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RE: Airport IMs Targeted Amendments draft decision-Qantas Group cross submission

The **Qantas Group (QAG)** welcomes the opportunity to respond to submissions on the Commission's draft decision.

The cross-submissions from airports and their economists share a striking commonality. Each approaches the question through the lens of statistical inference. CEG runs structural break tests and percentile distributions. Lally builds confidence intervals and a decision-theoretic framework. HoustonKemp invokes rare disasters theory and asset pricing literature. The technical work is detailed and uniformly directed. It also appears to have lost sight of what the WACC under Part 4 is pragmatically trying to achieve.

The WACC is not a population parameter to be estimated with minimum statistical error. It is the rate of return a benchmark airport operating in a workably competitive New Zealand market would require to continue investing-the outcome section 52A(1)(a) requires the Commission to promote, balanced against the limit on the extraction of excessive profits in section 52A(1)(d). Standard valuation practice anchors this estimate in comparators that share exposure to the systematic risk of the relevant economy: country, regulatory regime, and market structure.

A WACC estimated for a New Zealand asset by reference to firms operating in materially different systematic risk environments is not a tighter estimate of the right parameter. It is a precise estimate of the wrong one. The cross-submissions engage almost exclusively with the statistical layer of the question and very little with the purposive layer underneath. The result is analysis that is technically sophisticated but conceptually misdirected.

The selectivity of the analysis reinforces this. The High Court's findings are invoked where they support the airports' preferred outcome and set aside where they do not. While the submissions present their range as convergent evidence, their own experts span 0.71 to 0.79 on identical data. Lally recommends 0.79, the joint expert report floored at 0.72, and the corrected 2023 method lands at 0.71. A spread of that width among analyses all arguing the same direction is evidence of estimation fragility, not robustness.



This submission addresses the cross-submissions through three sections, each testing the arguments against the section 52A purpose:

- **Section 1: The comparator set.** Why economic relevance, not statistical maximisation, should govern sample selection.
- **Section 2: The estimation window.** Why the post-COVID period remains the most informative basis for forward-looking estimation.
- **Section 3: The RAB multiple cross-checks.** Why observable market evidence is the most reliable test of whether the Commission's estimate is commercially credible.

QAG submits that the evidence advanced by airports does not justify a departure from the Commission's approach. A focus on economically relevant comparators, a post-COVID estimation window, and observable market evidence provides the most robust basis for estimating the cost of capital.

1. Economic Relevance as the Governing Principle

The comparator set should reflect economic relevance

The Commission's task under section 52A is to promote outcomes consistent with those produced in workably competitive markets, balancing investment incentives (section 52A(1)(a)) with limits on excessive profits (section 52A(1)(d)). The WACC is the parameter through which that balance is struck. The first question in any WACC estimate is therefore not how much data to use but which data is relevant to the New Zealand workably competitive market the Commission is required to model.

Standard valuation practice, reflected in the comparable company methods used across corporate finance, investment banking, and regulatory practice, selects comparators by reference to the systematic risk environment of the asset being valued. Country, regulatory regime, and market structure are the primary filters because they drive the components of systematic risk that a CAPM beta is intended to capture. Statistical filters for liquidity, free float, and leverage variability apply within the relevant population. They do not define it. The point is one of sequence: relevance determines which firms belong in the sample; statistics operate on that set, not the reverse. The cross-submissions invert this, using statistical properties to justify inclusion rather than to test firms already relevant.

The High Court's approach on the appeal against the original determination supports economic relevance as the key factor in comparator selection. The Court observed that "a larger comparator set will not always be preferred to a smaller set," and that adding firms that are poor comparators for New Zealand airports "may lead to the resulting beta estimate being less reliable rather than more reliable." It treated comparator selection as a matter of regulatory judgement, not statistical



optimisation, warning that "adding a firm that has a precise measure of its equity beta that is incomparable to New Zealand airports will result in bias not precision in the estimated beta."¹

The cross-submissions run against this principle. Each of their principal statistical critiques rests on the contested sample rather than on independent evidence:

- a) **CEG's "1.4th percentile" claim** measures the Commission's 0.62 estimate against a historical distribution of three-year asset betas drawn from a sample that includes firms that are not genuine comparators. A low percentile against a contaminated distribution does not establish the current estimate is wrong. It establishes that the historical distribution was inflated by firms that should not have been in it.
- b) **CEG's sample re-selection argument** reverses the filter order applied in the 2023 IM. The Commission applied country and regulatory classification first, then technical filters (leverage, liquidity, free float) to the remaining universe. CEG applies the technical filters first to the post-COVID data and treats their satisfaction as sufficient grounds for inclusion. This re-ordering produces a wider sample only by ignoring the relevance screen that the Commission, the High Court, and standard valuation practice all apply first.
- c) **Lally's "not statistically significant" finding** (95% confidence interval of -0.34 to +0.26 on the pre-vs-post COVID difference) is a function of standard errors that average 0.18 and 0.32 across individual firms. The breadth of those standard errors reflects the heterogeneity of the sample, including the firms that should not be in it. A relevant sample produces tighter standard errors and a narrower confidence interval. Lally's wide interval is not evidence that pre-COVID data should be preferred. It is evidence that the contested sample, as constituted, is too noisy to detect changes of the magnitude observed.

These three arguments are presented in the cross-submissions as independent critiques. They are not. They are different applications of the same structural error: prioritising statistical observations over economic relevance. The principle stated above dissolves each of them.

Applied to the current data, that same principle removes three firms from the comparator set:

- **Airports of Thailand.** As set out in QAG's earlier submission, AoT is not a genuine comparator for a New Zealand regulated airport. It is an emerging market, state-controlled firm exposed to Thailand-specific tail risks, and its post-COVID asset beta moved in the opposite direction to the rest of the sample. The cross-submissions do not displace the case for exclusion.
- **The Mexican airport groups (ASUR, GAP, OMA).** Emerging market classification, a concession-based regulatory model unlike Part 4 building blocks, and a sovereign rating several notches below New Zealand. These firms were excluded from the 2023 sample on country-classification grounds, and that classification has not changed.

¹ *New Zealand Airports Association Incorporated v Commerce Commission* [2025] NZHC 239 at [194]



- **Malaysia Airports.** Emerging market with the same country and regulatory comparability concerns as the Mexican firms.

Hong Kong-listed comparators are retained. The relevant systematic risk for these firms is priced in HKD against a developed-market index, with HKEX disclosure and liquidity standards comparable to other developed markets. Listing venue, not the country classification of the underlying assets, is the appropriate basis for inclusion here.

2. Three-Year Estimation Window

The estimation window should be selected by reference to the purpose of the exercise, not the statistical properties of the resulting estimate. The Commission's task is to estimate the forward-looking asset beta of a benchmark New Zealand airport operating under current market conditions in a workably competitive market. The question is therefore not which historical period delivers the greatest statistical stability, but which period provides the most relevant evidence of current and forward-looking systematic risk.

The three-year post-COVID window best meets that objective. It reflects a period in which airport markets have resumed normal operations, investors have repriced aviation risk, and market outcomes are no longer dominated by the extraordinary disruption associated with COVID-19, nor operated in ignorance of the potential impact of a pandemic on the aviation sector (as in the pre-COVID period). While longer estimation windows may increase the volume of observations, they do so by incorporating periods that are less representative of the risk environment that investors face today.

Auckland Airport's submission notes that a three-year window departs from precedent. While that may be true, it does not make that approach wrong. Section 52A requires an estimate that best reflects the systematic risk of a benchmark airport operating in a workably competitive market today. That requirement overrides the need for adherence to past methodology. The relevant question is which data is most economically relevant, not which approach is most familiar. On that basis, a longer window performs worse, as it dilutes current market pricing with data from a materially different risk environment.

QAG does not accept that the specific tests advanced by the airports and their economists identify the right estimation period. Each is addressed below:

- CEG's structural break test.** CEG's Chow test identifies August 2020 as the point of maximum structural break and argues this undermines the January 2023 cut-off. A Chow test identifies when return characteristics change, not when the underlying disruption ends. The cut-off reflects the removal of border and travel restrictions that affected airport demand; reduced volatility before borders reopened does not mean pandemic risk had dissipated.



- b) **CFC's significance test.** CFC finds no significant difference between the Commission's 0.83 Omicron-period estimate and 0.55 the following year. That does not show pandemic effects persisted; it shows a single year-on-year comparison lacks the power to distinguish the periods. The trend across the Commission's estimates (0.83, 0.55, 0.62, 0.52) points to a sustained decline in pandemic-related risk.
- c) **HoustonKemp's rare-events argument.** HoustonKemp argues, relying on Gabaix (2012), that a beta estimated without a disaster event understates the required risk premium. But if normal-times betas cannot price disaster risk, the consistent response is an explicit disaster premium, not a longer window, and the Commission has already rejected that approach. The argument also has no stopping point: it would require every future window to retain disaster data indefinitely, which is inconsistent with a forward-looking WACC.
- d) **Lally's downward-bias argument.** Lally argues that excluding rare-event years biases beta below its true value, so airports under-recover over time. That holds only if the pandemic permanently raised the true beta, which is the point in dispute. The post-COVID evidence points to a settled risk profile, not a permanently elevated one, and building in permanent rare-event loading trades observable current pricing for an untestable assumption.
- e) **Longer windows increase judgement, not robustness.** Extending the sample requires decisions about how COVID is treated, whether rare-event adjustments apply, and where boundaries fall. Each moves the estimate further from observable evidence. The three-year window relies on current market data and fewer discretionary adjustments.

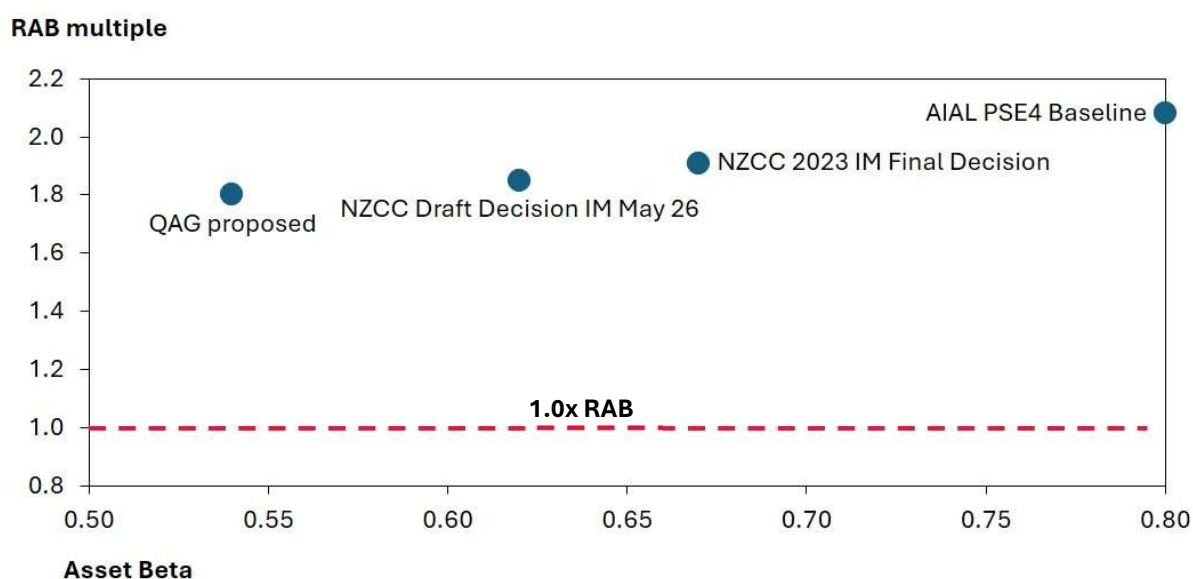
3. Real-world evidence: RAB multiples

Auckland Airport continues to trade at around 1.8x RAB. ACI's submission cautions against relying on RAB multiples, citing analyst valuations of 1.3x–1.9x and the inclusion of non-aeronautical activities. Neither point undermines the conclusion. The analyst range reflects differing assumptions rather than an unreliable metric, and every estimate remains above 1.0x, indicating the market does not expect returns below the cost of capital.

ACI's concern that enterprise value includes retail, car parking and property activities can be addressed through segmentation rather than disregarding the evidence altogether. The Commission already distinguishes between aeronautical and whole-of-business risk in its beta cross-checks, and the same approach could be applied to RAB multiples using analyst valuations for the aeronautical business where available. More importantly, the relevant question is whether the conclusion holds across the Commission's range of asset beta determinations.



Figure 1: Implied RAB Multiple by Asset Beta Benchmark



Source: Qantas analysis based on Auckland Airport aeronautical valuation assumptions.

The implied multiple remains above 1.0x across the full asset beta range, including QAG's proposed 0.54. It declines modestly as asset beta falls, with no material valuation compression even at the lowest benchmark. The conclusion is therefore not sensitive to any particular asset beta assumption: both the draft decision and QAG's refinement remain consistent with market valuations that show no investor under-compensation.

This conclusion is reinforced by an independent cross-check. S&P Global Ratings² has maintained Auckland Airport's A- credit rating with a stable outlook throughout the period spanning the Commission's 2023 IM decision and subsequent reviews. While credit ratings are not a direct measure of equity risk, they reflect an independent assessment of financial resilience and debt-servicing capacity under prevailing regulatory settings.

Taken together, the RAB multiple, sensitivity analysis and credit rating evidence provide little indication that the Commission's proposed asset beta materially understates airport risk or prevents investors from earning an adequate return.

Conclusion

In summary, the evidence advanced by airports does not justify a departure from the Commission's approach. A focus on economically relevant comparators, a post-COVID estimation window, and observable market evidence provides the most robust basis for estimating the cost of capital.

² S&P Global Ratings, "Auckland Airport 'A-' Ratings Affirmed; Outlook Stable" (22 September 2025); see also affirmations of 29 September 2023, 27 September 2022, and 10 August 2021



QAG considers that the retention of AoT introduces a material bias that overstates the cost of capital. Excluding AoT produces an equity beta of 0.80 and an indicative post-tax WACC of approximately 7.73%, which QAG submits is a more representative outcome for New Zealand airport services.

This matters beyond the calibration itself. New Zealand has become one of the most expensive jurisdictions in the world for aviation, with direct consequences for passenger demand, particularly among budget-sensitive travellers who are most likely to defer or forgo travel. Given aviation's role as an enabler of tourism, trade, and connectivity, a WACC set above what the risk of regulated airport services warrants reaches well beyond the sector.

Maintaining the Commission's approach, with AoT removed, keeps allowed returns aligned with the long-term interests of consumers under Part 4.

Yours sincerely,

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Appendix A – Responses to Cross-Submissions

Other Submissions	Qantas Observations
Regulatory Process and Precedent.	QAG notes that some submissions raise concerns regarding regulatory certainty, predictability, and the distinction between error correction and broader methodological change. While these are relevant considerations for the wider Part 4 framework, the High Court recently endorsed the proposition that the purpose of certainty in s 52R of the Commerce Act is conceptually subordinate to the s 52A purpose of the long-term benefit of consumers. ³ Those concerns therefore do not alter QAG's position that the Commission's draft approach provides a more economically relevant and evidence-based estimate of the cost of capital for New Zealand airport services
Third major methodology shift in ~3 years, with no clear evidence base	The "regulatory instability" argument overstates the impact of targeted corrections to the cost of capital and ignores both the evidentiary basis for the Commission's approach and the direct consumer consequences of overstated WACC.
Leverage Durability	ACI's argument confuses the removal of an Auckland-specific distortion with the existence of a broader post-COVID financing trend. QAG's AoT adjustment is intended to correct a measurement issue that understates Auckland Airport's leverage, not to rely on pandemic-driven outliers. The increase in observed gearing should therefore be assessed separately from the influence of individual comparators. The relevant question is whether current leverage levels reflect investors' expected financing structure going forward. The evidence suggests they do. Accordingly, the AoT adjustment addresses comparator noise, whereas the higher leverage estimate reflects a structural change in market conditions rather than a temporary pandemic effect.
Diversification bias / "low NZ gearing reflects higher risk	NZAA/CEG argue that comparator betas are understated by geographic diversification and that Auckland Airport's lower gearing reflects higher risk. However, if diversification systematically biases asset betas downward, the same criticism would apply to the comparator set used in previous IM reviews, including the 2016 and 2023 IMs that NZAA relies on as precedent. Nor does lower leverage imply higher risk. It may simply reflect more conservative financing decisions, such as preserving capacity for future investment. The best evidence of systematic risk remains the

³ At [131], citing *Wellington International Airport Ltd v Commerce Commission* [2013] NZHC 3289 at [214].



	observed asset beta, which underpins both QAG's position and the Commission's draft decision.
Comparator set staleness — narrow defensive line	QAG notes ACI's observation that liquidity and leverage screens are window-specific, and that reapplying the 2023 filters to the current window could alter the composition of the comparator set more broadly. QAG does not consider this a reason to defer the targeted correction sought here. The AoT exclusion is warranted on the Commission's own filtering principles applied to the current dataset; a wholesale re-derivation of the comparator set is a materially larger exercise appropriately left to the next full IM review, not a reason to retain a known outlier in this one.

