

Auckland Airport submission on Targeted Amendments to the Cost of Capital Input Methodologies for Airports – Equity Beta and Related Parameters

Draft Decisions Reasons Paper

16 June 2026

1 Executive Summary

Further to its commitment to the High Court to commence an amendment process to address coding errors in the 2023 Cost of Capital Input Methodology, the Commerce Commission (“**Commission**”) has released a draft decision reasons paper (“**Draft Decision**”) for proposed changes to the WACC Input Methodology (“**IM**”).

However, the Draft Decision makes the coding errors redundant by proposing an entirely new and unprecedented approach to estimating asset beta. A key feature of the Draft Decision is to use a short (three year) post-COVID observation window to estimate asset beta. This appears to be based on a belief that:

- asset beta has changed following COVID, making pre-COVID data irrelevant; and
- the most recent data will accurately incorporate future pandemic risk.

As explained in the expert reports accompanying NZ Airports’ submission, these do not provide valid reasons to use the short period:

- there is no evidence to support a finding that airport asset beta has changed. The lower estimates following COVID say nothing useful about any potential changes in true beta; and
- the notion that the most recent data will more accurately forecast pandemic risk is conceptually wrong.

One impact of the proposed method is to remove all pandemic impacted data and any type of pandemic adjustment. This will produce an artificially low estimate of asset beta and equity beta that is permanently biased downwards. That is because the only data that incorporates pandemic risk will be permanently excluded from asset beta estimates, as though the pandemic never occurred.

In addition to unjustifiably removing pandemic impact from the estimation and using a short estimation window, the Draft Decision:

- uses a COVID impacted period that is not supported by any type of statistical analysis. A properly justified period is materially shorter; and
- does not re-apply the filtering criteria to select comparable airports in line with the short estimation window.

The outcome is a proposed asset beta estimation method that is more unreliable and volatile than the 2023 IM (the Commission’s analysis shows that the standard error has increased).

Auckland Airport is concerned that the Draft Decision represents yet another significant shift in methodology within a short period, without an evidential basis. Following the 2023 IM and subsequent merits review, it was expected that this process would refine the methodology to address the admitted coding areas. The complete replacement of the 2023 IM (making the coding errors irrelevant) so soon after the merits review decision was not expected and is contrary to the purpose of IMs to provide regulatory certainty. The uncertainty and unpredictability in approach is compounded by the Draft Decision’s failure to provide supporting analysis and evidence to justify material changes in methodology. It appears that the Commission has simply changed its mind on these important processes to estimate equity beta and leverage. This undermines the regulatory stability needed to support investment that serves the long-term interests of consumers and attract private capital into nationally significant infrastructure.

Auckland Airport remains of the view that the 2016 IM is the best method to estimate the WACC for regulated airports. It is reliable, consistent and unbiased over time. While the High Court did not agree that it was materially better than the 2023 IM, whether the 2016 IM is materially better than the Draft Decision is a fundamentally different question. Even if the 2016 IM is not adopted, there are several materially better alternatives to the Draft Decision that would give weight to pandemic data, with the 2023 IM itself being the clearest example.

The 2023 IM method could be applied with updated data and coding errors corrected, as outlined in Attachment C of the Draft Decision. This method would restore a longer estimation window and retain a pandemic adjustment. This would better promote both investment incentives under section 52A by being more reliable and accurate than the Draft Decision and promote certainty for regulated airports under section 52R by continuing to stay true to the methodology introduced by the Commission in 2023.

If the Commission remains committed to an approach of excluding pandemic affected data from the estimate, better approaches are available. Data up to June 2026 should be used, the COVID impacted period should be shorter, and pre-COVID data should be used. If the Commission insists on excluding pre-pandemic data, then it should re-apply its comparator sample filters to the new data period.

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2 Importance of a stable framework to provide for an accurate WACC

The Draft Decision risks undermining incentives to invest in long-life infrastructure

The Draft Decision reflects the third fundamentally different approach to estimating equity beta for airports under the cost of capital IM within just three years. The 2023 IM was a significant and unexpected departure from the 2016 IM. The Draft Decision is now another material departure from the 2023 IM that was defended by the Commission in the merits review appeal.

Such unpredictable material change, combined with a willingness to depart from an approach that was rigorously defended in court for two years, with little or no relevant evidence to justify change, significantly undermines regulatory certainty and confidence in the Part 4 regime. The likely impact is twofold:

- Auckland Airport will lack confidence that the regulatory settings will be stable and predictable over the life of any new investment and therefore will be unable to predict returns over the life of the asset; and
- it will be more difficult to access the private sector capital required for investment to take place.

In 2024, Auckland Airport raised \$1.4 billion of equity to fund its infrastructure build, with more than half of this (over \$700 million) from offshore. Since late 2023, Auckland Airport has raised a further \$440 million from foreign debt investors. Accessing foreign debt facilities is crucial for a project of the size Auckland Airport is undertaking. The funding is used to finance capital investment while it is under construction and before the airport can begin recovering the investment from users, which can only occur once it is commissioned for use. Investors expect a fair return on the risk involved in funding the investment during this construction period and provided this capital with the expectation of consistent regulatory settings.

Auckland Airport is an example of the type of investment the Government has said it wishes to attract to address New Zealand's ~\$200 billion infrastructure deficit. It is private capital going towards nationally significant assets that benefit New Zealand's wider economy and social wellbeing through travel, trade and tourism. Auckland Airport supports \$35 billion in economic value per year. With the upgrade currently underway, that economic contribution is expected to grow to \$55 billion.

Airports do face downside risk. In PSE3, which ran between 2017 and 2022, Auckland Airport targeted a return of 6.62% but ended up with an actual aeronautical return of just 3.14%. More recently there has been an around 7% reduction in seat capacity at Auckland as a result of the Middle East conflict. In that context, stable and well justified IMs are even more important to ensure airports can attract the capital necessary to make the investment required to meet the purpose of Part 4 of the Commerce Act.

In short, there is a high risk that the Draft Decision will create outcomes that are contrary to the long-term benefit of consumers. Benefits for consumers are provided over time when businesses have confidence to invest because their return expectations are not prone to frequent and unpredictable regulatory change (unpredictable in the sense of timing and quantum, but predictable in that they are likely to be asymmetric downside interventions).

Auckland Airport maintains its long-standing position that adhering to the 2016 IM would achieve the fairest and most accurate approach over time. Put simply, it would have been better for the Commission to commit to the tried and tested methodology for the long term, instead of seeking

a lower asset beta in the short term at the expense of long-term regulatory stability and predictability.

Investors are concerned and confused by the Draft Decision – this has implications for NZ Inc.

Investors have told Auckland Airport that with all the opportunities they have to deploy capital globally, the stability of the regulatory environment is a key factor in considering their level of participation.

In particular, one investor commented to Auckland Airport that:

“The Commission’s draft Input Methodologies appear to understate Auckland Airport’s true cost of capital by anchoring key parameters to historical, largely offshore comparator datasets that do not fully capture the forward-looking risk profile of a single-asset, geographically concentrated, aeronautical infrastructure provider.

The approach to asset beta, by removing forward-looking risk factors that have become more salient for airports, including geopolitical travel disruptions, airline industry consolidation, and the increasing elasticity of long-haul passenger demand to pricing and economic conditions, also tends to smooth cyclical volatility that dilutes the impact of tail events and structural breaks—precisely the risks that equity investors price most acutely.

Absent adjustments to reflect accurate risk, the Commission’s draft WACC risks undercompensating investors, impairing efficient capital allocation and long-term infrastructure investment”

Investors do not see this change as only an airport-specific issue, but rather it has impacts on the broader infrastructure sector and investing in New Zealand more generally. Their comments demonstrate how important regulatory certainty is to attract private investment and that the uncertainty this check-in has created is already having impacts on how investors view New Zealand as a destination to deploy capital. These impacts are completely at odds with the express priorities of the Government to attract foreign capital to fund new infrastructure.

In particular, another significant overseas investor elaborated further on this point indicating:

“...[the Draft Decision] impacts our view on investment in New Zealand infrastructure assets and with that assets regulated by the Commerce Commission.”

Investors have now seen this Draft Decision shortly following three airport regulatory reviews last year (one of which was conducted without the knowledge of or input from airports). It is difficult to see how this will not further undermine investor confidence in New Zealand as a stable destination to deploy capital.

Indicative WACC reflects other input parameters which are out of date and overstate the WACC today

The Draft Decision includes an indicative post-tax WACC alongside estimates of equity beta, asset beta and leverage. This requires other WACC input parameters to be determined.

The Draft Decision adopts parameters from the Wellington International Airport Limited (“WIAL”) pricing review. Auckland Airport notes that the risk-free rate at that point in time was a particularly high outlier that is well above the current risk-free rate. Relevant parameters were also updated in the Draft Decision released earlier this year for common cost of capital

parameters under the Fibre IM Review. This indicates the debt margin for airports will be lower than under the previous IM.

It is unclear why the Draft Decision adopts parameters that are two and a half years old when there are more recent parameters available. The impact of adopting these obsolete parameters is to materially overstate the mid-point WACC relative to what the WACC is likely to be reflecting more recent market conditions.

Overstating the indicative WACC could easily be misleading for interested parties. As demonstrated in the table below, the Draft Decision has overstated the post-tax WACC by 79 basis points relative to the most recent estimates.

The final decision should present the indicative WACC using the most recent input parameters:

2026 Draft Decision	WIAL Pricing	Most recent parameters	Comments
Risk free rate	5.03% (January 2024)	4.00%	The Wellington pricing decision was based on a risk-free rate from 2 1/2 years ago of 5%. Most recent cost of capital determination was 4%.
Investor Tax Rate	28%	28%	
Asset Beta	0.62	0.62	2026 Draft Decision
Equity Beta	0.873	0.873	2026 Draft Decision
TAMRP	7.00%	7.00%	Fibre IMs Draft Decision
Cost of equity	9.73%	8.99%	
Debt margin	1.18%	0.96%	Change reflects most recent airport WACC determination
Debt Issuance Costs	0.20%	0.20%	
Cost of debt pre-tax	6.41%	5.16%	
Corporate tax rate	28%	28%	
WACC			
Debt to Value ratio	29.00%	29.00%	2026 Draft Decision
Equity to Value ratio	71.0%	71.0%	2026 Draft Decision
Post-tax WACC	8.25%	7.46%	Post-tax WACC is 79 basis points lower under most recent parameters
Vanilla WACC	8.77%	7.88%	Vanilla WACC is 89 basis points lower under most recent parameters

3 Recent High Court decisions relating to input methodologies

The Draft Decision refers to the recent High Court decision on the airports' merits review of the 2023 WACC IM:

Our approach to determining the airport equity beta in the 2023 IMs was challenged through a merits appeal in the High Court. The appellants challenged on appeal our selection of comparator airport companies, the pandemic uplift we made to the pre-COVID asset beta, and the way in which we calculated notional leverage. They also challenged the way in which we proposed to deal with the admitted errors. The appellants were unsuccessful in their appeal, as the Court was not satisfied that any materially better IM would arise if approaches of the type promoted by the appellants (on the comparator firms and/or on the pandemic uplift and leverage time period) were supported by the Court.¹

Auckland Airport acknowledges that the 2023 IMs were largely upheld by the High Court.

While Auckland Airport does not agree with the High Court's decision, it accepted that the 2023 IM had been fully tested using the available accountability mechanism under the Commerce Act. Although Auckland Airport was disappointed that the High Court unduly deferred to the Commission's exercise of judgement and did not fully engage with the conceptual flaws and inconsistencies in the 2023 IM reasons, Auckland Airport was willing to move forward and constructively engage in this amendment process. Auckland Airport understood the process would address the errors while maintaining the 2023 IM framework, in line with the Commission's strong defence of the 2023 IM before the Court and its commitments to the Court and interested parties about what the amendment process would entail. While the Commission kept its options open as to how the errors would be addressed, Auckland Airport did not expect that the Commission would use this amendment process to make the coding errors, the 2023 IM and the High Court decision immediately obsolete.

Auckland Airport sees the merits review process as an important accountability mechanism under Part 4. It provides regulated entities an opportunity to independently test important regulatory rules. Even if parties disagree with the Court's finding (as Auckland Airport did in this case), there is some comfort that important rules have been fully considered and debated, which provides confidence in the integrity and stability of the regulatory settings for the future. The relevance of the merits review process, and the confidence it can provide, is severely tested when the regulator confines the High Court's decision to history so soon after it was delivered.

Rather than allowing the High Court outcome to stand, it appears that the Draft Decision has been motivated by observations the Court made about the usefulness of post-pandemic data. In Auckland Airport's view:

- the expert evidence accompanying the NZ Airports submission comprehensively demonstrates that an estimation approach that only uses post-pandemic data is conceptually wrong and will permanently bias the estimate downwards (in addition to being more unreliable and volatile); and

¹ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026), at para 2.12

- the Court would have expected the Commission to undertake careful analysis before deciding to abandon an approach that had been subject to extensive scrutiny and justification before the Court.

Against that background, Auckland Airport considers that there are some important features of the High Court's decision that are relevant to this amendment process.

First, as illustrated by the following passages, the High Court did not find that the airports' preferred IMs were materially worse than the 2023 IM at meeting the Part 4 purpose. Rather, in the eyes of the Court, the airports had not met the onus of establishing that it would result in a materially better IM:

In particular, the Airports have not satisfied the Court that a comparator set based on the previous methodology rather than the 2023 methodology would result in a materially better estimate for the equity beta, asset beta and/or notional leverage, or a materially better cost of capital overall.²

The asset beta figure for the comparator set is not a simple average of asset betas over the pre-COVID sample period: it has been adjusted to account for the effect of COVID in order to estimate a forward looking asset beta. Similarly, there is no necessary implication that notional leverage should be determined as a simple average across the pre-COVID sample period.¹²⁵ The Commission has exercised judgement in both cases to produce its best estimate of forward looking parameters. We have not been persuaded that an alternative method would produce a materially better IM.³

Given the extent of the pandemic uplift to the asset beta for which the Airports contend on mechanically corrected figures, when considered against the backdrop of the reasonableness check information, it would – as the Court said in similar circumstances in WIAL – be difficult to conclude in light of the overall purpose of Part 4 and of IMs that to allow the appeal on this basis would result in a materially better IM.⁴

The High Court considered that there were further complications in providing relief in any event:

But, even if we had found favour with the Airports' arguments on those issues, a conclusion that a materially better IM would arise, with sufficient certainty as to enable the appeal to be allowed under s 52Z(3)(b), would not readily follow. As we have explained in [97] to [117] above, the Airports do not challenge a particular part of the 2023 Determination as being in error. They do not focus on particular parameters, or methodologies, in the IM itself. Rather, they challenge second-order data points used by the Commission to inform its exercise of judgement as to the estimation of the equity beta and notional leverage parameters.⁵

² *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [213]

³ *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [256]

⁴ *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [272]

⁵ *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [277]

The High Court also considered the issue of regulatory certainty:

[136] It seems to us that, in arriving at the 2023 Determination, the Commission applied the same key economic principles that it had applied in the 2010 and 2016 Determinations, as mentioned in [125] above: ex-ante FCM, allocation of risk, and asymmetric consequences of over and under investment. The detailed implementation of those principles may need to adapt in order to best promote the Part 4 purpose, the IM purpose or both.

[137] Nevertheless, insofar as consistency is concerned, the Commission applied the same methodology for estimating WACC that it had used previously. The methodology explained in [32] above was applied once more: the Commission estimated WACC by weighting the cost of debt and the cost of equity, according to leverage. The cost of equity was estimated using an analytical model for CAPM; the simplified Brennan-Lally CAPM.

[138] Furthermore, the Commission applied the same six-step process to estimate the equity beta component of the WACC estimate.

[139] Accordingly, there is ongoing certainty in the Commission's framework for calculating WACC. And the 2023 Determination as it related to cost of capital set out relevant matters in sufficient detail so that affected suppliers are reasonably able to estimate the material effects of the methodology.¹⁰⁶ Beyond that, the IM regime does not require rigid adherence to discretionary factors and data used by the Commission in calculating the multiple components of the WACC framework. That would be at odds with the Commission's statutory obligation to conduct a review of IMs at least every seven years. Reviews allow for the incorporation of updated data and the refinement of cost of capital parameters to better promote statutory objectives, if the Commission decides that this would be the case.⁶

In summary, the High Court viewed the 2023 IM as a refinement of the 2016 IM. Within the established six-step framework it was open to the Commission, based on evidence and reasoned judgement, to consider adjustments to the comparator set and how to best respond to the impact of COVID on observed data. In those circumstances, it was not satisfied that retaining the 2016 IM would be a materially better approach.

The 2016 IM therefore remains relevant. If there were another merits review following this amendment process, then the question would be whether the 2016 IM (or the 2023 IM) was materially better than the new IM. For the reasons discussed in later sections of this submission, Auckland Airport considers that it will be very difficult to argue that the Draft Decision is a refinement of the established six step process used for the 2016 or 2023 IMs.

First Gas appeal considered alongside the airports appeal

The First Gas merits review decision is also relevant in terms of understanding what can constitute a materially better IM. First Gas successfully appealed that an IM with an uplift to the WACC 65th percentile would be materially better than the mid-point as per the final 2023 IM determination.

⁶ *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at [136]-[139]

The High Court framed its approach to appeals under the relevant purpose statements as follows (Auckland Airport emphasis):

*If the alternative input methodology was materially better **or at least no worse** at meeting the s 52A purpose and was better at meeting the s 52R purpose, the appeal would succeed. If an input methodology was materially better at meeting the s 52R purpose, but was worse at meeting the s 52A purpose, the appeal must fail. Accordingly we first consider whether the proposed amendment would be materially better at meeting the s 52A purpose.⁷*

The High Court was not able to conclude that a higher percentile would be materially better at meeting the section 52A purpose. Equally, it did not find it was worse:

While the case for an uplift in the WACC for electricity networks rests on quite uncertain ground, the case for an uplift for GPBs is, if anything, even more uncertain. However, that does not necessarily imply that there is not a case for an uplift and some data points might suggest a stronger case for GPBs than for electricity lines services. But the evidence rises no higher than suggestions, which might support an uplift but might not. Accordingly, we are unable to be satisfied one way or the other whether an uplift in the WACC to the 65th or the 67th percentile for GPBs would be materially better at delivering the outcomes in (a)–(d) in s.52A for the long-term benefit of consumers than setting the WACC at the mid-point. We simply do not have sufficient information – it may be better or it may be worse for consumers.⁸

This is similar to the airports appeal, in that the High Court found that it could not be satisfied that the alternatives supported by the airports would be materially better. Equally, however, it did not find that those alternatives would be worse.

However, in the First Gas appeal, the High Court found that retaining the 65th percentile would be material better at promoting certainty – i.e. the s 52R purpose, as follows:

If a change would better give effect to the Part 4 purpose, then change is not only justified but required by the statutory framework. It is not, however, appropriate for the Commission to change the input methodologies simply because they have “changed their mind”, without any compelling evidence base or the analysis of that evidence. Such changes can undermine investor confidence in the regulatory regime as a whole, not just for investors in gas pipelines, but also for investors in other sectors subject to Part 4 regulation.⁹

However, this is not 2010 or 2014. By 2023, GPBs had been treated equivalently to electricity lines services for over a decade and investments had been made on that basis. In [56] to [110] above, we have set out in some detail the considerable evidence and analysis that formed a basis for the Commission’s 2014 decision on the WACC percentile. Absent compelling new evidence or analysis that GPBs should be treated differently, the Commission should not

⁷ *First Gas Ltd v Commerce Commission* [2026] NZHC 1224 at [178]

⁸ *First Gas Ltd v Commerce Commission* [2026] NZHC 1224 at [224]

⁹ *First Gas Ltd v Commerce Commission* [2026] NZHC 1224 at [229]

have simply “changed its mind”. As discussed in the previous section, we are not satisfied that such evidence underpinned the Commission’s decision.¹⁰

Therefore, we are satisfied that an uplift to the 65th percentile, treating GPBs equivalently to electricity lines services, better meets the s 52R purpose of the input methodologies to provide certainty to suppliers and consumers and promotes confidence in the Part 4 regulatory system more broadly, which in turn supports investment.¹¹

To summarise, the High Court found that the Commission “simply changed its mind” about whether to apply a percentile uplift. That was because it did not have sufficient evidence to justify this change, so that the alternative IM presented by First Gas that maintained the status quo was materially better at meeting the purpose of providing regulatory certainty (in circumstances where the impact on the section 52A purpose statement was unknown).

This decision essentially puts the onus on the Commission to sufficiently justify changes as being an improvement under the Part 4 purpose statement in order to outweigh the regulatory uncertainty inherent in change. The question for the Commission in this amendment process is whether its proposed changes are sufficiently evidenced and reasoned as to avoid a finding that they will be materially worse and promoting regulatory certainty. While it passed this “test” for the 2023 IM, it should not be comfortable that the Draft Decision will.

Based on the Draft Decision, the Commission is more squarely in the category of having “changed its mind” to the approach it took to determining WACC, rather than providing reasoned and considered evidence and judgement capable of preserving regulatory certainty. Given the weight of expert evidence accompanying NZ Airports’ submission, it is also at risk of a finding that the Draft Decision is worse at promoting the Part 4 purpose.

It is possible that the Draft Decision took comfort from the High Court’s commentary in the airports case about the complexity that arose because asset beta was not in the IM determination itself. That is, the Commission may consider that it has greater discretion to make changes to a “second order” methodology that is not the “first order” equity parameter in the IM determination, especially when it is not proposing to change equity beta.

Such an approach would be wrong. Asset beta (and leverage) is directly relevant to the equity beta in the IM Determination. Equity beta and the WACC percentile are indistinguishable as first order parameters in that respect. Equity beta, by its nature, will move and change over time. This makes the method for estimating equity beta to be all the more important in terms of ensuring certainty. That is not to say that changes can’t be made to the method, but particularly when a methodology is relatively settled, changes to that methodology should be justified by evidence in order to meet the s 52R purpose – especially when the changes appear to be designed to avoid changes in the equity beta.

Accordingly, in the same way that the underlying reasoning and analysis needed to be sufficient to justify a change to the WACC percentile, the underlying reasoning and analysis needs to be sufficient to justify not changing the equity beta. In both cases, in the absence of compelling evidence, the Commission could be accused of simply changing its mind on what the parameter should be.

¹⁰ *First Gas Ltd v Commerce Commission* [2026] NZHC 1224 at [231]

¹¹ *First Gas Ltd v Commerce Commission* [2026] NZHC 1224 at [232]

4 The 2016 IM methodology to estimate equity beta and leverage remains the best approach

Auckland Airport has been consistent in its position that the 2016 IM is the best method to estimate equity beta and leverage (if there is a regulatory commitment to applying it in the same way each time asset beta is estimate over time). A large comparator set with a 10-year data period is the best approach to maximise the probability that the estimates of beta are accurate and unbiased over time. This will promote certainty in regulatory approach and best provide incentives to invest.

The 2023 IM method introduced new volatility in estimates over time due to the introduction of additional filters to select the airport comparator set and the ad hoc pandemic adjustment. It also raised questions about the regulatory commitment to use the method in the future, which reduced certainty of how equity beta would be determined over time.

The new volatility is exacerbated by the Draft Decision, which makes further material methodological changes that will result in a less accurate method and created further uncertainty about the method the Commission will use to estimate equity beta and leverage in the future.

As set out above, while the High Court did not agree that the 2016 IM approach was materially better, it was being compared to the 2023 IM. As is set out in this submission, the Draft Decision and its methods are materially different and worse than the approach adopted in the 2023 IM. The method is less accurate than the 2023 IM and the changes in approach are materially worse at promoting certainty. The evidence set out in this submission demonstrates the flaws in the Draft Decision and shows that both the 2016 and 2023 IM methodologies took materially better approaches.

Auckland Airport does not intend to relitigate the 2016 IM method in any depth. That information has already been well traversed through the 2023 IM consultation and is on the record. We do however make some high level observations as to why the Draft Decision is inferior to the 2016 method.

Comparator set does not reflect systematic risk of New Zealand airports

Later in this submission, we explain why the Commission should re-apply its 2023 IM filters to the post-pandemic data (if it decides to retain that approach to the estimation time period). That should not be taken as acceptance that applying those filters is the correct approach.

Auckland Airport remains of the view that the comparator set selected by the Commission does not reflect the systematic risk of New Zealand Airports. The airports used in the Draft Decision are the same airports that the Commission adopted in its final decision for the 2023 WACC IM.

The following findings by CEG in its report on the draft decisions for the 2023 WACC IMs still hold:

- the airports in the sample reflect lower risk regulatory regimes than airports in New Zealand (section 5.1);
- the airports in the sample have lower underlying demand risk than airports in New Zealand (section 5.2);
- the differences in the size of the airports (section 5.3);

- the downward bias in betas of major airport conglomerates due to global diversification of their operations (section 5.4); and
- the lower gearing of New Zealand airports reflects higher underlying risk (section 5.5).¹²

The latest available data outlined in the table below demonstrates that the majority of the comparator airports in the Draft Decision are companies which own multiple operating airports. This is consistent with the findings of CEG in 2023.

Airport companies owning multiple airports allows for diversification of risk across these airports, which may be dispersed across different geographic locations. In contrast, Auckland Airport is the smallest company in the comparator set – and only has 5% of the total passenger volumes of Aeroports de Paris and AENA. Auckland Airport is clearly the closest comparator to other New Zealand airports from a systematic risk perspective (accepting that noise in individual airport estimates means it should not be relied upon as the sole comparator in the asset beta estimation method).

Company	Number of airports (majority ownership)	Total annual passengers
Hainan Meilan International Airport	1	27 million (2025)
Beijing Capital International Airport	1	71 million (2025)
Aeroports de Paris	26	379 million (2025)
AENA	>70	384 million (2025)
Auckland International Airport	1	19 million (2025)
Airports of Thailand	6	126 million (2025)
Flughafen Zurich	7	46 million (2024)
Fraport	29	184 million (2025)

A materially better IM

A materially better approach would be to revert to the 2016 IM method to estimate equity beta and leverage (i.e. make no adjustment for the COVID pandemic) and use the average of two five-year beta estimates ending 31 January 2021 and 2026. Using the Commission’s proposed sample of eight airports, this results in the following WACC inputs.

Approach	Asset beta	Leverage	Equity beta	Illustrative WACC
2016 IM method to estimate equity beta and leverage	0.79	24%	1.029	8.58%

¹² Dr Tom Hird “Critique of 2023 IM Draft Decision on Asset Beta for NZ Airports” (July 2023) <[NZ-Airports-Association-CEG-Critique-of-2023-IM-Draft-Decision-on-Asset-Beta-for-NZ-Airports-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf](#)>

5 The Draft Decision does not incentivise investment

The Draft Decision does not promote the long-term benefit of consumers because it materially understates a robust estimate of airport mid-point WACC and therefore weakens incentives to invest in long-lived infrastructure. The core problem is not any single method or choice in isolation but is a series of unsubstantiated methodological choices that all bias the estimate downward. This includes the comparator set, pandemic treatment, observation window and leverage assumptions. Taken together, these choices produce a WACC estimate that is a highly speculative and inaccurate forward-looking measure of airport risk.

Comparator set of airports selected using data which has been disregarded in this Draft Decision – the method is internally inconsistent

The comparator set of airports for the Draft Decision has been ‘rolled forward’ from the 2023 IM final decision. However, the filters used to identify the relevant airports have not been re-applied to the new window of observation.

The filters applied to select the comparator set in the 2023 IM were based on data between 2012 and 2022. The Draft Decision indicates that post-pandemic data is now the only relevant data.¹³ However, the filters have not been applied to the post-pandemic data period – meaning that comparators have been decided based on data now deemed to be irrelevant.

As noted by CEG in its submission, this has resulted in a comparator set being chosen that is inconsistent with the stated methodology in the 2023 IM. In particular, if the filters are applied to the new observation window, there are firms that have been excluded from the comparator set that now meet all of the Commission’s criteria for inclusion.

The ‘roll-forward’ of the comparator set to exclude these firms has caused asset beta and equity beta to be understated and leverage to be overstated in the Draft Decision.

[A materially better IM](#)

A materially better approach would be to ‘re-apply’ the filters introduced in the 2023 IM to the three-year observation window that the Commission has adopted. This would ensure the data used in the estimation meets the criteria that has been set by introducing the filters.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
A: As per draft decision, with re-application of filters to data in the 3-year observation window	0.69	25%	0.912	7.89%

¹³ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026) at para 3.41

While this change does not address all problems with the Draft Decision, the improvements in method and the material impact they have on WACC make it a materially better approach than the Draft Decision.

Pandemic risk to airports is not reflected in the Draft Decision as the Commission claims

The Draft Decision only includes three years of post-pandemic data to estimate asset beta and equity beta.

It is difficult to discern the rationale for this approach in the Draft Decision, but it appears to be based on a belief that the pandemic has caused airport asset betas to reduce, such that the historic data is no longer relevant. However, if it were possible to observe changes in asset beta, the complex methods that have been developed to estimate asset beta would be unnecessary. In short, there is no evidence (and cannot be) to support a view that asset beta has changed following the pandemic.

The Commission's approach also appears to be heavily influenced by its view that the post-pandemic data will accurately incorporate investors' (new) expectations of future pandemic risk. That is also a flawed proposition, as discussed below and in CEG's report for NZ Airports.

In the 2023 IM Review, the Commission considered that there was a difference of opinion between TDB Advisory and CEG on what asset beta observations measured. As CEG has clarified in its report, this was not the case. TDB and CEG were saying the same thing but using different terminology.

The Commission agreed with 'the position' of TDB in the 2023 IM review and not CEG's. However, there was no difference of opinion to agree with or not. As CEG notes, it appears to be the Commission that has misunderstood what TDB said in its report. TDB said the following (Auckland Airport emphasis):

*The stock price of any entity – along with its measured beta in any period – will respond **not just to actual events affecting the entity concerned, but also to changing perceptions of risk that could affect the company's performance and prospects** – whether or not such risks actually materialise. For example, defence, transport and other stocks will reflect changing perceptions of the probability of a war over Taiwan, even though no war has occurred to date. Heightened uncertainty and perceptions of risk surrounding a particular stock that cause it to fluctuate more widely – including in relation to the market benchmark – are likely to be reflected in an increase in its beta, again whether or not the actual shocks or other sources of concern eventuate.*

The key term used by TDB is 'changing perceptions of risk'. As clarified by CEG, it is common ground that if investors' perceptions of risk change during a sample period, then that will be reflected in the measured beta estimate.

However, there is no empirical evidence to support a conclusion that the post-pandemic window adopted in the Draft Decision includes any changing perceptions of risk of pandemics for airports. There is no reason why the perceived risk of a pandemic occurring and impacting airport stocks would have increased or decreased during this period – it most likely remained the same.

The Commission appears to have misunderstood what TDB was saying when the Commission stated the following in the 2023 IM final reasons:

*We agree with TDB Advisory's view and consider that a stock's ongoing variation relative to the market will have incorporated the new information about the effects of a pandemic and **prospects of another pandemic occurring**. We consider it is relevant to take into account the evidence that the asset beta of the comparator sample for the year to 30 September 2022 was slightly lower than our estimate of the pre-COVID asset beta, even though we note that asset beta information estimated over a short period should be used cautiously.¹⁴*

There is an important difference here in language. As the Commission notes, the market would be aware of the prospects of another pandemic occurring, which is not in dispute. However, if the market's views on the prospects of another pandemic occurring do not change within the period being measured – i.e. there is no 'changing perception of risk' – then there would be no response in stock prices, and therefore no risk to be measured in the beta observations. Similarly, if there is no actual event to trigger a market response, then there is no stock variation relative to the market to measure.

Put another way, beta estimates from the three-year post-pandemic period are probably the least likely to provide information about how pandemics impact airport beta **because** investors have updated their perceptions of risk following the pandemic.

The Commission's misunderstanding of TDB's submission in the 2023 IM has been carried forward to the Draft Decision. This has resulted in a fundamental error – to consider that the post-pandemic period captures pandemic risk simply because the beta observations occur after the pandemic period.

The Draft Decision also cites the merits appeal decision in support of its approach.¹⁵ Again, there is no dispute that post-pandemic data should be used to estimate asset beta. However, if the Court meant to suggest that post-pandemic data would accurately incorporate pandemic risk, then that suffers from the same misunderstandings as the Draft Decision. Auckland Airport also notes that the High Court observed that a substantial amount of post-pandemic data would be required because a short period would suffer from volatility. We therefore believe that the High Court would have expected the Commission to undertake careful and detailed analysis before deciding to abandon the pandemic uplift method.

The fundamental error in the Commission's understanding of how systematic risk is captured in asset beta estimates did not have a material impact on the 2023 IM as post-pandemic data was not central to the estimate of asset or equity beta and the Flint uplift was applied to pre-pandemic estimates. This was expressly in recognition of the fact that the COVID period data included relevant information about the effect of a pandemic (and investors' changing perceptions of the impact of a pandemic) on airport asset betas. The perceived concern that resulted in the Flint method was that the severity of the event and corresponding impact on asset beta estimates in the historic sample period would have a disproportionate impact on the forward-looking estimate of asset beta given the likely frequency of future pandemics.

However, the Draft Decision heavily relies on this fundamental error and misapplication of economic theory – it underpins the basis for the Commission's measurement of equity beta. It

¹⁴ Commerce Commission "Cost of capital topic paper Part 4 Input Methodologies Review 2023 – Final decision" (13 December 2023), at para 4.198

¹⁵ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026), at para 3.20

results in an estimate of asset beta that completely excludes data that was previously acknowledged to include valuable information about pandemic risk, and pre-COVID data that includes information about numerous other events that impact on airport systematic risk. The result is a materially more unreliable and volatile asset beta estimate (evidenced by the higher standard error of asset beta).

A materially better IM

A materially better approach would be to continue to use pre-pandemic data and to apply a pandemic adjustment to ensure that pandemic risk is captured in the estimate of airport asset and equity betas. This approach is outlined in Attachment C of the Draft Decision.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
B: As per draft decision Attachment C – updated calculation of the pandemic adjustment method	0.71 (midpoint of 0.69-0.73 (rounded))	26%	0.959	8.05%

While this change does not address all of the problems with the Draft Decision, the suggested improvements in method and the material impact they have on WACC make it a materially better approach.

The pandemic window assumed by the Commission is too long, making the observation window too short

The Draft Decision adopts a pandemic window that is too long, meaning too much data is excluded. The period chosen is not supported by robust evidence. As noted in CEG’s report, statistical tests indicate that equity beta estimates were no longer impacted by the pandemic from December 2020.

A materially better IM

A materially better approach would be to only remove data from the observation window that has been statistically proven to be impacted by the pandemic. As per the report from CEG, Flint (2023) adopted calendar year 2022 onwards as a conservative estimate of the post-COVID period, rather than 2023.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
C: As per Draft Decision, COVID-pandemic window ends 31 December 2021 (consistent with Flint 2023)	0.70	28%	0.978	8.05%

While this change does not address the other shortcomings of the Draft Decision, the suggested improvements in method, and the material impact they have on WACC, make it a materially better approach.

A three-year window to estimate asset beta is too short for accurate beta estimation

As the Commission notes, it is not standard practice to estimate equity beta based on a three-year window:

We acknowledge that the use of three years of data differs from our standard practice of using data over longer periods.¹⁶

Standard practice since 2010 has been to adopt a ten-year estimation window. This standard practice has been adopted for good reason – it gives a more accurate estimation than shorter time periods provide. This was modified in the 2023 IM to become a 13-year pre-COVID window.

This approach was designed to strike a balance between using more recent data that could provide a better estimate of forward-looking risk, while not using a period that was too short with a limited number of asset beta observations. The Commission's stated reason for departing from this approach is that asset beta appears to have decreased and leverage increased in the post-COVID period. If that amounts to a suggestion that more historic data is no longer accurate, then there is no empirical basis for that conclusion. The estimation process is required because asset beta, and changes in asset beta, cannot be observed. The risk that asset beta has changed and old data will no longer provide the best estimate has always been a potential trade-off in the 10-year approach – where part of the reason for not relying on a short period is that it is not known whether it represents a more accurate estimate of the forward-looking beta. In short, the Commission has not identified a valid reason for changing its approach.

CEG sets out in its submission that three-year estimation windows provide more volatile estimates – the outcome can change materially when the period of observation moves by just a few months. This compares to ten-year estimation windows where estimates are more stable over time, giving more reliable estimates because the start and end dates of the observation window do not materially impact the estimation. Such volatility does not support estimation of an accurate forward-looking beta.

The three-year window adopted in the Draft Decision is a material outlier on the downside

Given that three-year estimation windows can be inaccurate due to their volatility and sensitivity as to when the estimation window starts and ends, this can cause anomalous results depending on the start and end dates selected.

As noted by CEG in its report for NZ Airports, the estimation window adopted in the Draft Decision is at the 2nd percentile of all three-year window beta observations since 2004 – even when pandemic impacted data is excluded.

Such an outlier in historical terms cannot provide an accurate forward-looking estimate of systematic risk. If there were further evidence and analysis that supported such an outlier being used, then perhaps this could be adopted. However, the Draft Decision is not supported by any such evidence.

A materially better IM

A materially better approach would be to have a ten-year observation window using pre-pandemic data, rather than just three years post-pandemic.

¹⁶ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026) at para 3.39

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
D: As per Draft Decision, ten-year observation window (Feb 2016- Jan 2026) COVID data excluded	0.64	24%	0.839	7.56%

This one change on its own does not address the other shortcomings of the draft decision. In particular, the asset beta of 0.64 would change if the COVID impacted period was properly identified and more recent data was used (up to May 2026, as discussed below). However, it would be an improvement on the approach from the Draft Decision.

Exclusion of most recent data excludes most recent shock

The Draft Decision ends the sample period at 31 January 2026. It is now June 2026, and a final decision is not expected to be released until later this year. Given the extremely short sample period, the timing of when the Commission’s observation window ends has a material impact on asset beta (another illustration of the volatility in the method). The Draft Decision excludes the impacts on the market from the recent Middle East conflict, which has led to significantly inflated jet fuel prices and at Auckland Airport, seat capacity has been reduced by around 7% compared to what it was prior to the outbreak of the conflict. At this point, the duration and full impact of the conflict remains unknown.

Auckland Airport appreciates that there must be an end-point to the data observation window. However, ending data observations in January 2026 excludes yet another shock event that reflects the systematic risk faced by airports.

A materially better IM

A materially better approach for the final decision would be to include data observations up until the end of June 2026, to include observations related to the Middle East conflict. This will also incorporate more recent data and allow the Commission to extend the length of its post-pandemic observation window.

Based on data available until the end of May which is the most recent at the time of submission, the impacts on WACC IM parameters are outlined in the table below.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
E: As per Draft Decision, observation window extended to May 2026	0.63	29%	0.896	7.55%

This one change on its own does not address the other short-comings of the Draft decision, which include the exclusion of pandemic risk, and the misapplication of the Commission’s filters to arrive at the comparator set. However, this approach would be an improvement on the Draft Decision.

6 The Draft Decision does not provide certainty for consumers or regulated airports

The Draft Decision is inconsistent with the section 52R purpose of providing regulatory certainty to suppliers and consumers. While airports accept that estimated WACC parameters will change over time as market data changes, certainty depends on the stability, coherence and internal consistency of the methodology used to estimate those parameters. This is particularly the case when the true value of the parameter cannot be observed – the estimation method must provide confidence that it is robust and accurate and will be applied consistently over time. The concern, therefore, is that the Commission has altered important parts of its established six-step process without sufficient evidence or justification.

The Commission's changing approach to comparator selection, estimation windows and treatment of pandemic risk undermines predictability in the regulatory framework. The High Court's reasoning in *First Gas* confirms that the Commission cannot simply "change its mind" on important methodological settings without a compelling evidence base, especially where those changes affect investor confidence in long-lived infrastructure.

A materially better IM would therefore retain a consistent and logically explained approach or depart from prior practice only where robust analysis demonstrates that doing so is likely to produce a more reliable and accurate beta estimate – and therefore better promotes both regulatory certainty and the long-term benefit of consumers.

The Commission's six step process

The Commission has consistently applied a six-step process to estimate equity beta across regulated industries:

In the 2016 IM Review we applied a six-step process to estimate the equity beta. We followed the same process when estimating the equity betas for the Fibre IMs in 2020. As this process has not been disputed in submissions, and we have not identified any reason to change, we have continued with the same process in this review.¹⁷

The six steps identified by the Commission are:¹⁸

- Step 1: Identify a sample of relevant comparator firms;
- Step 2: Estimate the equity beta for each firm in the sample;
- Step 3: De-lever each equity beta estimate to get an estimated asset beta for each firm in the sample;
- Step 4: Calculate an average asset beta for the sample;
- Step 5: Apply any adjustments for regulatory differences or differences in systematic risk across services to the average asset beta for the sample;

¹⁷ Commerce Commission "Cost of capital topic paper – Part 4 Input Methodologies Review 2023 – Final decision" (13 December 2023) at para [4.54]

¹⁸ Commerce Commission "Cost of capital topic paper – Part 4 Input Methodologies Review 2023 – Final decision" (13 December 2023) at para [4.54]

- Step 6: Re-lever the average asset beta for the sample to an equity beta estimate using the Commission's assumed notional leverage.

This is a detailed and complicated methodology that the Commission has established to estimate equity beta. Some steps in the process are more complex than others, requiring a number of choices or decisions to be made. Each step can be consulted on in detail with interested parties including regulated suppliers. This demonstrates the importance of the methods employed at each stage to estimate equity beta.

Certainty of methodology to estimating equity beta

If these methods change without good reason or justification, regulatory certainty is undermined. Regulated airports understand that the equity beta estimate will change between IMs. The data collected in the six step process changes over time, so it would be unusual if the equity beta did not change – up or down.

What regulated airports value in terms of regulatory certainty is the predictability, certainty, stability and internal consistency of the reasons and methods used to estimate the equity beta. Regulatory consistency is how airports can best anticipate how their price-setting decisions will be assessed by the regulator and make decisions accordingly.

The same principles that underpin the *First Gas* merits review apply. The parameter chosen for inclusion in the IM Determination must be supported by rational evidence and analysis. The *First Gas* appeal was successful because the percentile changed without any supporting analysis or evidence. Similarly, any change in the equity beta must be supported by rational evidence and analysis. Conversely, given that equity beta is expected to change over time, it is equally problematic if underlying methods are changed without supporting evidence so that the equity beta can remain the same. It is incorrect to suggest that if the parameter in the IM determination does not change, then the Commission is free to simply change its mind on the methods that determine that parameter. The High Court accepted in the airports merits review that the reasons underlying a parameter were important to a qualitative consideration of whether an alternative parameter would be materially better. Further, “the poorer the Commission’s reasons for determining the fixed parameters for equity beta and leverage, the more likely it is that even a small quantitative difference in those fixed parameters could be considered to result in a materially better IM”.¹⁹

In all cases, sound reasons and methods used to determine a parameter in an IM determination are fundamentally important to regulatory certainty promoting confidence in Part 4 regulation over time – and through that supporting investment and innovation that promotes the long-term benefit of consumers.²⁰ The absence of well justified and evidenced reasons and analysis to support a change in the methodology and approach for any of the six steps to estimate equity beta undermines regulatory certainty – and therefore undermines incentives to invest.

Step 1: There is no certainty as to the process or method to identify a set of relevant comparator firms

The 2010 and 2016 IMs both adopted an approach with limited filters for selecting the comparator set of airport companies. It became known as the “large comparator sample”

¹⁹ *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at paras [100]-[103]

²⁰ *New Zealand Airports Association Inc v Commerce Commission* [2025] NZHC 239 at para [103]

because the idea was to include as many relevant comparator airports as possible. There was relative certainty up until the 2023 IM when the Commission fundamentally changed its approach.

Despite the 2023 IM approach to comparator selection not being overturned by the High Court, the Draft Decision proposes a further departure from the approaches in 2010, 2016 and 2023. It proposes to simply 'roll forward' the comparator set of companies from the 2023 IM decision, so that the filters developed for the 2023 IM are not applied to the new sample period.

2010 IM

The precedent of applying limited filters to obtain a large comparator set was first established when the 2010 IMs were determined. In the draft reasons paper for the 2010 IM, the Commission estimated an airport asset beta that was based on a sample of ten airport companies:

The only New Zealand airport that is listed on a stock exchange is AIAL. The Commission therefore included nine international overseas firms that operate airports in its sample of comparable firms.²¹

The Commission changed its approach in its final decision, in response to submissions from airlines that considered asset beta was too high because the sample of ten airport companies was too small. Airlines submitted that the sample should be broadened to produce a lower asset beta estimate:

*Air NZ and BARNZ were concerned about the asset beta estimate provided by the Commission **considering it was too high**, and that therefore it would overstate the cost of capital for airport services²²*

***SFG (for Air NZ) increased the size of the comparator sample (from that used by the Commission in the Draft Reasons Paper).** Using the same approach as outlined by the Commission SFG concluded that the Commission's estimate of beta was overstated and that a more appropriate asset beta value was in the order of 0.50.²³*

Having considered this feedback, in the final decision for the 2010 IMs the Commission expanded its sample set, using criteria only to remove companies that were considered to be too small in value (for the potential effect of thin trading volumes), or had limited trading history.²⁴ In total, 25 airport companies were included in the sample.²⁵

2016 IM

The same approach was carried forward to the 2016 IM, where 26 comparator companies were included in the sample. As was noted by the Commission during the 2016 IM Review:

²¹ Commerce Commission "Input Methodologies (Airport Services) - Reasons paper" (December 2010), at para 6.9.10

²² Commerce Commission "Input Methodologies (Airport Services) - Reasons paper" (December 2010), at para E.8.24

²³ Commerce Commission "Input Methodologies (Airport Services) - Reasons paper" (December 2010), at para E.8.27

²⁴ Commerce Commission "Input Methodologies (Airport Services) - Reasons paper" (December 2010), at para E8.43-44

²⁵ Commerce Commission "Input Methodologies (Airport Services) - Reasons paper" (December 2010), at Table E18

The first step in our process is to identify relevant comparable firms for inclusion in our sample. We have followed largely the same approach to identifying the comparators for our sample as we did for the 2010 IMs.

To identify relevant comparable firms for inclusion in the sample, we used Bloomberg's security finder to search for firms with 'Airport' in the description. In 2010, on the other hand, we used the 'Airport Development/Maintenance' and 'Transport – Services' ICBs to identify airports for our sample – however these classifications appear to no longer exist.

We then used Bloomberg company descriptions and 'Segment Analysis' information to assess the nature and extent of each company's business, and excluded any firms from the sample that we did not consider were sufficiently comparable. Consistent with our 2010 decision, we have also only included companies that had at least five years of trading data, and a market value of equity of at least US\$100m

This resulted in a sample of 26 firms.²⁶

New Zealand Airports supported maintaining the established approach to selecting the comparator set.²⁷ Auckland Airport supported this submission because maintaining a consistent approach over time promoted regulatory certainty and confidence in regulation under Part 4.

2023 IM

New and unprecedented filtering criteria for the comparator sample were introduced in the 2023 IM. These additional criteria removed many of the comparator airport companies that were included in the 2016 IM. This came to be known as "the small comparator sample".

The new filters introduced

One new filter was based on negative leverage and another was to remove firms based on liquidity:

Given our concerns about some of the firms using negative leverage to offset risks specific to their particular market (even outside of the COVID period), we have decided to restrict the sample to firms with positive leverage over the pre-COVID period. We also consider it appropriate to remove firms that are relatively illiquid. This removes 11 firms to leave a sample of 13.²⁸

The decision to remove firms with negative leverage was a fundamental change in the methodology previously used to determine asset beta.

A further filter based on country risk classification was applied, with a further two firms removed from the sample:

²⁶ Commerce Commission "Input methodologies review decisions Topic paper 4: Cost of capital issues" (December 2016), at paras [460]-[463]

²⁷ NZ Airports Association "Submission on Commerce Commission's input methodologies review draft decision" (August 2016) at para [155]

²⁸ Commerce Commission "Cost of capital topic paper Part 4 Input Methodologies Review 2023 – Final decision" (December 2023), at para [4.157]

GMRI on the basis of its high country-risk premium and country classification as secondary emerging.²⁹

Malta International Airport on the basis of its country classification and asset beta reliability.³⁰

There was a final filter to remove two firms based on asset beta variability:

*There was criticism in submissions that we should not use country risk premium as an indicator because a firm's asset beta is relative to the market it is traded on, and all markets have an average equity beta of 1.0. This is a reasonable point. However, **we are also endeavouring to establish a sample that can be used to understand the effects of the pandemic**, and firms in countries that are not classified as developed or advanced emerging tend to have greater volatility in their asset beta estimates. Instead of using country risk premium, it may be more appropriate to remove firms with relatively high beta variability. On this basis, there are grounds for excluding the firms from Malaysia and Mexico, and we have decided to do so.³¹*

Rationale for introducing new filters – the pandemic

CEG opined on the application of these filters and concluded that, despite the Commission's assertion, they had not been introduced as a reasoned response to the COVID-19 pandemic (given that COVID impacted data was removed from the sample period) but rather reflected an unrelated change in approach from the Commission:

The first and second steps remove 11 out of 24 firms. This is due to a change in sample selection criteria that cannot be (and was explicitly stated not to be) specific to the COVID-19 period (and would be illogical if it was given that no data from this period was used to estimate the pre-COVID asset beta).³²

These additional 4 exclusions reduce the sample from 13 to 9 firms. None of the rationales for these exclusions are based on the sample needing to change in response to COVID-19.³³

The reference to "a sample that can be used to understand the effects of the pandemic" is a non-sequitur because the NZCC does not use the final sample of 9 firms to estimate the effect of the pandemic. The NZCC only uses AIAL's data to estimate the impact of the effect of the pandemic. Including or excluding Malaysia and Mexico from its final sample would have no impact on the NZCC's estimate of the effect of the pandemic. Excluding firms with

²⁹ Commerce Commission "Cost of capital topic paper Part 4 Input Methodologies Review 2023 – Final decision" (December 2023), at para [4.160.1]

³⁰ Commerce Commission "Cost of capital topic paper Part 4 Input Methodologies Review 2023 – Final decision" (December 2023), at para [4.160.2]

³¹ Commerce Commission "Cost of capital topic paper Part 4 Input Methodologies Review 2023 – Final decision" (December 2023), at para [4.163]

³² Competition Economists Group "Treatment of systemic and asymmetric risk in NZCC PSE4 consultation paper" (August 2024), at para [34]

³³ Competition Economists Group "Treatment of systemic and asymmetric risk in NZCC PSE4 consultation paper" (August 2024), at para [36]

“relatively high beta variability” from the sample used to estimate the pre-COVID-19 asset beta can have no rationale link to the experience of COVID-19 (which was completely excluded from the pre-COVID-19 asset beta estimate).

In summary, the new criteria adopted in the 2023 IM were open to the NZCC to apply in the 2016 IM and would have had a similar effect at that time. The NZCC did not adopt those criteria at that time.

Of course, it is true that:

- *the effect of the NZCC’s 2023 decision to apply new selection criteria is to lower the estimated pre-COVID estimated asset beta (relative to the 2016 IM sample selection method) by around 0.08³⁴*

The fact that none of the filtering criteria have any logical connection to understanding or mitigating the impact of COVID-19 was inconsistent with the Commission’s stated reasoning for introducing the additional filters. The Commission noted in the 2023 IM cost of capital topic paper (Auckland Airport emphasis):

Our view is that the spike in airport asset betas caused by COVID was an important reason for reconsidering how we establish the comparator sample. *When we reviewed our 2016 sampling method, we concluded that we should apply a more rigorous consideration of comparability before accepting firms in the sample. As a result, we reconsidered our approach and applied a stronger liquidity filter, removed firms that appear to be using negative leverage to offset their high business risk, and removed firms that have market comparability concerns and statistical noise in their beta estimates. Including these firms would have made it more difficult to understand the effects of the pandemic on beta and more challenging to determine the most likely value of beta to apply for the term of the IMs.³⁵*

The 2023 IM undermined certainty

To summarise the above, the 2023 IM sought to justify a change in approach to constructing the set of comparator airports because of the pandemic impact on asset beta estimates. However, there was no logic to this rationale because:

- the specific reasons for introducing filters had no direct link to the pandemic – these filters were introduced for other specific reasons (e.g. concern over asset beta variability); and
- pandemic observations were excluded and adjusted for via an uplift. With pandemic observations removed the stated logical need for new filters fell away.

Put another way, the Commission did not make the changes to its approach because of the pandemic. It cited other reasons. Those reasons applied equally in 2016 as they did in 2023. Even if the pandemic was a valid reason to apply new filters to impacted data, the Commission had excluded pandemic data from its baseline asset beta estimate.

³⁴ Competition Economists Group “Treatment of systemic and asymmetric risk in NZCC PSE4 consultation paper” (August 2024), at para [38]-[40]

³⁵ Commerce Commission “Cost of capital topic paper Part 4 Input Methodologies Review 2023 – Final decision” (December 2023) at para [4.177]

This unsound reasoning in the 2023 IM undermined the certainty of the IMs.

2026 Draft IM

The Draft Decision 'rolls forward' the same comparator set from the 2023 IM. The reasoning for this approach is as follows:

There is no other new information that we are aware of that would cause us to revisit the comparator set that was formed in the 2023 IM review.

Our draft decision is to use the comparator set that was formed for the 2023 IM review but exclude Sydney Airport.³⁶

Auckland Airport considers that this approach undermines regulatory certainty for two main reasons:

- it is yet another change in the method to construct the airports comparator set – this will be the second IM in a row where the method to select the comparator set has changed without a coherent rationale; and
- internally inconsistent reasoning in the IM decision does not give suppliers certainty in the approach the Commission will take.

Change in method in the Draft Decision

For the 2023 IM a set of filters was applied to the period of data that was being used to estimate equity beta (as was set out in step 4). By simply rolling forward the list of comparator airports from the 2023 IM (and removing one company which is no longer listed) the Draft Decision is effectively adopting a new method.

The problematic nature of this approach can best be demonstrated using the filter for negative leverage:

Our task is to estimate the systematic risk for airports in New Zealand. If some firms overseas are faced with high business risk and are using negative leverage to partially offset this risk (particularly where this occurs outside of the pandemic period), then those firms are unlikely to be reasonable comparators for New Zealand airports.³⁷

If this is the task for the Commission, then it also follows that airports without negative leverage are suitable comparators. Further, if the filters are designed to improve the comparability of the data used to derive an asset beta estimate, then the filters must be applied to the period of data that is being used to derive that estimate.

Reasoning to support change in approach is internally inconsistent

The Draft Decision's proposal not to revisit the comparator sample is inconsistent with the reasoning elsewhere in the Draft Decision (Auckland Airport emphasis):

³⁶ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026) at para 3.12

³⁷ Commerce Commission "Cost of capital topic paper – Part 4 Input Methodologies Review 2023 – Final decision" (13 December 2023) at para [4.136]

On this basis, we consider this draft decision should take into account updated data which reflects current market conditions and expectations, rather than a mechanistic correction of the errors in the 2023 code. We consider that basing this draft decision on all the information currently available to us will result in a materially better decision, for the long-term benefit of consumers, than using only the data available in 2023.³⁸

On the one hand, the Commission has not updated the application of its filters to reflect updated data, yet on the other hand the Commission considers that the Draft Decision should take into account updated data to reflect current market conditions. This lack of internally consistent logic undermines regulatory certainty.

A materially better IM

An IM materially better at promoting regulatory certainty would maintain a consistent approach over time and be based on logical and internally consistent reasoning. This could be achieved by updating the method to obtain the company comparator set in the 2023 IM.

While the 2023 IM itself undermined regulatory certainty, further changes in the approach now would erode that certainty even further – to the point where there is no predictability in how the regime will apply in the future. The regulatory uncertainty is compounded by that fact that the High Court accepted the 2023 IM approach for selecting the comparator sample.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
A: Adopt the 2023 comparator set selection method - re-application of filters to data in the three-year observation window	0.69	25%	0.912	7.89%

The above approach is not meant to suggest that the three-year estimation window is appropriate. It simply demonstrates that a consistent approach to application of the 2023 IM filters alone would be materially better at promoting certainty. That small change would also result in a material impact on leverage and equity beta and WACC, demonstrating the inaccuracy and volatility concerns with the Draft Decision.

Step 4: There is no certainty of process for how the Commission will calculate an average asset beta for the sample

The Draft Decision proposes an approach under step 4 that materially departs from previous practice. The impact of these departures is material and the reasons for the changes have not been sufficiently justified with evidence.

The two issues are the duration of the estimation sample period and the application of a pandemic adjustment.

³⁸ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026) at para [3.22]

Time period

The Draft Decision uses an estimation window of three years (to January 2026) to calculate an average asset beta for the comparator set. This short window departs from previous practice for airports and current practice for all regulated industries in New Zealand.

2010 IM

In 2010, the Commission noted the benefits of a longer observation period in the draft IM reasons paper:

While the UK Competition Commission used one year worth of weekly observation covering the period July 2006 to July 2007, the Commission used five years' worth of monthly data covering the period September 2004 to September 2009.

The Commission considers that its estimates are, at this point in time, more informative than those of the UK Competition Commission. This is for two reasons. First, the Commission's estimates cover a greater period of time (five years versus one year) and use a longer periodicity (monthly observations versus weekly observations). Covering a longer time period and using a greater periodicity reduces the standard error of the beta estimates, which can be considerable.³⁹

The Commission recognises the significance of this aspect of the cost of capital when applying the simplified Brennan-Lally CAPM, and has sought to mitigate the effects thereof, at least to some extent, by adopting a level of notional leverage for each regulated service that reflects the sample of international firms that were analysed to estimate beta for the respective regulated service. This will be discussed in further detail in Section E3 on leverage.⁴⁰

In the final reasons paper, the Commission used a methodology that took the average of rolling five-year observation windows:

Therefore, for each firm in the sample of comparable firms, the Commission obtained from Bloomberg the unadjusted equity beta estimate, the standard error of the estimate and the reported average leverage, for the following periods and observation intervals:

- five year period to 31 May 2005 using weekly and monthly observations;
- five year period to 31 May 2006 using weekly and monthly observations;
- five year period to 31 May 2007 using weekly and monthly observations;
- five year period to 31 May 2008 using weekly and monthly observations;
- five year period to 31 May 2009 using weekly and monthly observations;

³⁹ 2010 IM draft decision at paras 6.9.28-29.

⁴⁰ Commerce Commission "Input Methodologies (Airport Services) - Reasons Paper" (December 2010) at para [E2.71].

· five year period to 31 May 2010 using weekly and monthly observations.⁴¹

These windows included the Global Financial Crisis. This economic shock did not cause the Commission to shorten or apply smaller observation windows. Nor did it cause a shorter overall observation window to be used. The approach used included observations that covered a ten-year period.

2016 IM

In the 2016 IM, only five-year observation windows were considered:

The time periods and observation frequencies considered are:

469.1 the five-year period to 31 March 2001 using daily, weekly and four-weekly observations;

469.2 the five-year period to 31 March 2006 using daily, weekly and four-weekly observations;

469.3 the five-year period to 31 March 2011 using daily, weekly and four-weekly observations; and

469.4 the five-year period to 31 March 2016 using daily, weekly and four-weekly observations.⁴²

The approach to use five-year observation windows was consistent across airports and other regulated sectors. The Commission ultimately used the two most recent five-year windows of observations – a total of ten years of observed data to inform its estimates.

2023 IM

For the 2023 IM, the pre-COVID asset beta was based on two five-year periods, plus one shorter two years and seven months window prior to the pandemic.⁴³ While this was a deviation from the standard ten-year observation window adopted in 2016, the principle of adopting at least ten years was broadly consistent.

2026 draft IM

The Draft Decision moves to a three-year post-COVID observation window. This is completely inconsistent with the precedent set by the Commission across airports and other regulated industries to adopt at least ten years of observations of comparable company data.

There is no robust analysis or evidence to support the adoption of a three-year window. The limited reasoning included in the Draft Decision is misconceived.

⁴¹ Commerce Commission "Input Methodologies (Airport Services) - Reasons Paper" (December 2010) at para [E8.48]

⁴² Commerce Commission "Input methodologies review draft decisions - Topic paper 4: Cost of capital issues" (16 June 2016) at para [469]

⁴³ Commerce Commission "Cost of capital topic paper – Part 4 Input Methodologies Review 2023 – Final decision" (13 December 2023) at Table 4.4

Flawed conceptual reasoning is used to support the adoption of a three-year window

The Draft Decision relies on flawed reasoning for the adopted three-year window. There are two key issues:

- the decision to disregard pre-pandemic estimates; and
- when the pandemic impact on beta estimates ends.

The decision to disregard pre-pandemic estimates

The Draft Decision offers limited justification for disregarding pre-pandemic data (Auckland Airport emphasis):

We are satisfied that the post COVID data has settled sufficiently for us to be confident that it represents appropriate beta values going forward, and this view has been validated by our reasonableness checks against estimates by market analysis and other regulators.⁴⁴

However, we prefer to place most weight on post-COVID-19 data because it appears that there has been an increase in leverage and a decrease in the asset beta for airports in the post-COVID-19 period. It is unclear what is driving this reconfiguration in leverage and asset beta, but it may be that investors and financiers consider demand is resilient to shocks, lessons learned from COVID-19 will be applied in future, and government support has reduced business risk.⁴⁵

An increase in leverage and a decrease in the asset beta results in a reduction to WACC. The passage above effectively says that the Commission prefers placing the most weight on post-COVID data because it will reduce the WACC.

While far from clear, the Draft Decision might be asserting the asset betas of airports have changed since COVID, so that estimates of asset beta using pre-COVID data will not be reliable. The problem with this assertion (if it is being made) is that it is completely unsupported by empirical evidence. There is nothing to suggest (and certainly no evidence cited in the Draft Decision) to support a conclusion that airport asset beta has changed.

This is reflected by the Draft Decision being entirely speculative and unclear about what is causing the lower *estimated* asset beta and leverage.

Accordingly, it is highly concerning that the Draft Decision adopts this preferred outcome. It demonstrates a clear bias in this Draft Decision to reduce the airport WACC instead of following a method that promotes regulatory certainty and the long-term benefit of consumers.

Finally, we note that the Draft Decision says it prefers to 'place most weight' on post-pandemic data when it has in fact placed all weight on post-pandemic data. No pre-pandemic data has been considered in its Draft Decision.

⁴⁴ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026) at para [3.23]

⁴⁵ Commerce Commission "Targeted amendments to the Cost of Capital Input Methodologies for Airports – equity beta and related parameters: Draft decisions reasons paper" (19 May 2026), at para [3.41]

Determining when the pandemic impact on beta estimates ends

The analysis presented in Table 3.3 of the Draft Decision to identify the end date of the pandemic does not withstand scrutiny. The use of annual windows to estimate asset beta is highly volatile. The assertions (without any detailed or supporting analysis) to explain variance in these yearly estimates, particularly the Omicron variant of COVID explaining an elevated asset beta in the year ended January 2023, do not stand up to scrutiny.

Analysis presented in Table 3.4 does not provide any information to indicate when the pandemic stopped impacting asset beta. Rather it is a mechanical result from averaging the pandemic shock across longer and longer observation windows. It provides no insight as to when the pandemic stopped impacting beta estimates.

CEG has undertaken analysis to answer these questions in its report for NZ Airports. CEG's findings, supported by statistical analysis, demonstrates that a much shorter pandemic window is required. This includes statistical tests which identify that the structural break in the observations falls within August and December 2020. These findings are broadly consistent with those of Flint in its work for the UKCAA which found the pandemic impact on betas ended in November 2020.

The estimated asset beta using a three-year window is an outlier. As noted by CEG in its report for NZ Airports, the estimation window adopted in the Draft Decision is at the 2nd percentile of all three-year window beta observations since 2004 – even when pandemic impacted data is excluded. Such an outlier in historical terms will not provide an accurate forward-looking estimate of systematic risk.

A materially better IM

In the absence of coherent evidence and analysis to support the change, the Commission is at risk of being found to have simply changed its mind on the appropriate estimation window for estimating asset beta, equity beta and notional leverage for airports. This approach, if carried through to the final decision, would undermine the s 52 R purpose of the IMs and not provide regulatory certainty.

Materially better approaches to the estimation window would include:

- adopting a ten-year (or potentially longer) estimation window (pandemic data excluded), consistent with other regulated industries and the Commission's previous approach for airports;
- adopting a long-run estimation window of all data available back to March 2004 (excluding pandemic data); or
- adopting a ~4.5 year estimation window commencing from 1 January 2022 when the pandemic impact on betas ended as per the Flint COVID period, detailed in CEG's statistical analysis.

The impacts of these approaches are outlined in the table below. While they all suffer from the shortcoming of excluding pandemic impacted data and, in the case of options D and F, using a pandemic period that is too long, they are still materially better than the Draft Decision.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
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D: As per Draft Decision, ten-year observation window (Feb 2016- Jan 2026) COVID data excluded	0.64	24%	0.837	7.56%
F - Long-run window (March 2004)	0.66	23%	0.849	7.67%
G - ~4.5 year window commencing 1 January 2022, ending May 2026	0.70	28%	0.975	8.02%

Pandemic adjustment discontinued

The 2023 IM decision applied a pandemic uplift to a non-COVID estimate to provide weight to the risk of future pandemics. That is, the COVID impacted data was used in a reweighted form. This uplift has been removed in the Draft Decision. The reasoning for doing so is flawed and does not substantiate the change in method, undermining regulatory certainty.

2023 IM

The 2023 IM method reflected that estimates of asset beta using pre-pandemic data would not include new information about pandemic risk. This is summarised in the Commission’s final reasons:

In the draft decision, we applied judgement in determining the airport asset beta by placing most weight on (a) the pre-COVID beta with an added premium and (b) the asset beta for the 12 months to September 2022. Table 4.4 presents this data, updated for our recommended revision to the comparator sample, in comparison to the values used in the draft decision and in the current IMs.

We consider that the starting point is the pre-COVID asset beta of 0.63 and that an adjustment to this value should account for the estimate of the pandemic premium of 0.02 to 0.08, which indicates a range of 0.65 to 0.71.⁴⁶

2026 draft IM

The Draft Decision removes the pandemic adjustment and relies on post-pandemic beta observations only. This is a complete reversal in approach. Instead of recognising that some weight must be given to the COVID impacted data in order to produce a more accurate forward-looking estimate of asset beta, it is now completely excluded.

As explained earlier, the rationale for removing the pandemic adjustment is flawed. Measured asset betas reflect volatility in stock prices – whether caused by actual events or changing investor perceptions of the impact of future events. This is precisely why the 2023 IM acknowledged that the COVID-impacted data was valuable. In contrast, the post-pandemic period is very unlikely to include any pandemic induced volatility and therefore estimates of asset beta that only use that period will almost certainly understate pandemic risk.

Accordingly, the Draft Decision under-compensates for the future risk of pandemics. The rationale for removing the adjustment is incorrect and not supported by finance theory. The Draft Decision does not produce any robust evidence that supports removal of the adjustment.

⁴⁶ Commerce Commission "Cost of capital topic paper — Part 4 Input Methodologies Review 2023 – Final decision" (13 December 2023) at paras [4.205-6].

In the absence of such evidence, the Commission appears to have simply changed its mind about how COVID impacted data should be used to inform the asset beta estimate. This undermines regulatory certainty.

Materially better IM the best approach would be to retain the 2016 IM and simply include the COVID impacted data in the estimate period (of ten years).

As an alternative, compared to the Draft Decision a materially better approach would be to maintain the pandemic adjustment methodology from the 2023 IM. It would better promote regulatory certainty by maintaining the approach adopted in the 2023 IM as recently upheld by the High Court.

The method outlined in Attachment C of the Draft Decision should be used. This outlines an updated calculation of the pandemic adjustment method. It measures pandemic risk by removing pandemic data from the observation window and calculates an uplift that gives the pandemic data appropriate weight for the expected likelihood of future pandemics.

The impact of this approach is outlined on the table below.

Approach	Asset beta	Leverage	Equity beta	Indicative WACC
B: As per draft decision Attachment C – updated calculation of the pandemic adjustment method	0.71 (midpoint of 0.68-0.73)	26%	0.959	8.05%

7 Materially better IM

Each individual adjustment outlined in this submission demonstrates that there are a number of materially better alternatives to the Draft Decision.

On Auckland Airport’s analysis, the approach outlined in Attachment C of the Draft Decision is the most readily available example of a materially better IM because it better promotes both investment incentives under s 52A and certainty under s 52R.

However, an IM that combined the various adjustments discussion in this submission into a single and coherent approach will be the most accurate and would be materially better than any adjustment considered in isolation.

Summary of adjustments that would result in a materially better IM

As outlined above there are several adjustments that could be made to make the WACC IM estimate of asset beta, leverage and equity beta more accurate. These have been presented as single isolated adjustments to the Draft Decision methodology.

While many of adjustments have shortcomings, they would each be materially better than the Draft Decision. All these enhancements increase the indicative WACC from between 12 to 74 basis points depending on the adjustment, and all increase the WACC relative to the Draft Decision.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
2016 IM method to estimate equity beta and leverage	0.79	24%	1.029	8.58%
A: As per Draft Decision, with re-application of filters to data in the 3-year observation window	0.69	25%	0.912	7.89%
B: As per Draft Decision Attachment C – updated calculation of the pandemic adjustment method	0.71 (midpoint of 0.68-0.73)	26%	0.959	8.05%
C: As per Draft Decision, COVID-pandemic window ends 8 December 2020	0.70	28%	0.978	8.05%
D: As per Draft Decision, ten-year observation window (Feb 2016- Jan 2026) COVID data excluded	0.64	24%	0.837	7.56%
E: As per draft decision, observation window extended to May 2026	0.63	29%	0.896	7.55%
F - Long-run window (March 2004)	0.66	23%	0.849	7.67%
G - ~4.5 year window commencing 1 January 2022, ending May 2026	0.70	28%	0.975	8.02%
2026 Draft Decision	0.62	29%	0.873	7.46%

Of the above approaches, Attachment C of the Draft Decision provides the most readily available estimate of a materially better equity beta. It involves an updated calculation of the pandemic adjustment method. While not as good as the 2016 IM, this is considered to be the best approach among the identified options because it best promotes the Part 4 purpose statement and provides regulatory certainty. That is because it addresses two of the most fundamental problems in the Draft Decision, namely:

- it has a longer window of estimated data – ten years, rather than the three years in the Draft Decision. This is consistent with standard practice and previous IMs and will deliver more accurate and less volatile estimates; and
- it reflects pandemic risk when the Draft Decision does not – this provides a more accurate estimate of equity beta and promotes certainty by maintaining the approach adopted in the 2023 IM.

This approach is also materially consistent with the WACC Scenario 2 adopted by the Commission in its review of Auckland Airport’s PSE4 pricing decision, both in terms of reasoning and the resulting WACC being only 2 basis points different (when all other parameters are held constant). An IM that is consistent with this outcome would further promote certainty in the IMs for regulated airports.

One shortcoming of this approach is that the comparator set has not been selected through the re-application of filters applied in the 2023 IM – however given the time period is similar, it is expected that this would be unlikely to change the results. If the Commission opts for this approach in the final decision, then re-application of the filters to confirm the comparator set would further enhance the IM decision.

Auckland Airport notes that there is a range for the asset beta estimate using this method of 0.68-0.73 – Auckland Airport considers that the mid-point of the range should be adopted in-line with standard practice, in the absence of any further evidence to adopt at the lower or upper end of the range.

Approach	Asset beta	Leverage	Equity beta	Indicative post-tax WACC
B: As per Draft Decision Attachment C – updated calculation of the pandemic adjustment method	0.71 (midpoint of 0.68-0.73)	26%	0.959	8.05%
PSE4 Final Report (equivalent)	0.715	23%	0.929	8.08%
2026 Draft Decision	0.62	29%	0.873	7.46%

Attachment C is not necessarily the ‘best approach’ – but it is materially better than the Draft Decision

While Auckland Airport considers that the approach outlined in attachment C is the best option identified in this submission, there are likely to be better IMs that are identified through this process. Auckland Airport has simply identified Attachment C as being the most readily available option for the purposes of this submission.

Even if other better methods are identified, that does not change the fact that the method outlined in Attachment C of the Draft Decision is materially better than the Draft Decision itself. The impact of the inferior cost of capital estimate that understates the WACC by ~60 basis

points significantly risks under-investment in airport infrastructure not only because it is inaccurate, but because it undermines certainty for investors that they will receive an appropriate return on long-lived infrastructure investment.