

## Common cost of capital IM review - cross submission from NZ Airports

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1 Thank you for the opportunity to provide a cross-submission on the common cost of capital input methodologies review.

2 NZ Airports has considered the draft decision proposed by the Commerce Commission to update the methodology for calculating tax adjusted market risk premium (TAMRP), alongside the submissions from other regulated entities and their expert reports.

3 As per our submission, NZ Airports supports the Commission's draft decision to allow for the most recent TAMRP estimation to apply across all regulated sectors.

4 NZ Airports supports the general consensus reached by other submitters and their experts that the changes reflect an improvement in the calculation approach for TAMRP.

5 NZ Airports would encourage the Commerce Commission to carefully consider the submissions made by Chorus and Incenta on the weightings for the new calculation approach. Consistent with our previous submissions, NZ Airports considered that the calculation for costs of equity should be forward looking and therefore agrees with the Commission's intention that TAMRP should be forward looking and more aligned to the "conditional" methodologies. However, we are concerned that the proposed methodology is 2/3 weighted towards the "unconditional" or historic TAMRP and therefore may not be sufficiently forward looking. NZ Airports agrees with Chorus and Incenta that a more balanced approach would be to give at least 50% weighting to the Siegel 2 methodology as the Siegel 2 approach is the only one of the three remaining methodologies which is a forward looking "conditional" methodology. NZ Airports also agrees with the analysis from Oxera and acknowledgement from other regulators that the dividend growth model (DGM) approach is best used as a directional indicator only, given it is highly sensitive to changes in the value of inputs.

6 The Commission has indicated it will 'apply judgement' up to 25 basis points based on the results from the DGM approach and swap spreads as conditioning variables. Introducing judgement into the mechanical estimation of WACC parameters such as the TAMRP has the potential to undermine regulatory stability and certainty for regulated suppliers. Accordingly, NZ Airports supports any judgement being constrained to an adjustment of 25 basis points as is proposed by the Commission, given the limitations the Commission has identified with the DGM approach. NZ Airports considers that the same risk of unintended bias which makes the survey method unreliable could be applicable to the Commission's judgement if given too much weight and therefore supports this only being used for changes as the margin.

7 NZ Airports has no concerns with the proposal to change the rounding from 50 basis points to 25 basis points.

Yours sincerely

Billie Moore  
Chief Executive