16 July 2026

Hristina Dantcheva
Commerce Commission
Head of Performance and Understanding
Email:[redacted]

Dear Hristina

Cross-submission on Targeted Amendments to the Cost of Capital Input Methodologies for Airports – Draft Decision

Auckland International Airport Limited (**"Auckland Airport"**) has reviewed the submissions filed in response to the Commerce Commission's Draft Decision on Targeted Amendments to the Cost of Capital Input Methodologies for Airports (**"Draft Decision"**). This cross-submission responds to the principal points made by other submitters.

Unsurprisingly, there is a clear divergence in approach between regulated airports and airlines.

Airports seek a method that is robust, predictable and can be consistently applied over time. Such a method would better promote investment incentives under section 52A of the Commerce Act by being reliable and accurate. It would also promote certainty under section 52R by providing consistency for regulated suppliers and consumers. Airports do not support the Draft Decision because it does not meet these purposes. It represents the third material approach to estimating airport asset beta in just three years and is conceptually flawed and unsupported by evidence.

Airline support for the Draft Decision is unsurprising given that the asset beta estimate represents the 1.4th percentile of comparable historical estimates for the comparator set which results in a WACC that is materially understated. Airlines commercially benefit from a lower asset beta and lower WACC when setting aeronautical charges as it not only reduces their operating costs, but also reduces the incentive for airports to invest, constraining airport capacity and limiting further competition for existing airlines.

Auckland Airport emphasises that its priority is to achieve a more consistent, evidence-based methodology for determining asset beta, equity beta and leverage. One that can produce accurate estimates in order to incentivise investment that is in the long-term interests of consumers and that can be applied with some predictability over time.

The method should also be consistent with that used for other sectors regulated under Part 4 of the Commerce Act. This view is endorsed by submissions from other regulated industries, expressing concerns regarded the methodology and approach adopted by the Commission.

Draft decision has already reduced certainty for investors and undermines attracting foreign capital to New Zealand

Airlines claim that the Draft Decision is consistent with the purpose of Part 4. However, Auckland Airport continues to receive feedback from investors on the Draft Decision which expresses frustration in the actions of the Commission and how they run contrary to the purpose of the legislative framework.

Investors have raised concerns over the robustness and accuracy of the parameters adopted in the draft decision. Attached to this submission is a letter from a long-standing investor of Auckland Airport, Yarra Capital Management, which considers the implications of the Draft Decision for New Zealand as an investment destination:

> *Capital is mobile and will gravitate towards the strongest available risk-adjusted returns; investors retain the option simply not to allocate capital to jurisdictions whose regulatory conduct is hostile or unpredictable. Should the final decision proceed in its current form, we would be compelled to reassess our appetite for Auckland Airport and for New Zealand regulated infrastructure more broadly.*

Sell side analysts at a New Zealand investment bank have made the following statements:

> *We share the concerns presented by the regulated operators in their submissions, that the ComCom has increasingly moved from a well-defined and predictable framework, toward a series of more subjective decisions that could ultimately act to undermine confidence in the overall regulatory regime.*
>
> *Notably, Transpower and Electricity Networks Aotearoa have highlighted the need for regulatory certainty to support investment decision making and consumer outcomes. This suggests a broader industry concern around the integrity of the ComCom's regulatory responsibilities.*

It is difficult to envisage a better way to undermine investment incentives than an unexpected change in regulatory methodology to reduce returns after a generational capital investment programme has been committed to and construction well underway.

Auckland Airport has raised $2.8 billion of capital from private sources in recent years, and the constant changing in regulatory settings can be seen to be undermining the attractiveness of New Zealand as an investment destination. The uncertainty is raising the cost of capital for Auckland Airport as well as other businesses looking for capital to grow. This runs counter to the purposes of the regulation and as a result Auckland Airport requests the Commission carefully consider the investor feedback in determining next steps.

Compared to other sectors the draft airport IM is an outlier – it undermines certainty for all regulated industries

It is notable that Electricity Networks Aotearoa and Transpower both submitted expressing real concern that the Draft Decision creates significant uncertainty not just for regulated airports, but for all essential infrastructure entities who rely on the Commission to have stable and well justified regulatory settings. The Commission should place significant weight on such a united voice from regulated entities that this Draft Decision represents a material departure from previously stable settings and risks undermining the confidence needed in the regime to make vital investments in essential infrastructure for New Zealand's economy.

In that context, Auckland Airport notes the proposed approach to estimating asset beta in the Commission's emerging views paper for Watercare's price-quality path.[1] Features include:

- a 15-year data period ending 30 April 2026 (compared to 3 years ending 31 January 2026 for airports);
- no adjustments for COVID affected data; and
- the only filters for selection of the comparator sample being whether they were true water utilities, in developed countries, with sufficient market capitalisation ($100m USD).

[1] Price Quality Path for Watercare – Emerging Views Paper – 25 June 2026.

The proposed approach for Watercare is consistent with the approach used for other Part 4 regulated sectors. This highlights that the Draft Decision's approach to estimate asset beta and leverage for airports is an unexplained and arbitrary outlier from the tried and tested methodology used to estimate asset beta, equity beta and leverage for all other sectors under Part 4.

Airports are all aligned that the Draft Decision is fundamentally flawed and not fit for purpose resulting in a set of parameters that materially understate airport risk

All airport submitters[2] agree on the following points:

- the Draft Decision goes beyond correcting the admitted R Code errors and introduces an entirely new, unprecedented and unjustified approach to estimating asset beta, equity beta and leverage;
- the Commission should never have departed from the 2016 IM, which remains the best method. It was inevitable that the 2023 IM would produce volatile results, and the Draft Decision appears to be an attempt to maintain outcomes that the Commission is comfortable with for this IM amendment. However, it introduces even further volatility and unpredictability for the future;
- the three-year post-COVID estimation window is too short and produces statistically unreliable estimates. The resulting asset beta of 0.62 sits at the 1.4th percentile of comparable historical estimates – it is an outlier rather than an accurate reflection of forward-looking systematic risk;
- the exclusion of pandemic-affected data permanently biases the asset beta downward, because the only data incorporating pandemic risk is excluded from estimation;
- the Commission's own corrected Flint analyses (Attachments B and C to the Draft Decision) are materially better approaches than the Draft Decision;
- a longer estimation window (at minimum 10 years) is necessary for statistical reliability;
- ending the sample period in January 2026 was arbitrary and excluded valuable data. There is no evidence the COVID impacted period ran until January 2023 as assumed in the Draft Decision. More recent data up to at least the end of May 2026 should also be used;
- if the short sample period is retained, then the comparator set filters should be reapplied (albeit the better approach is not to apply filters); and
- overall, the proposed new approach undermines regulatory certainty and investment incentives under sections 52A and 52R of the Commerce Act. There is no basis to suggest that the approach is necessary to limit excess profits.

Auckland Airport's primary submission explained various adjustments that could be made to move the Draft Decision away from unsubstantiated and conceptually incorrect approaches towards methods grounded in sound empirical and economic analysis – i.e. closer to the approach historically used for airports and still used for other sectors under Part 4. In line with their arguments in the 2025 merits review, we anticipate that in their cross submissions the airlines may accuse us of adopting a "pick-and-mix" approach to selecting reference data periods, comparator firms, and how to treat pandemic affected data.

To the contrary, our submission reflects the numerous ways in which the Draft Decision departs from robust methods. Our submission addresses that concern by demonstrating numerous adjustments that can be made to move the Draft Decision towards a materially better approach, without suggesting that any of those adjustments, considered in isolation, would result in a single best method.

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[2] I.e. New Zealand Airports, Wellington International Airport Limited, Christchurch International Airport Limited, and Airports Council International Asia-Pacific & Middle East.

Rather, they demonstrate the extent to which the Draft Decision is biased downward, in that any one of the various improvements in the methodology identified would increase the asset beta and equity beta parameters. Further, when applied in combination this results in significant increases to these parameters demonstrating the difference is material.

Auckland Airport has been clear and consistent for many years regarding its position on the best methodology – namely, the 2016 IM approach centred on a large comparator set with 10 years of data.

However, acknowledging the Commission's departure from that approach in 2023 which applied the Flint method, continuing to apply that method accurately and correcting for errors[3] (the original purpose of this re-consultation) would be materially better than the Draft Decision at meeting the s52R purpose of certainty. The Draft Decision does not provide any analysis or justification for its change in approach - this has required the airports to demonstrate the numerous flaws and discrepancies in the Commission's exercise of judgement in determining its new method.

Airline submissions seek to lower the WACC at the cost of investment in airport infrastructure

Airline support for the Draft Decision reflects that it results in a WACC that is materially understated. Underinvestment is in airlines commercial interest and this is an outcome that the Draft Decision risks if carried through to the final.

The analysis presented by airlines in their submissions does not seek to better promote the purpose of Part 4, but instead is narrow in its scope to create arguments to further lower the WACC.

In particular, airlines in their submission support the Commission's approach in only using post-pandemic data to estimate beta. Three experts (CEG, Houston Kemp, Dr Lally) are unequivocal that the Commission's approach is conceptually incorrect, while TDB has made inconsistent submissions and high-level statements on the matter without any supporting evidence. This is an error in the Draft Decision, just as there were coding errors in the 2023 IM. It needs to be corrected. Analysis from airlines to support the exclusion of Airports of Thailand is also unjustified and does not reflect a robust methodology.

Auckland Airport responds to the technical detail of airline submissions in Appendix 2 of this letter.

Integrity of cross-submission process must be maintained

As stated in the submission from NZ Airports, Auckland Airport does not oppose the fact that a reasonable extension to the cross-submission timeline has been given, presumably at the request of airlines (we are not aware of an extension requested by airports), provided the integrity of the process is maintained. Initial airline submissions were endorsements of the Commission's approach rather than submitting independent expert data.

If airlines introduce substantial new analysis at this cross-submission stage, airports expect to be granted a further opportunity to respond. This is especially critical because the Commission moved straight to a Draft Decision, foregoing the usual step of issuing a Process and Issues Paper that would be expected when proposing such a fundamental change, a process step that was requested by airports.

Conclusion

Auckland Airport reiterates our strong objections to aspects of this Draft Decision, as set out in our primary submission and this cross submission. We encourage the Commission to consider the chorus of concern

[3] Attachment C of the Draft Decision

coming from airports, electricity infrastructure providers and investors that this Draft Decision is fundamentally flawed and does not meet the purpose of Part 4 of the Commerce Act.

Yours sincerely

[redacted]

Mary-Liz Tuck
Chief Strategic Planning Officer

Attachments:

Appendix 1: Letter from Yarra Capital Management

Appendix 2: Auckland Airport detailed response to airline submissions

Auckland Airport

Appendix 1: Letter from Yarra Capital Management

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10 July 2026

To Whom It May Concern:

Re: Targeted Amendments to the Cost of Capital Input Methodologies for Airports – Equity Beta and Related Parameters

About Yarra Capital Management

Yarra Capital Management (**YCM**) is a leading independent, privately owned active Australian fund manager, with approximately A$20bn of assets under management. YCM offers its clients access to style-neutral Australian equities solutions and fixed income capabilities including core fixed income, hybrids, credit, macro and RMBS.

Yarra serves the Australian institutional and retail markets, and its Australian investment products are accessed from various international markets, including Japan and New Zealand.

YCM's investment in Auckland Airport

Auckland Airport (AIA) is the operator of Auckland International Airport, New Zealand's primary international gateway and the country's largest airport by passenger volume, serving a city that represents approximately one-third of New Zealand's population. AIA holds an effective monopoly position over international and domestic aviation infrastructure in the Auckland region, underpinned by substantial barriers to replication in runway, terminal and airfield assets alongside a large surplus landholding that supports non-aeronautical property and logistics development which will ultimately enable longer term future aeronautical growth.

YCM has been a shareholder in AIA since 2019. The core of our investment thesis in AIA is based on the long-term predictability and sustainability of its cash flows, which is underpinned by a well-established regulatory framework. Our investment in AIA is premised on:

- The essential, system-critical role AIA plays in New Zealand's aviation and trade infrastructure, with continued growth expected as passenger volumes recover from the COIVD era and associated lingering capacity constraints and as AIA invests in terminal integration and airfield capacity; and
- A stable, predictable and transparent regulatory regime given the current regulatory framework has been in place since 2010, and the $6.7 billion of planned and approved capital expenditure through the PSE4 and PSE5 regulatory periods.

Our response to the Draft Decisions Reasons Paper

As genuine, long-term investors in AIA – and in Australasian listed infrastructure more broadly – we are deeply concerned by the Commission's proposal to estimate asset beta from a three-year, post-COVID observation window.

Our experience of investing in airports across Australasia over several decades is that they are long-duration, operationally leveraged assets that are periodically exposed to severe, sector-specific shocks (e.g. the September 11 attacks, the Global Financial Crisis, COVID and the most recent Middle East conflict). As long-standing investors in AIA, our lived experience is that returns can fall well short of target levels for extended periods of time. A beta estimated exclusively over a short, benign window that deliberately and permanently excludes the data in which these risks are observable is, in our assessment, structurally biased and not reflective of the forward-looking systematic risk that equity investors face.

We are equally concerned that the Draft Decision represents the third materially different beta methodology in as many years. Constant tinkering with regulatory settings of this kind undermines investor confidence and, ultimately, raises the cost and availability of capital to the sector. Put simply, the conduct of the Commission itself has now become a source of risk for which equity investors require compensation.

Finally, we would remind the Commission that investors have supported AIA's infrastructure programme in good faith and on the basis of the regulatory settings then in place – including the $1.4 billion of equity raised in 2024 – to fund investment that the Commission itself reviewed and accepted as appropriate. To arbitrarily lower the return on that capital after it has been deployed, and before it has been recovered, amounts to a retrospective transfer of value away from investors who relied on the prevailing framework, and raises the spectre of sovereign risk for all New Zealand regulated assets.

Capital is mobile and will gravitate towards the strongest available risk-adjusted returns; investors retain the option simply not to allocate capital to jurisdictions whose regulatory conduct is hostile or unpredictable. Should the final decision proceed in its current form, we would be compelled to reassess our appetite for Auckland Airport and for New Zealand regulated infrastructure more broadly.

We appreciate the opportunity to make this submission and would welcome the opportunity to discuss these matters in more detail.

Yours sincerely,

[redacted]

Katie Hudson

Portfolio Manager & Head of Australian Equities Research
Yarra Capital Management

Appendix 2: Auckland Airport detailed response to airline submissions

Response to airline submitters' support for the three-year post-COVID window

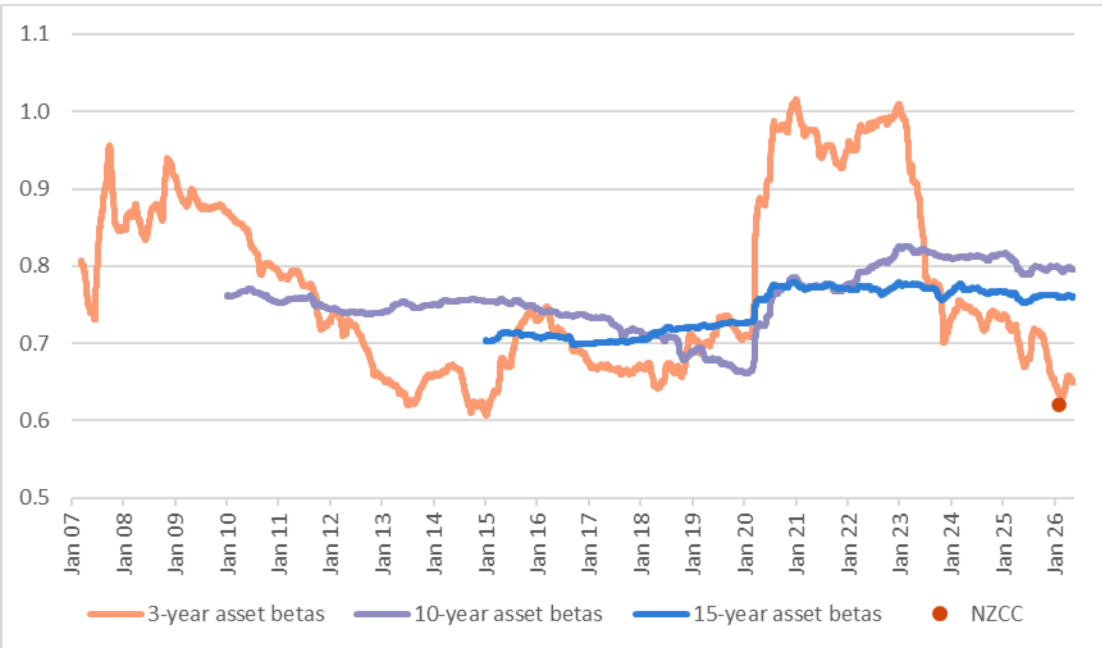
Air New Zealand, Qantas, BARNZ, IATA and TDB Advisory support the Commission's three-year post-COVID estimation window, arguing that post-COVID data best reflects current systematic risk, removes the need for complex pandemic adjustments, and that the post-COVID asset beta of 0.62 is broadly consistent with the long-run pre-COVID average of 0.66.

In short, they have supported the reasons in the Draft Decision and have not provided any additional evidence. The airport submissions and expert evidence from Dr Lally, CEG, and Houston Kemp comprehensively address why the approach is wrong.

There is no need to repeat the extensive evidence and analysis that has been provided. In summary, Auckland Airport's position is as follows:

- Auckland Airport strongly opposes using a three-year post-COVID data window to estimate asset beta and leverage. Three years of data cannot produce a statistically robust beta estimate. As explained in Dr Lally's report, no statistically reliable conclusions can be drawn from an estimate derived from a 3-year sample period. The Commission itself acknowledges the estimate is "less precise and more uncertain";
- the asset beta of 0.62 is not statistically different to the pre-COVID average of 0.66 – as Dr Lally notes in his submission this contradicts the Draft Decision's (unsubstantiated) position that airport asset beta has reduced following COVID to justify the exclusion of pre-COVID data – this implies that the window should be extended to include pre-COVID data; and
- the High Court did not endorse exclusive reliance on an excessively short post-COVID window. The Court noted that placing reliance on a small time series of post-pandemic data would raise issues of variance and volatility. Selecting a short data window results in asset beta which are noisy and sensitive to the choice of window. Figure 1 shows how the choice of data window length can alter asset betas and create volatility.

Figure 1: 3-year, 10-year and 15-year asset betas using data from March 2004 to May 2026 for the six comparators with data across this entire period (excluding AENA and ADP)



Source: CEG Cross Submission, July 2026

Response to post-COVID data capturing pandemic risk

The assumption that pandemic risk is "priced in" to post-COVID data - is conceptually wrong. Estimated beta captures only risk events, including changed perceptions of risks, that produced share price movements during the estimation window. A calm period in which no pandemic related event occurred cannot, by construction, capture pandemic risk.

CEG, Houston Kemp, and Dr Lally are all in agreement that this is a conceptual flaw in the method adopted by the Commission in the Draft Decision. For example, as noted by Dr Lally:

> *Firstly, the Commission's use of only post-pandemic data, which does not include any such rare events, will produce an estimate of the true beta that is biased down rather than reflecting current market conditions and expectations.*

TDB submissions to the 2023 IM review regarding what beta measures also align with these other experts, stating that beta measurement in any period reflects actual events and changing perceptions of risk that cause stocks to fluctuate within that period will be measured in beta.[4]

The three-year period adopted by the Commission includes no pandemics, nor does it include any changes in perception of risk that another pandemic will again occur. There are no fluctuations in airport stocks due to pandemics in this period – while pandemic risk existed it remained unchanged and therefore is not measured in beta. Yet TDB now submits that only post-pandemic data excluding these risks is all that is required:

> *The Commission's proposed approach is in line with our suggestion in our cross-submission of August 2023 to the Commission's original draft IM decisions. There, in response to CEG's concerns about a "regulatory quagmire" in future IM reviews, we suggested that the Commission would have adequate post-pandemic data available in future to update its beta and leverage estimates. Although the situation has arisen earlier than expected, the same principles apply: the three years of data the Commission proposes to use in its current updates represent the most relevant and timely inputs for estimating beta and leverage for the current regulatory period.*[5]

These two statements from TDB are inconsistent and do not reconcile. On the one hand, it acknowledges that there must be changing perceptions of risk for those risks to be measured, yet on the other hand advocates for a measurement period where such changes in risk do not occur. These statements taken together – advocate for an estimate that will be biased downward – the very point Dr Lally makes in his submission.

This is not a subjective matter on which reasonable experts can disagree or judgement can be applied. This is a fundamental conceptual issue that entirely underpins the Commission's methodology in the Draft Decision. There is a right answer and a wrong one.

Three experts (CEG, Houston Kemp, Dr Lally) are unequivocal that the Commission's approach is conceptually incorrect, while a fourth has made inconsistent submissions and high-level statements on the matter. This is an error in the Draft Decision, just as there were coding errors in the 2023 IM. It needs to be corrected.

Response to airline calls to remove Airports of Thailand from the comparator set

The airlines call for the Commission to exclude Airports of Thailand from its analysis due to its high asset beta. The result would be an extraordinarily low asset beta of 0.54. It was inevitable that the Commission's decision to apply new filters to select a small and volatile comparator set would encourage debate about which airports should be in and out of the comparator set each time asset beta was estimated.

[4] TDB Advisory "Cross-submission on specific matters for the IM Review 2023 Cost of capital" (report prepared for BARNZ, 7 September 2023), p. 5.

[5] TDB submission on Draft Decision, p. 4

While Auckland Airport disagrees with the filters, it supports CEG's position that they should at least be applied in a consistent manner to the chosen sample period. While this results in the removal of Airports of Thailand it also results in four further airports (three Mexican airports and Malaysia Airports) being added as comparator firms – this is a principled approach true to the filtering methodology the Commission adopted in the 2023 IM. A robust methodology would dictate that Airports of Thailand cannot be removed without including these other airports in the comparator set.[6]

Airline submissions do not take such a principled position – but rather focus on analysis to remove the airport that will further lower the WACC. However, as submitted by CEG the analysis presented by airlines to remove Airports of Thailand does not stand-up to scrutiny.

It is imperative that the Commission does not apply yet another ad hoc and unsubstantiated filter to only remove Airports of Thailand. Doing so would compound the errors in the Draft Decision by driving the asset beta and WACC even lower, further undermining regulatory certainty and investment incentives for critical airport infrastructure.

Response to airline arguments for a lower WACC

BARNZ contends that a WACC of 8.25% delivers an "extremely generous return" for monopoly infrastructure providers. As Auckland Airport explained it is submission, the Draft Decision is more likely to deliver a WACC of 7.46% if other relevant parameters are appropriately updated.

Adopting the 2016 IM as preferred by Auckland Airport would result in a WACC of 8.58%. Auckland Airport strongly disagrees that this would be "extremely generous". To the contrary, it would be the estimate arising from a more robust and accurate method, as supported by all experts aside from TDB Advisory.

Response to airline arguments on RAB multiples

BARNZ also says that Auckland Airport's RAB multiple sitting near 2.0x (Qantas suggests 1.8x) provides the Commission "with clear scope to apply conservative parameters to protect consumers from excessive profits while ensuring an adequate return on capital". It suggests that regulatory settings "are driving airport monopoly owners to over-invest in infrastructure to achieve generous returns".

The problems with suggesting that airport returns are excessive based on RAB multiples above 1.0x have been addressed in previous processes.[7] As ACI's submission notes, RAB multiples are highly sensitive to assumptions and confounded by non-regulated activities, making them an unreliable guide to the adequacy of allowed returns.

It is also well known that RAB multiples will be particularly high during times of large-scale capital investment, when investors factor future revenue growth into the enterprise value. In Auckland Airport's case, we have significant committed and planned investment that is yet to be commissioned into the RAB, yet investors will already be reflecting that investment in their enterprise valuations. A material amount of that capital has already been spent, but it will not be commissioned into the RAB until when the assets are operating and in use, at which time clearly, the RAB multiple will reduce.

Response to airline arguments on RAB growth

Air NZ also suggests that "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". While airlines may want to continue to assert this, there is simply no evidence that Auckland Airport is over-investing. The Commission's own PSE4 report concluded the opposite, describing the capital plan as reasonable.

Auckland Airport is very concerned by the apparent suggestions that the Commission should aim low with its WACC estimate because airports RABs are growing. The opposite should be true, for all of the reasons set out in our submission. If investors are to have confidence to continue to invest following the required

[6] See the Competition Economists Group Report accompanying NZ Airports' submission at page 49.

[7] Dr Tom Hird *Critique of 2023 IM Draft Decision on Asset Beta for NZ Airports* (Competition Economists Group, July 2023).

consultation process with Substantial Customers, it is critical that they can predict the return on that investment with some certainty and not fear arbitrary regulatory change.