the Civil Aviation Act. If not followed, the airport would be exposed to judicial review.

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Feedback on substantive proposals made in airline submissions

Airline submissions demonstrate it is pointless to decouple capex from pricing consultation

Pricing consultation needs to occur as a whole. Airline submissions demonstrate the key problem with the Commission's proposal, which is that capex plans cannot be assessed in isolation from passenger numbers, operating expenditure, expected returns and pricing outcomes. The airlines say:

- "BARNZ considers forecast information on growth of air services to be critical to major capex programmes… [this] could simply be moved to the major capex disclosure – or a subset of PSE disclosures might form the basis of a major capex disclosure"
- "BARNZ considers that the target return methodology and expected returns should be consulted on alongside major capex proposals"
- Disclosure of capex programmes should include "the likely cost and impact of those programmes" (Air NZ)
- "As capital expenditure is a fundamental input into airport pricing, understanding and assessing the appropriateness *and affordability* of a proposed capital plan is critical" (Air NZ)
- "When an airport sets prices, the capex programme and its pricing implications must be disclosed together to enable assessment of profitability, WACC, and the overall price-quality package" (Qantas)
- There should be "cost recoverability discussions before a commitment is made to the capex spend" (Qantas).

BARNZ then suggests: "price consultation as per current processes could be conducted much more quickly. There would be little to discuss in addition, and these issues would likely be non-controversial… the remainder of consultation processes… might be completed in as little as 3 months". This demonstrates the fallacy in decoupling capex from pricing consultation. At the point where the bulk of consultation is actually undertaken at the capex stage, it becomes artificial and meaningless to separate other inputs for a later "pricing consultation". We agree there would be very little to discuss in addition. This takes us back to our starting point, that capex and pricing inputs must be discussed together and it is not sensible to separate them.

Air NZ states "As capital expenditure is a fundamental input into airport pricing, understanding and assessing the appropriateness *and affordability* of a proposed capital plan is critical". At the point in time where "affordability" is being assessed, we are essentially in a pricing consultation. We think airports would need to materially run a full pricing consultation in order to give airlines a realistic sense of the impact on prices. Otherwise, airlines may run a capital plan through their own models and come up with incorrect answers which may unnecessarily cause them to resist the proposed expenditure. Airlines need to be given full pricing information and pricing models alongside the capex in order to make a proper assessment.

Air NZ suggests that additional disclosure should occur at the Capital Plan stage when "scope, staging, cost estimates and likely pricing impacts" become defined. At the point where scope, cost and pricing impacts are defined, the consultation essentially would become a pricing consultation. We think the capital and pricing consultation should occur together, generating one set of disclosures as per the status quo.

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Airline submissions demonstrate that there is no single point of preferred intervention

Airline submissions variously ask for capex disclosures to occur at:

- Masterplan stage
- "The point of disagreement"
- Board approval
- Pricing decision
- Project design
- "Staged or gateway disclosures at key decision points"
- Project commencement
- Project delivery

These proposals are obviously unwieldy and unfocused. The Commission needs to identify at which point it is most practical and useful to require capex disclosures. It is clearly not feasible to require multiple disclosures "at any major stage gate".

WIAL continues to hold the view that disclosure should occur at the time of the pricing decision, when enough information is available, and processes are complete enough, for the disclosure to be meaningful. There is no point in the Commission assessing material that is still subject to further consultation and subject to change.

The BARNZ submission makes it clear that the only sensible outcome would be for independent verification to occur "once a major capex proposal has been consulted on and is otherwise 'complete'." What this really means is that more time will be inserted into consultation processes, i.e. at the point when a consultation would otherwise be over and pricing could occur, there will be a pause of many months while verification takes place. This pause is completely unnecessary and will set back delivery of key infrastructure. It will also further decouple capex plans from the pricing and implementation environment by moving them further back in time, creating a planning and delivery nightmare for airports.

We are alarmed by BARNZ's suggestion that "Following verification, the airport might re-work components of the programme". Airports risk being trapped in a never-ending cycle of verification, consultation, re-verification and re-consultation. It is critical that the Commission avoid this.

Asset Management Plans are not the answer

WIAL finds Air NZ's suggestion of EDB-style Asset Management Plans alarming. This suggestion materially misunderstands the nature of airport investments compared to EDBs and GPBs.

EDBs/GPBs are very different businesses, with totally different capex profiles, so the AMPs they produce don't translate naturally across to an airport. Most of lines company capex is either: (i) asset replacement and renewal, or (ii) accommodating system growth (new connections and network reinforcement to support growth). Units of investment (poles, connections and lines) and the level of expenditure are driven by identifiable and forecastable trends within the business (e.g. how old are the poles, how fast is the population growing).

EDBs/GPBs need to plan and deliver capex steadily and efficiently, year after year, to avoid sudden network decline and ensure demand increases can be met. This challenge is very amenable to long-term forecasting because the service doesn't much change, the drivers of expenditure are the same, and forecasting methods are well understood. Asset management is made up of mostly engineering judgements rather than the multi-layered commercial judgements that are made by airports.

At airports, the drivers of expenditure do change and a significant amount of capex involves non-recurring major projects which require commercial judgement. Individual airports can and do

pursue different strategies or objectives, and change these objectives from time to time. For these reasons, an airport AMP would look vastly different to an AMP for an EDB/GPB.

In any event, airports already undertake long-term planning via Masterplans. These are extensive undertakings, often taking 12 to 18 months for full consultation with various stakeholders, and require airports to consider service levels and operational reliability, as well as full option testing. WIAL is not averse to the suggestion that Masterplans could be more consistent and the Commission could offer greater guidelines. This would be a better solution than shoehorning airport disclosures into something that was designed for another sector.

In terms of Air NZ's perceived benefits of Asset Management Plans, these can already be achieved within the current regulatory framework:

- *Ensure that capital investment intentions are signalled and can be publicly scrutinised well in advance / Promote more efficient outcomes by providing earlier notification*: This already occurs via Masterplan release. As noted in this cross-submission, the Commission could undertake some work to ensure Masterplans are more uniform in quality and detail.
- *Ensure appropriate scrutiny of capex projects spanning multiple PSEs / Monitor the likely cost of the major capex project over its life, whether the airports' price setting forecasts were reasonable, whether the airport is using major capex to target excessive profits, and whether a post investment wash-up should be contemplated*: These assessments can already be made via annual disclosures. WIAL produces a 10-year capex forecast for pricing consultation and disclosure and this can already be used to assess the cost of a project that spans more than one PSE.

We remain very concerned about the proposal for Independent Verification

The main thrust of our concern is not about independent scrutiny per se, but the time and complexity that will be added to capital planning processes. Nothing in the airline submissions gives us any additional comfort, and we rest on the points made in our original submission.

Neither the Commission nor airlines have begun to consider the timetabling of Independent Verification. While IV is used in other sectors, it can occur alongside stakeholder consultation, as the consultation requirements in the electricity/gas/fibre context are less complex than for airports. We do not think IV and consultation could occur in parallel. Either IV would need to occur prior to airline consultation, meaning that the final outcome might be different to that considered by the IV; or it would need to occur after consultation, in which case airlines would not have the benefit of the IV to inform their position. In either case, it would at least double the time required for the consultation/planning cycle at each PSE from approximately 12 to 24 months and we consider this a very serious impost on airports' ability to move ahead with investment as well as adding additional cost to the ID regime.

Airlines have made no comment about how they see IV informing their own positions and reducing debate. The point of IV in a network context is to narrow the range of issues that the Commission and the supplier then have to focus on in the Commission's assessment process. WIAL is interested in whether airlines see IV as a genuine opportunity to narrow issues, and whether airlines would abide by the judgement of the IV in the event that it differs from the airline perspective.

WIAL is unafraid of independent scrutiny. The Commission could, under existing regulation, seek expert review from an independent external provider when it reviews PSE disclosures. If the Commission seeks greater understanding of airport capex planning, it could supplement its own expertise rather than applying an additional burden to airports.

Conclusion – Narrowing the areas of disagreement

WIAL actually agrees with many of the points put forward by airlines. However, most of them are actionable now with existing information, and do not require an additional regulatory impost.

On Qantas' specific proposals, we agree with:

- Responding to airline feedback on the record, creating a transparent consultation trail;
- Disclosure of alternatives considered;
- Disclosure of areas where agreement has or has not been reached.

However, we disagree with independent verification of disputed assumptions and do not believe Qantas' IV proposal (or any IV proposal) is workable.

On Air NZ's specific proposals, we agree with:

- A prescribed minimum set of information disclosed in relation to major capital expenditure;
- Enhanced disclosure at price setting;
- Improved ex-post disclosure from airports and scrutiny from the Commission;
- Consulting airlines on the following (though our position is this should remain in existing PSE consultation):
    - Design and service parameters;
    - Structured option testing for major projects;
    - Cost allocation decisions;
    - Aeronautical price impact;
    - Depreciation and capex forecasts broken down by asset category;
    - Tax information.
- Disclosure of the following information:
    - Information requested by substantial customers but not provided;
    - How consultation positions translate into final pricing outcomes;
    - Projected impact of capex on prices for 10 years.

We do not agree with earlier disclosure of capex programmes, or proposals for mandatory independent verification as part of the capex planning cycle. We have no problem with additional independent scrutiny as part of the Commission's review process, should the Commission choose to engage additional independent analysis.

On BARNZ's specific proposals, we agree with:

- Publishing terms of non-disclosure agreements;
- Disclosed consultation with Airways regarding major capex;
- Annual disclosures specific to each capex programme to track capex delivery (largely exists already);
- Disclosure of the terms of capex wash-ups.

On BARNZ's proposals for the Commission to issue guidance on the timing of contracts vis a vis consultation and disclosure, and for the Commission to review Annual Disclosures, we have no comment as these proposals do not require additional regulation and are within the Commission's purview already. For the reasons made above, we do not agree with separating capex disclosures from pricing.