16 July 2026

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Kia ora Hristina,

Re: Targeted Amendments to the Cost of Capital Input Methodologies for Airports – Draft Decisions Reasons Paper

The Board of Airline Representatives New Zealand (BARNZ) welcomes the opportunity to provide a cross-submission to the Commerce Commission's process for *Targeted Amendments to the Cost of Capital Input Methodologies (IMs) for Airports – Draft Decision Reasons Paper.* BARNZ represents the interests of more than twenty airlines operating to, from and within New Zealand. Our purpose drives us to seek a sustainable, efficient, and consumer-focused aviation sector.

A play within a play

Before setting out particular cross-submission points, it is important to remind all participants of the specific purpose and urgency behind the Targeted Amendments to the Cost of Capital Input Methodologies for Airports (Targeted Amendment) process. This Targeted Amendment was initiated to update unintended errors in the existing 2023 IM Cost of Capital paper.

During the airport-initiated Merits Appeal in the High Court, the Commission formally committed to the Court that it would update the Cost of Capital IM, and this process fulfils that commitment. This is not an ordinary IM update. This Targeted Amendment is a process sitting in the frame of the wider 2023 IM process and all that this contains, including analysis and submissions made during the original process, including submissions made in the Merits Appeal, including the judgement of the High Court, and now including submissions made in this Targeted Amendment process.

Those of us who were once students of Shakespeare might think of this Targeted Amendment as the 'play within the play' of the 2023 Input Methodologies. From time to time, Shakespeare used the theatrical tool of a 'play within a play' to expose certain truths in the central play. In the same way, this Targeted Amendment process is that bracketed play within a play. Importantly, it sits within the IM activity which has gone before it and is a forward-looking decision to the activity which will come after it in the fullness of the 2023 IM period.

Urgency is necessary

The Commission undertakes this Targeted Amendment in the knowledge that only a portion of the 2023 IM period remains. All industry participants urgently need a stable Cost of Capital IM for the remainder of the period. The importance of this cannot be overstated. Over the next twelve months, both Auckland and Christchurch Airports will consult with airlines on capital costs, target returns and resulting aeronautical prices. Based on public statements made during Price Setting Event 4 (PSE4), Auckland Airport alone is expected to impose more than $3 billion dollars of capital costs on airlines operating from Auckland International Airport Limited (AIAL) during Price Setting Event 5 (PSE5). This represents the largest capital expenditure programme ever imposed by a regulated airport in New Zealand's history.

Given these unprecedented capital costs – all of which will earn the target return as PSE5 assets are commissioned, it has never been more vital for all participants to have clear Cost of Capital inputs. The Commission is to be commended for working at pace to complete this Targeted Amendment following what has been a fraught and lengthy process.

Given these truths, it is surprising that airport submitters and their industry association have made submissions asking for (even more) process steps to what has already been a multi-year scenario eventually involving costly litigation. In preparing our initial submissions to the Draft Decision, airlines considered that airports would prefer known Cost of Capital inputs providing a reasonable basis to proceed with price setting, rather than seeking further uncertainty. The volume and detail of airport submissions decrying the Targeted Amendment Draft Decision was unexpected.

Airport submissions contain a long list of demands. They include calls for a return to the 2016 IM, a return to the original 2023 IM, or instead a return to certain aspects of the disputed 2023 IM Cost of Capital inputs. This includes a return to a longer data period, and a return to the use of Flint Method. They call for a *further* Draft Decision from the independent regulator, stating they will not otherwise be satisfied unless their various proposals are examined. They say there is no rush to make a Cost of Capital Decision – as the 2023 IM (which airports earlier appealed) can stand in place of an update. Submissions from the airports, their association and their economic advisors provide a plethora of options. Common to all airport proposals are approaches which beget inputs generating a higher target return. All proposals are considered possible – except the Draft Decision of the economic regulator as tabled.

The lady doth protest too much, methinks.

This quote from Shakespeare's *Hamlet* is from the play within that play, spoken by Queen Gertrude as she watches the player Queen make strident claims. Watching the player Queen, Queen Gertrude suspects the claims do not ring true, that the protestations mask other motives. As BARNZ and its member airlines read the extensive submissions from the airports, their advisors and supporters, we have same the sense that their protest is too much. It is transparently self-serving. Read in the round, the airport submissions to the Targeted Amendment process expose for readers a 'truth'; that the regulatory regime is incentivising airports to invest too heavily, to lock in excess returns with generous regulatory inputs.

Executive summary

BARNZ appreciates the opportunity to comment on the Commission's Draft Decision. This cross-submission should be read alongside the primary airline submissions and the independent economic report prepared for BARNZ by TDB Advisory. BARNZ also supports the cross-submission made by IATA.

The primary submissions show a clear split between airports and airlines:

- Airlines support using the three-year post-COVID data window (1 February 2023 to 31 January 2026) because it reflects current market realities instead of past pandemic chaos.

- Airports strongly oppose the draft decision. Of the many alternative options proposed by airport submitters, it appears they would most prefer a 10-year data period to lock in an artificially high asset beta (up to 0.79).

BARNZ believes the Commission's approach to its Draft Decision is pragmatic, given where we are now in the arc of the 2023 IM, and what the High Court has held in the Merits Appeal. The choice of period is a best approach in the total context of this moment – and shows the reality of long-term pandemic risk as it might apply to airports of New Zealand.

The protests of airports show us that regulatory settings have in fact been overly generous to monopoly airports. As TDB Advisory points out, AIAL trades at a valuation close to double its Regulatory Asset Base (RAB). This proves that the 'regulated' returns are well above what the market actually requires to ensure investment occurs. The Commission must reject the airports' attempts to turn a temporary pandemic shock into a permanent financial windfall. The Commission should adhere to its three-year post-COVID window and remove the extreme outlier, Airports of Thailand (AOT).

Setting the scope: Forward-looking regulation versus re-litigation

The airports' submissions attempt to widen the scope of this review. This Targeted Amendment was opened strictly to fix recognised errors in how the Commission applied the "Flint methodology" in 2023. BARNZ considers that this narrow process should not be used by airports to relitigate issues settled by the High Court in the Merits Appeal of the 2023 IM. The Commission's task now is forward-looking parameter estimation, not compensating airport monopolies for past revenue drops – nor to lock in excess returns well into the future.

Why the shorter post-COVID window is justified

Airport consultants argue that a three-year window is too short, doesn't capture major disaster risks, and unfairly lowers the beta. They argue a 10-year window is better. BARNZ submits that there is no single "perfect" timeframe for calculating beta. Choosing a period is about making a trade-off between the amount of data and its relevance. In this case, the Commission has chosen the best and most relevant data available to it – as it said it intended to do in the Merits Appeal process.

As outlined in the cross-submission from TDB, the February 2023 starting point makes perfect sense for several reasons:

- New Zealand had longer lockdowns than most countries, and international borders did not fully reopen until mid-2022.
- International travel numbers did not start to stabilise until late 2022, staying below 70% of pre-COVID levels.
- The extreme volatility before 2023 was a unique shock, not an ongoing systematic risk.

By starting in February 2023, the Commission is correctly capturing financial market sentiment that has moved on from COVID and is focused on the actual risks of the current regulatory period.

Market realities: rising airport values

The airports protest that the Commission's Draft Decision hurts investor confidence, yet the stock market shows the exact opposite. AIAL’s share price recovered quickly from COVID and, apart from a brief period in 2019, is now well above pre-pandemic levels. There is no evidence that investors are concerned, or that securing capital poses any challenge to AIAL. In fact, regulatory settings reward airport monopolies to act as their own bank by providing greater incentives for equity over debt financing.

AIAL has recently published its (un-costed) Masterplan 2026 which sets out long-term growth plans for that airport company. The Masterplan 2026 also notes that the non-aeronautical precinct will ‘…deliver financial sustainability through diversified revenue streams.'[1] This is a useful reminder of the financial support dual till settings offer to airport's regulated aeronautical business. The Targeted Amendment to the IM makes no change to these fundamental settings.

BARNZ points to TDB Advisory's economic logic: investor perceptions have evolved. Because of vaccine technology and better policy responses, investors are much more confident that future pandemics won't cause the same economic disruption. Higher investor confidence leads to higher valuations, which naturally pushes equity betas down.

BARNZ notes the submission from the Electricity Networks Association (ENA) which suggest that the effect of this decision is wider than airports and may undermine investor confidence and incentives to invest more generally. In a similar way to the airport monopolies, the ENA argues that the Commission creates unhelpful precedent in this Targeted Amendment to the IM, undermines confidence in the regime, and in the ability for its members to invest.

With respect, the purpose of regulatory settings is not only to provide regulatory certainty – it is to ensure outcomes which are in the long-term best interests of consumers. It should never be the case that monopolies seek to freeze regulatory settings such that returns are outsize, or that even in very particular circumstances such as in this targeted amendment, the Commission cannot respond thoughtfully and appropriately to the circumstances before it.

Further, the draft asset beta of 0.62 is not abnormally low. Similar levels were seen between 2013 and 2015 as markets settled after the Global Financial Crisis. A beta of 0.62 is also very close to the 10-year historical average of 0.64 if we eliminate the pandemic years.

Regulatory certainty is maintained

The airports protest that changing the data window creates regulatory uncertainty. These protests are unfounded. The Commission's core principle has always been to base its decisions on the most relevant, recent data available. It did this in 2010, 2016, and 2023. Shortening the window now is simply a practical step to filter out extreme COVID noise. By aligning with its long-term approach of using relevant data, the Commission increases long-term regulatory certainty.

Fixing the comparator set: Remove Airports of Thailand (AOT)

Because this is a narrow, targeted review, the Commission does not need to rebuild its entire 2023 comparator sample. However, BARNZ strongly supports the joint recommendation from the aiports, TDB Advisory, Air New Zealand, Qantas, and IATA to remove AOT.

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[1] https://corporate.aucklandairport.co.nz/content/dam/aia/files/corporate/futureakl/AKL%20Master%20Plan%20Summary%202026.pdf (pages 20-21)

This is not about rewriting the original selection rules, but responding to the actual post-COVID data, in which AOT is a clear outlier. AOT has an extreme asset beta and a tiny 5% leverage ratio, suggesting it operates in a very different economic and political environment than Western advanced-economy airports. Keeping AOT distorts and inflates the baseline for New Zealand. BARNZ urges the Commission to look at this matter dispassionately and with clear justification.

BARNZ recommendations

To protect consumers and ensure we arrive at a clear Draft Decision regarding Cost of Capital, BARNZ submits that the Commission:

1. Adhere to the process it has set out as independent regulator. The Commission should reject calls for further cross-submissions against a second Draft Decision.
2. Keep the three-year post-COVID data window (1 February 2023 to 31 January 2026) as the baseline for forward-looking estimates within this regulatory period.
3. Reject in particular the airport demands for a 10-year historical window or a permanent pandemic risk premium.
4. Remove AOT from the comparator set, noting that there is wide agreement that this airport is a poor comparator.

Regards,

[redacted]

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