

16 June 2026

Hristina Dantcheva  
Infrastructure Regulation  
Commerce Commission


Via email [infrastructure.regulation@comcom.govt.nz](mailto:infrastructure.regulation@comcom.govt.nz)

Dear Hristina

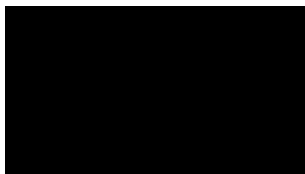
**Submission on Airports Cost of Capital IMs Amendments**

Please find attached Air New Zealand's submission on the Commission's Draft decision reasons paper on *Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters*.

Note that there is no confidential information in this submission.

Please contact me at  if you have any questions relating to this submission.

Yours sincerely



Sean Ford  
Airport Infrastructure & Commercial  
**Air New Zealand**

16 June 2026

### **Submission on Airports Cost of Capital IMs Amendments**

Air New Zealand (“Air NZ”) welcomes the opportunity to make this submission on the Commerce Commission’s (“Commission”) draft decision regarding potential amendments to the input methodologies (“IMs”) for regulated airports.

These amendments go directly to the Part 4 purpose of promoting the long-term benefit of consumers. The cost of capital IMs will inform airport pricing decisions at a time when regulated airport asset bases, particularly Auckland Airport’s, are increasing materially. Small changes in WACC can have material consequences for airline charges, passenger affordability, demand, and regional and domestic connectivity. The amended IMs therefore need to reflect current market evidence and avoid setting allowed returns above what is needed to compensate investors for the actual risks of regulated airport services. That is how the Commission preserves incentives for efficient investment while also limiting the ability of airports to extract excessive profits.

The Commission undertook to promptly commence an amendment process under s 52X of the Commerce Act in relation to the R Code errors, and any other features of the IMs that attracted adverse comment from the High Court, in the event that the airports’ merits appeals were unsuccessful. Those appeals were unsuccessful.

In its draft decision, the Commission has not simply made a mechanical correction of the R Code errors as this “would not identify values of equity beta and leverage that reflect current market conditions and expectations”. Air NZ agrees with this assessment and commends the Commission for undertaking a new assessment of equity beta and leverage that takes into account updated post-Covid data.

In this submission, Air NZ:

- (a) endorses the Commission’s reliance on the most recent data from the past three years in order to calculate beta and leverage; and
- (b) invites the Commission to reconsider its reliance on data for one airport in the comparator set, Airports of Thailand, including because its post-Covid data reflects highly unusual outcomes for a comparator airport and indicates, in Air NZ’s submission, that it should be excluded from the Commission’s analysis.

#### **Time Period**

The Commission’s draft decision relies on data for the 3 year period from 1 February 2023 – 31 January 2026. This is wholly consistent with the High Court’s reasoning:

*The Commission's task is to estimate the relevant **forward-looking** asset beta that would apply for airports operating in workably competitive markets over the seven years from 2023 to 2030. **The best data for the Commission to use to determine the post-Covid asset beta would be market data from the period after the pandemic had ceased to directly impact airports and capital markets. This post-pandemic market data would take into account any revised information and expectations held by participants in capital markets that had arisen due to the experience of the Covid-19 pandemic.** However, the Commission only had highly limited post-Covid market data available to it when it made its final determination. Placing excessive reliance on a small time series of post-pandemic data would raise the same issue of variance as those discussed in [195] above. In such a situation, it is reasonable for the Commission to use an alternative approach to try and take account of the impact of the pandemic on the forward-looking asset beta.<sup>1</sup>*

*[emphasis added]*

The Commission notes “on balance we consider we should place most weight on post-Covid-19 data because we would otherwise not be identifying values of equity beta or leverage that reflect current market conditions and expectations.”<sup>2</sup> Air NZ agrees. The three-year post-Covid window is the best available evidence of current market conditions and expectations, consistent with the High Court’s reasoning. The inclusion of pre-Covid or Covid-affected data would produce estimations that are either not commercially realistic or do not reflect current market conditions.

Finally, use of post-Covid data removes the uncertainty and complexity associated with development of the Flint method, in the New Zealand context, to appropriately address and adjust for the impact of the pandemic. It also resolves the previous discrepancy in the windows used for calculating leverage and asset beta.

### **Relevant Comparator Firms**

The Commission has used the same comparator set it used in determining the final 2023 IMs, but has excluded Sydney Airport given market data is no longer available due to its de-listing in early 2022.

Before the High Court, the airports argued that a larger comparator set based on the filters applied in 2016 would result in a materially better estimate of the cost of capital than the comparator set adopted by the Commission in the final 2023 IM. The High Court did not agree, and found the Airports’ core arguments unconvincing.<sup>3</sup> Relevantly, the High Court observed that:<sup>4</sup>

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<sup>1</sup> *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [235].

<sup>2</sup> Commerce Commission Targeted amendments to the Cost of Capital Input Methodologies for Airports - equity beta and related parameters – Draft decisions reasons paper, paragraph X14

<sup>3</sup> *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [213].

<sup>4</sup> *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [194].

*A larger comparator set will not always be preferred to a smaller set. Expanding the comparator set by adding firms that are poor comparators for New Zealand airports may lead to the resulting beta estimate being less reliable rather than more reliable.*

Ultimately, the Court found that “the optimal size and composition of the comparator set of firms will be a matter of regulatory judgement based on the information that is available to the Commission”.<sup>5</sup>

In light of the post-Covid data now available to the Commission, Air NZ submits that it is appropriate for the Commission, in its regulatory judgement, to revisit the inclusion of Airports of Thailand in the comparator set.

In 2023, the Commission’s draft Decision had excluded Airports of Thailand, having regard to its market comparability, unreliable asset betas, and its negative leverage.

In respect to the first of these factors, Castalia observed:<sup>6</sup>

*...the actual unsystematic risk of airports in non-developed markets can be materially different from those in developed markets. Airports, by their nature are essential infrastructure that supports other major industries, with major international airports creating reputational risk for the country in which they operate. It is therefore no surprise that the airport sector regularly attracts government attention in both non-developed and developed markets. Airports also run businesses with extensive health and safety risks, which usually results in extensive government regulation of the operations.*

*Many non-developed markets have government and regulatory mechanisms that are not as transparent and predictable as those in developed markets. The balance of power in any conflict between a firm and a government entity in a non-developed market is also likely to be more in favour of the government entity than it would be in a developed market.*

In its submission dated 17 February 2023, Qantas observed that Thailand was an advanced emerging economy and that Airports of Thailand formed a high (>5%) portion of the benchmark index, which may have contributed to its high asset beta variability (0.26).<sup>7</sup>

Differences in the regulatory environment, the market structure, and capitalisation of Airports of Thailand all suggested that the airport was a poor comparator for

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<sup>5</sup> *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [196].

<sup>6</sup> Castalia “Comments on the Commerce Commission Cost of Capital Input Methodologies Draft Decision for Regulated Airport Services”, 19 July 2023, page 6

<sup>7</sup> Qantas submission entitled “Re: CEPA Report on Aspects of the Cost of Capital Input Methodologies for the 2023 Review” dated 17 February 2023, Appendices A and B.

New Zealand regulated airports. However, in its final Decision, and despite its recognition that Thailand was a developing country, the Commission retained Airports of Thailand in the comparator set because it did not have “strong grounds” to exclude it:<sup>8</sup> The new post-Covid data now provides those strong grounds:

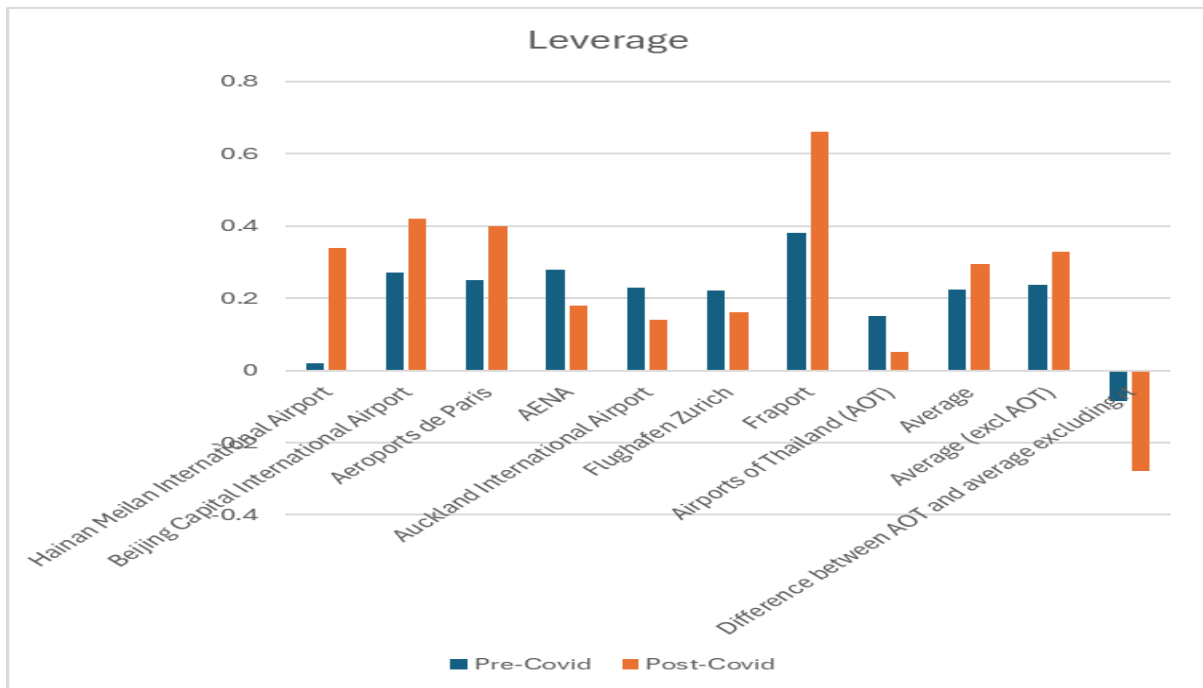
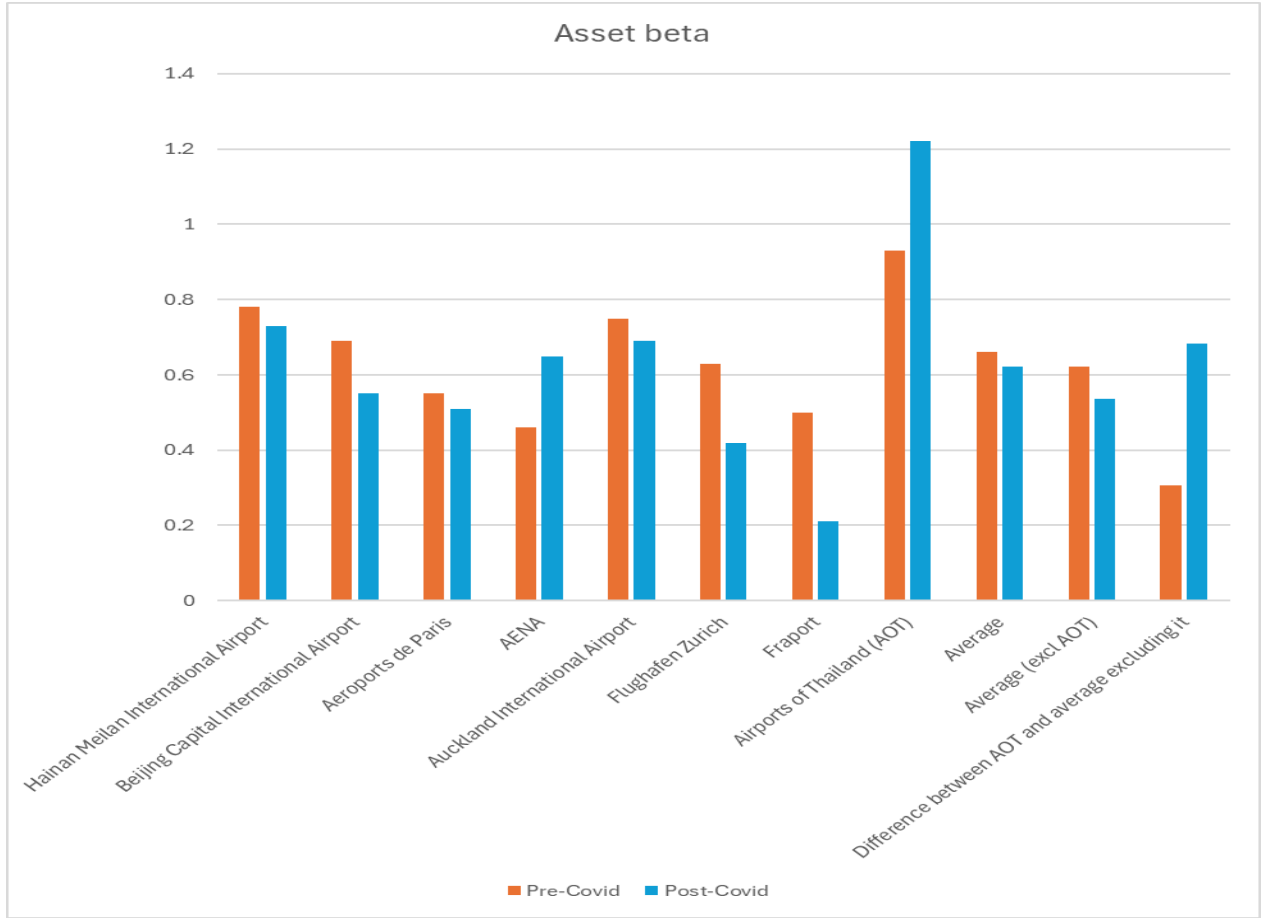
- (a) On its face, Airports of Thailand is now a clear outlier to the other firms in the proposed comparator set. Its post-Covid estimate of asset beta (1.22) reflects that it has materially greater systematic risk than the broader equity market. That runs contrary to the observation that regulated airport monopolies are typically exposed to less systematic risk than the average firm in the market. Indeed, the asset betas of all other airports in the comparator set demonstrate on average materially lower systematic risk than the market in both the pre-Covid and post-Covid period (on average, post-Covid, 0.54).
- (b) Airports of Thailand’s asset beta sits significantly outside the Commission’s proposed standard error of the asset beta in the draft IM (0.25).<sup>9</sup>
- (c) In addition, the leverage of Airports of Thailand (of 0.05) is the lowest by a considerable margin and significantly below the average leverage of all other comparator firms in the proposed set (0.33).

This data is shown in the graphs below (expanding on Table 3.7 in the Commission’s draft decision paper):

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<sup>8</sup> Commerce Commission “Part 4 Input Methodologies Review 2023 – Final Decision: Cost of capital topic paper (13 December 2023) at [4.164].

<sup>9</sup> All the other comparators in the comparator set are within 0.25 of the average asset beta other than Fraport, which is within the average of the weekly and four-weekly standard errors for the post-Covid period (0.32).



Since 2023, as shown in the graphs above, the difference between the asset beta of Airports of Thailand, and the average of the remaining comparator firms, has increased from 0.31 to 0.68. The difference in leverage has also significantly increased.

Airports of Thailand is a clear outlier when considering relative changes in the comparator firms' asset beta in the pre-Covid and post-Covid periods. Its asset beta in the post-Covid period has increased by 0.29 from the pre-Covid period, at odds with the negative average trend (-0.09) of the other firms in the comparator set.<sup>10</sup>

Air NZ accordingly invites the Commission to consider afresh the appropriateness of Airports of Thailand's inclusion in the comparator set. The data indicates that, in the post-Covid period, this airport's exposure to systematic risk has been highly unusual and anomalous with all other comparator firms.<sup>11</sup> The data indicates that the Commission should exclude Airports of Thailand from its analysis.<sup>12</sup>

For completeness, Air NZ does not consider that the removal of one firm, Airports of Thailand, from the comparator sample is likely to increase unreliability in the Commission's estimate of asset beta. Whilst accepting that a larger comparator set may reduce variance, this depends on whether the firms within the comparator set are "good comparators" in the first place.<sup>13</sup> Air NZ does not consider, based on recent data, that Airports of Thailand is a good comparator for New Zealand regulated airports.

## **Leverage**

The Commission's draft decision reverts to its standard approach to calculate the average leverage directly from the comparator set using the last three years' data. Air NZ agrees with this approach.

## **Reasonableness checks**

The Commission has previously described the purpose of its reasonableness checks as being to "test whether application of the IMs will produce commercially realistic estimates of the cost of capital". Air NZ considers these reasonableness checks to be an important feature of the regime and critical to ensuring the Commission is exercising its regulatory judgment to promote outcomes consistent with those produced in competitive markets.

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<sup>10</sup> The average change in asset beta between pre-Covid and post-Covid periods for all the comparator airports is -0.09. The only other airport that has seen asset betas increase is AENA (+0.19). This is significantly less than the increase observed for Airports of Thailand (+0.29).

<sup>11</sup> We note that Airports of Thailand's share price was significantly impacted during the period when the Thailand-Cambodia border conflict erupted last year.

<sup>12</sup> C.f. Commission draft decisions reasons paper at [3.38].

<sup>13</sup> *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [194].

Considering the reasonableness checks themselves, the Commission has focused on comparisons of its draft asset beta, leverage, and equity beta with broker estimates of these parameters with AIAL.

As Air NZ submitted in the High Court, Air NZ considers there is less utility in cross-checking individual parameters (like asset beta) within the Commission's cost of capital IM, as compared to the outputs of the methodology derived from those parameters (i.e. the post-tax estimate of WACC).<sup>14</sup> The High Court held in the 2010 appeals that:<sup>15</sup>

... cross-checking the result of the application of a given methodology is a well-accepted step in the IM process. It is less clear to us that the outcomes of individual parts of the methodology can usefully be cross-checked themselves.

Caution might also be exercised by the Commission before relying upon estimates relevant to AIAL as a reasonableness check. AIAL is over-represented in the NZX50, unrepresentative of a typical monopoly airport because of its high non-aeronautical income streams, and high observed asset beta.<sup>16</sup> The High Court considered it arguable that AIAL might be removed entirely from the comparator set.<sup>17</sup> That also calls into question the utility in relying on AIAL-focused beta estimates for any reasonableness check. There is a further, material risk of circular reasoning because broker estimates inevitably reflect brokers' expectations as to the Commission's assessment of cost of capital for New Zealand regulated airports.

For these reasons, Air NZ invites the Commission to conduct reasonableness checks by placing weight on a comparison of its WACC (not beta or leverage) estimates with the plausible range, the cost of capital for a range of regulated suppliers, and overseas estimates, consistent with its methodology in the 2023 final reasons paper.<sup>18</sup> In addition, Air NZ endorses implied RAB multiples as a further important cross-check.

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<sup>14</sup> Airlines' submissions to the High Court dated 19 June 2025 at [410].

<sup>15</sup> *WIAL 2013* at [1531].

<sup>16</sup> Airlines' submissions to the High Court dated 19 June 2025 at [414](c).

<sup>17</sup> *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [206].

<sup>18</sup> Caution should, however, be exercised before relying on any estimates derived from historic time periods inclusive of Covid-19 periods of asset beta volatility. See PwC report on cost of capital (2022) and *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [269].