

INFORMATION DISCLOSURE (AIRPORT SERVICES)

DRAFT REASONS PAPER

May 2010



COMMERCE COMMISSION

Regulation Branch
Commerce Commission
Wellington
NEW ZEALAND

31 May 2010

ISBN: 978-1-869450-80-9

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS	4
EXECUTIVE SUMMARY	6
CHAPTER 1: INTRODUCTION	12
1.2 Information Disclosure Regulation	12
1.3 Draft Reasons Paper	12
1.4 Consultation Process	14
CHAPTER 2: REGULATORY FRAMEWORK AND GENERAL APPROACH	16
2.1 Introduction	16
2.2 Setting Information Disclosure Requirements.....	16
2.3 Purpose of Information Disclosure.....	17
2.4 Information Disclosure and Input Methodologies	19
2.5 Commission's General Approach.....	19
2.6 Implementation Considerations	22
2.7 The Airport Sector	23
2.8 Other Statutory Considerations	24
CHAPTER 3: HISTORICAL FINANCIAL INFORMATION DISCLOSURES	27
3.1 Purpose	27
3.2 Approach	27
3.3 Return on Investment	30
3.4 Regulatory Profit	37
3.5 Regulatory Asset Base.....	44
3.6 Efficiency and Investment	46
3.7 Other Disclosures	49
3.8 Transitional Provisions	51
CHAPTER 4: QUALITY AND STATISTICS	52
4.2 Purpose	52
4.3 Approach	52
4.4 Passenger satisfaction.....	56
4.5 Reliability	60
4.6 Capacity and Utilisation	64
4.7 Statistics.....	71
4.8 Operational Improvement Process.....	74
4.9 Transitional Provisions.....	74
CHAPTER 5: FORECAST TOTAL REVENUE AND SUPPORTING INFORMATION	76
5.1 Purpose	76
5.2 Approach to Forecast Information Disclosure for Airports.....	77
5.3 Forecast Total Revenue Disclosures.....	84
5.4 Supporting Information Used in Preparing Revenue Forecasts.....	86
5.5 Reconciliation of Forecasts to Actual Outcomes.....	90
5.6 Information Disclosure Process Considerations	91

CHAPTER 6: PRICING AND RELATED DISCLOSURES.....	92
6.2 Purpose	92
6.3 Approach	92
6.4 Pricing Methodology and Standard Prices	94
6.5 Pricing Incentives	96
6.6 Pricing Statistics	96
6.7 Other Disclosures Related to Pricing.....	97
CHAPTER 7: CERTIFICATION, AUDIT, PUBLICATION AND TRANSITIONAL PROVISIONS	99
7.1 Purpose and Approach to Verification	99
7.2 Statutory Declaration and Director Certification Requirements.....	100
7.3 Audit Requirements	101
7.4 Publication, Retention of Information and Timing of Disclosures.....	103
7.5 Initial Disclosure Year and Transitional Provisions.....	106
APPENDIX A: INFORMATION DISCLOSURE FRAMEWORK SUMMARY DIAGRAMS	108
APPENDIX B: SUMMARY OF KEY DEPARTURES FROM GAAP	110
APPENDIX C: CAPACITY AND UTILISATION QUALITY INDICATORS...	113

GLOSSARY OF TERMS AND ABBREVIATIONS

Term/Abbreviation	Definition
AAA	Airports Authorities Act 1966
AAA Regulations	Airport Authorities (Airport Companies Information Disclosure) Regulations 1999
ACI ASQ	Airport Council International Airport Service Quality
The Act	Commerce Act 1986
AIAL	Auckland International Airport Limited
Airbiz	Airbiz Aviation Strategies Limited
Air NZ	Air New Zealand Ltd
Airport Companies	AIAL, WIAL and CIAL
Airports	Businesses regulated under section 56B of Part 4 of the Commerce Act 1986
AMP	Asset Management Plan
BARNZ	Board of Airline Representatives New Zealand Incorporated
CAIDI	Customer Average Interruption Duration Index
CIAL	Christchurch International Airport Limited
The Commission	The Commerce Commission
CPI	Consumer Price Index
Discussion Paper	The Commission's Information Disclosure Discussion Paper, published 29 July 2009
Draft IM Determination	Draft Input Methodology (Specified Airport Services) Determination, 2010 31May 2010
Draft Information Disclosure Determination	Draft Commerce Act (Specified Airport Services Information Disclosure) Determination 2010
Draft Reasons Paper	This paper, the Information Disclosure (Airport Services) Draft Reasons Paper, 31 May 2010
EDB	Electricity Distribution Business
EV	Economic Value
FCM	Financial Capital Maintenance
FTE	Full time equivalent employees
GAAP	Generally Accepted Accounting Practice
Gazette	The New Zealand Gazette, published by the Department of Internal Affairs
GPS	Government Policy Statement
IATA	International Air Transport Association
IMs	Input Methodologies
IMs Draft Reasons Paper	Input Methodologies (Airport Services) Draft Reasons Paper,

Term/Abbreviation	Definition
	dated 31 May 2010
IRR	Internal Rate of Return
JWD	Joint Working Document by NZAA and BARNZ proposing quality disclosures
MCTOW	Maximum Certificated Take-off Weight
NAS	Network Advisory Services Pty Limited
NPV	Net Present Value
NZ	New Zealand
NZAA	New Zealand Airports Association
NZICA	NZ Institute of Chartered Accountants
NZX	New Zealand Stock Exchange
Part 4	New Part 4 of the Commerce Act (1986), inserted by the Commerce Amendment Act (2008). Replaces Part 4A.
Part 4A	Commerce Act (1 986) Part 4A
Provisions Paper	The Commerce Commission's Regulatory Provisions of the Commerce Act 1986 Discussion Paper
RAB	Regulatory Asset Base
Regulated Suppliers	Regulated Entities under Part 4 of the Commerce Act 1986
ROI	Return on Investment
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
The 2006 GPS	The Government's Policy Statement: <i>Incentives of Regulated Businesses to Invest in Infrastructure</i> provided to the Commission in August 2006
WACC	Weighted Average Cost of Capital
WIAL	Wellington International Airport Limited
Working Session	Airports Asset Planning and Forecast Information Working session, held by the Commerce Commission on 18 February 2010.

EXECUTIVE SUMMARY

- X1 This paper seeks feedback on the Commerce Commission's reasons for its draft decisions on information disclosure requirements for suppliers of specified airport services, and its draft determinations as set out in the draft Commerce Act (Airport Information Disclosure) Determination 2010.
- X2 The purpose of information disclosure regulation is to ensure that sufficient information is readily available to interested persons to assess whether outcomes consistent with outcomes in a competitive market are occurring.
- X3 The focus of the Commission's considerations has therefore been on the minimum amount of information that should be disclosed that would be sufficient to assist interested persons to make the kind of assessment envisaged within the Commerce Act, 1986 ("the Act"). This approach is intended to ensure a cost effective but robust regime. In order to achieve this we have:
- relied, where possible, on Airports' existing information gathering practices;
 - aimed for consistent disclosed information, both between Airports and over time;
 - provided for a degree of flexibility, so that Airports can present as realistic a picture as possible of their actual performance; and
 - sought to ensure the underlying assumptions or rationale for information are explicit.
- X4 The Commission has also had regard to the responsibilities of Airports in relation to the Airports Authorities Act 1966, and the Government's Policy Statement of August 2006 in developing its information disclosure requirements.¹
- X5 The Draft Information Disclosure Determination provides for the disclosure of historical financial information, quality measures, statistics, forecast total revenue requirements, pricing methodology, prices, and other key statistics. In addition, the Draft Information Disclosure Determination sets out specific publication, certification and audit requirements. A summary of draft decisions is provided in Table X1 below.
- X6 The historical financial information disclosure requirements will provide for a full set of regulatory accounts including disclosures of:
- Return on Investment;
 - Regulatory Profit Statement and notes;
 - Regulatory Asset Base Roll-Forward and notes;
 - Regulatory Tax Calculation and notes;
 - Segmented Information;
 - Consolidation Statement and notes;
 - Related Party Disclosures; and
 - Actual Expenditure Statement and notes.

¹ New Zealand Government, *Statement to the Commerce Commission of economic policy of the Government: Incentives of regulated businesses to invest in infrastructure*, 7 August 2006. Although this GPS will need updating to reflect the passage of the CAA, the principles still apply in the meantime.

- X7 GAAP is the starting point for these disclosures but will be modified where necessary for regulatory purposes, including through the application of input methodologies.
- X8 When disclosing historical financial information, Airports will be required to apply input methodologies for valuation of assets (including depreciation and treatment of revaluations), allocation of common costs, and the treatment of taxation. The Commission has also developed an input methodology for airports in relation to deriving the cost of capital. Airports do not, however, have to apply this input methodology when disclosing information, but the Commission may use the methodology in its summary and analysis reporting.
- X9 The quality determinations include a comprehensive set of measures of passenger satisfaction, reliability, capacity and utilisation, operational improvement, and other statistics. In preparing these determinations, the Commission has been greatly assisted by the recommendations and cooperation of the Joint Working Group comprising representatives of airports and airlines.
- X10 The disclosures relating to forecast total revenue requirements are intended to align where possible with the price setting process that airports are required to undertake under the Airports Authorities Act 1966. These disclosures will provide key planning assumptions behind the setting of airports' revenue requirements, and will include supporting information about proposed capital expenditure, operational expenditure and demand information. The annual disclosures will also reconcile forecasts with actual annual outcomes.
- X11 This is an alternative approach to the Commission's information disclosure requirements for electricity lines businesses - which require annual disclosure of asset management plans. This difference reflects the specific context of price setting regulation that applies to the airport sector.
- X12 The Commission has taken a flexible but transparent approach to disclosure requirements of prices and pricing methodologies. Suppliers of specified airport services will not be required to apply a particular pricing methodology but will be required to make transparent the basis on which prices have been set.
- X13 Different auditing and director certification requirements are proposed, dependent upon the nature of information being audited, and the disclosure category. Audit reports will be required for annual disclosures, but forecast information will not be required to be audited. All director certifications will need to be signed by two directors and attached to the disclosures when disclosure is made, including those published on the internet. Statutory declarations will need to be attached to all information made available to the Commission under the determination.
- X14 The regulatory period will be aligned with the statutory financial year of each Airport. Annual disclosures are to be disclosed within five months of the regulatory year end. Under the transition provisions, disclosures for the 2011 financial year will not be required until 11 months after the regulatory year end.
- X15 The Commission welcomes all submissions relevant to these draft decisions and the draft determinations. Submissions are due by **5pm on Monday 12 July 2010**.

Table X1: Summary of draft decisions for Airports' information disclosure

Topic	Summary of draft decisions
<p>Chapter Three: Historical Financial Information</p>	<p>The Commission's key draft decisions are that the financial historical disclosures:</p> <ul style="list-style-type: none"> ▪ include ROI disclosures that are comparable to both a nominal post-tax and vanilla WACC; <ul style="list-style-type: none"> – the formula for calculating the ROI that is comparable to the post-tax WACC is: $ROI = \frac{\text{Regulatory Profit} - \text{Interest Tax Shield}}{RIV}$ – the formula for calculating the ROI that is comparable to the vanilla WACC is: $ROI = \frac{\text{Regulatory Profit}}{RIV}$ ▪ include revaluations and depreciation in the regulatory profit - to the extent that revaluations and depreciation are included in the roll-forward of the RAB; ▪ recognise capital contributions as income; ▪ recognise gains and losses on the sale of an asset as income, except where an asset is sold to another regulated supplier; ▪ include information to support the use of flexible depreciation (where this is used); ▪ include information on how common costs have been allocated and where that allocation has changed; ▪ include the value of total financial incentives and pricing incentives; ▪ report operational expenditure in accordance with standardised categories; ▪ include a reconciliation of regulatory profit to the regulatory tax allowance; ▪ include the components of the RAB roll-forward and works under construction; ▪ include a summarised RAB roll-forward for asset classes; ▪ include the cost of holding future development land in disclosure periods prior to commissioning of a new development; ▪ report capital expenditure in accordance with standardised categories for the purpose of tracking actual expenditure against forecast; ▪ report in segments aligned to the activities of specified airport services; ▪ include a Consolidation Statement that reconciles the regulated

Topic	Summary of draft decisions
	<p>business disclosure with the airport company's financial results; and</p> <ul style="list-style-type: none"> ▪ include related party transactions (including transactions between the regulated and unregulated business units of the Airport Company).
<p>Chapter Four: Quality and Statistics</p>	<p>The Commission's key draft decisions are that the quality information disclosures report:</p> <ul style="list-style-type: none"> ▪ the results of quarterly service quality surveys of departing international and domestic passengers; ▪ reliability indicators regarding (i) interruptions to regulated services resulting in on-time departure delays and (ii) interruptions to material services; ▪ capacity and utilisation indicators for each functional component of the airport; ▪ statistics concerning passenger numbers, freight tonnage, the number of commercial carriers using the airport, and the number of aircraft landing during the financial year; and ▪ the process to undertake operational improvement forums regarding reliability indicators and passenger satisfaction indicators.
<p>Chapter Five: Forecast Financial Information and Supporting Assumptions</p>	<p>The Commission's key draft decisions are that the disclosures of forecast financial information and revenue assumptions include:</p> <ul style="list-style-type: none"> ▪ the components of total revenue requirements; ▪ details of where these disclosures are not consistent with the previous year's actual disclosures as applicable; ▪ supporting forecast information, including capital expenditure, operational expenditure and demand; and ▪ annual reconciliations of actual capital expenditure against forecasts, for the initial five-year period. <p>The first disclosures of forecast revenue requirements will be required in 2011 and will be a disclosure of current total revenue requirements. Subsequent disclosures will be required within 20 working days of the posting of prices for each airport service.</p>
<p>Chapter Six: Pricing and Related Disclosures</p>	<p>The Commission's key draft decisions are that the disclosures of pricing methodologies will include:</p> <ul style="list-style-type: none"> ▪ an overview of the price setting framework and pricing methodology; ▪ details of the pricing methodology; and ▪ an overview of the extent to which the application of the pricing methodology is expected to lead to efficient prices.

Topic	Summary of draft decisions
	<p>The Commission's key draft decisions are that the disclosures of prices should include</p> <ul style="list-style-type: none"> ▪ standard prices; and ▪ annual aggregate of financial incentives. <p>The Commission's key draft decision is that pricing statistics should be disclosed annually on a standardised basis (consistent with international best practice).</p>
<p>Chapter Seven: Publication, certification audit and transitional provisions</p>	<p>The Commission's key draft decisions are that disclosures will require:</p> <ul style="list-style-type: none"> ▪ director certification ▪ statutory declarations verifying that the information provided to the Commission is a true copy of the information made publicly available; ▪ audit reports of historical financial, quality and statistics disclosures. <p>The Commission's other key draft decisions are that:</p> <ul style="list-style-type: none"> ▪ historical financial information, quality, pricing and statistics disclosures should be disclosed annually; ▪ forecast revenue requirements, pricing methodologies, and prices should be disclosed within 20 working days following the setting of prices under the Airports Authorities Act 1966; ▪ information supporting disclosures should be retained for at least 7 years; ▪ annual disclosures should be disclosed within five months of the regulatory year-end; ▪ the regulatory period will align with each Airport's financial year; ▪ all disclosures should be publicly disclosed; ▪ the initial disclosure year for annual disclosures is for the financial year ended 2011. Disclosures will not be required until 11 months after year end; ▪ the initial forecast revenue requirement, demand forecast and pricing methodology disclosures will be required by 30 September 2011 and include disclosure of information used in the most recent pricing decisions; ▪ an initial regulatory asset value disclosure will be required within 11 months after the financial year ended 2011; and ▪ transitional provisions will be established so that the following information is not required for the annual disclosure for the year ended 2011:

Topic	Summary of draft decisions
	<ul style="list-style-type: none">– operational and capital expenditure;– passenger satisfaction survey results; and– reliability information.

CHAPTER 1: INTRODUCTION

1.1 This chapter provides an overview of the scope and structure of the Draft Reasons Paper on the information disclosure requirements for specified airport services under Part 4 of the Commerce Act 1986.

1.2 Information Disclosure Regulation

1.2 Section 56C of Part 4 of the Act provides that specified airport services are subject to information disclosure regulation. The three Airports that are regulated, as suppliers of specified airport services, are Auckland International Airport Limited (“AIAL”), Wellington International Airport Limited (“WIAL”) and Christchurch International Airport Limited (“CIAL”).

1.3 For the purposes of regulation under Part 4 of the Act, section 56A provides that specified airport services means:

“...all of the services provided by the companies referred to in subsection (2) in markets directly related to the following activities (whether for international or domestic flights):

- (a) aircraft and freight activities;
- (b) airfield activities;
- (c) specified passenger terminal activities;
- (d) any other services that are determined by the Governor-General, by order in Council made on the recommendation of the Minister”

1.4 The definition of the categories of specified airport services listed in paragraphs (a)-(c) above are carried over from section 2 of the Airports Authorities Act 1966 (the “AAA”).²

1.5 The information disclosure regulations provided for under the Airports Authorities (Airports Companies Information Disclosure) Regulations 1999 continue to apply to each of the three Airports until the Commission makes its Information Disclosure Determination under Part 4 of the Act.³

1.6 Pecuniary penalties under section 86 of the Act apply in relation to contraventions of the information disclosure requirements.

1.3 Draft Reasons Paper

Scope of Draft Reasons Paper

1.7 The purpose of the Draft Reasons Paper is to set out the reasoning for the Commerce Commission’s (the “Commission”) draft decisions on information disclosure requirements for specified airport services as set out in the draft Commerce Act (Airport Information Disclosure) Determination 2010 (“Draft Information Disclosure Determination”). The draft decisions build on positions previously set out in the Information Disclosure Discussion Paper (“Discussion Paper”),⁴ and the draft decisions set out in the Input Methodologies (Airport Services) Draft Reasons Paper (“IMs Draft Reasons Paper”).⁵

² Commerce Act 1986 section 56A(3).

³ Airport Authorities Act 1966 section 9A(1AAA).

⁴ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009.

⁵ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper*, 31 May 2010.

1.8 In reaching its draft decisions on the information disclosure requirements for specified airport services, the Commission has considered all submissions received during the consultation process. Submitters and other interested persons should note that this Draft Reasons Paper is part of an on-going consultative process, and no final decisions have been made.

Structure of the Draft Reasons Paper

1.9 The chapters and appendices that make up the Draft Reasons Paper are set out in the following tables.

Chapter	Title and Topic
Chapter One	Introduction Discusses the scope and overall structure of the paper
Chapter Two	Regulatory Framework and General Approach Discusses the relevant provisions of the Commerce Act 1986 and broad framework issues
Chapter Three	Historical Financial Information Disclosures Sets out the Commission draft decisions on disclosure requirements associated with historical information
Chapter Four	Quality and Statistics Sets out the Commission’s draft decisions on disclosure requirements for quality and statistics
Chapter Five	Forecast Total Revenue and Supporting Information Sets out the Commission’s draft decisions on disclosure requirements for forecast information, including forecast revenue requirements and relevant assumptions
Chapter Six	Pricing and Related Disclosures Sets out the Commission’s draft decisions on disclosure requirements for pricing and pricing methodologies
Chapter Seven	Certification, Audit, Publication and Transitional Provisions Sets out the Commission’s draft decisions on certification and audit of disclosures

Appendices	Title and Topic
Appendix A	Information Disclosure Framework Summary Diagrams
Appendix B	Summary of Key Departures from GAAP
Appendix C	Capacity and Utilisation Quality Indicators

1.4 Consultation Process

- 1.10 These draft decisions are being released by the Commission as part of a broader consultation process to determine the application of information disclosure regulation for specified airport services under Part 4 of the Commerce Act. The consultation steps, working sessions and associated papers are as follows:

Key Deliverable	Release/Due Date
Commerce Commission, <i>Regulatory Provisions of the Commerce Act 1986 – Discussion Paper</i> released	19 December 2008
Commerce Commission, <i>Information Disclosure Discussion Paper</i> released	29 July 2009
Network Advisory Services, <i>Regulation of Specified Airport Services: Information Disclosure, Quality Measures</i> released	September 2009
Airports quality working session,	15 December 2009
Commerce Commission, <i>Asset Planning and Forecast Information for Airports: Working Session Papers</i> released for consultation	29 January 2010
Airports Workshop—Asset Planning and Forecast Information	18 February 2010
Written submissions received on <i>Asset Planning and Forecast Information for Airports: Working Session Papers</i>	26 February 2010
Release of complete draft reasons and determination package	31 May 2010
Due date for submissions on draft reasons paper and determinations	12 July 2010
Cross submissions on draft reasons paper and determination due	2 August 2010
Technical consultation on determination	To be decided following receipt of submissions and cross submissions on draft reasons paper and draft determinations.
Release of final determination	Week of 7 December 2010

- 1.11 In making its decisions, the Commission has carefully considered material put forward in workshops, working sessions, and the submissions from interested persons (including relevant submissions on input methodologies).⁶ In addition to these submissions, the

⁶ Available at www.comcom.govt.nz.

Commission has assessed and considered the advice received from its own external advisors.

- 1.12 The Commission welcomes all submissions relevant to these draft decisions and the draft determinations. Submissions are due by **5pm on Friday 12 July 2010**. In addition the Commission has posted Microsoft Word and Excel versions of the accompanying Draft Information Disclosure Determination and associated draft templates on its website, to give submitters the opportunity to provide drafting suggestions and alternative wording.

CHAPTER 2: REGULATORY FRAMEWORK AND GENERAL APPROACH

2.1 Introduction

2.1 This chapter sets out the regulatory framework under which the Commission has made its draft decisions informing the Draft Information Disclosure Determination. In particular, it discusses several key aspects of the legislative framework for the information disclosure regime as it applies to suppliers of specified airport services, including:

- a summary of the key legislative provisions relating to the Commission's setting of information disclosure requirements;
- the purpose of information disclosure, which is to ensure sufficient information is available to assess whether the purpose of Part 4 is being met;
- requirements for Airports to apply input methodologies set by the Commission;
- the regulatory framework principles the Commission has applied; and
- the Commission's general approach to information disclosure regulation for Airports.

2.2 The chapter sets out the Commission's general approach to information disclosure regulation, and outlines other key factors that the Commission has considered as part of its decision making, including factors specific to Airports, the role of the Commission's summary and analysis obligations, and the relevant Government Policy Statement.

2.2 Setting Information Disclosure Requirements

2.3 Specified airport services are subject to information disclosure regulation under Part 4 pursuant to section 56C of the Act. The effect of being subject to information disclosure regulation is set out in section 53B of the Act, which includes disclosing information publicly and providing copies of that information to the Commission in accordance with any information disclosure requirements set by way of a determination under section 52P of the Act. Section 52P of the Act requires that the Commission's determinations must:

- set out the requirements that apply to each regulated supplier;
- set out any timeframes that must be met or that apply;
- specify the input methodologies that apply; and
- be consistent with Part 4 of the Act.

2.4 Section 53C(1) of the Act provides that a section 52P determination relating to goods or services subject to information disclosure regulation must specify the following:

- the goods or services to which it applies;
- the suppliers to which it applies;
- the information to be disclosed;
- the manner in which the information is to be disclosed;
- the form of disclosure;
- when, and for how long, information must be disclosed;

- the input methodologies that apply; and
- any other methodologies that are required in the preparation or compilation of the information.

2.5 Section 53C(2) sets out a non-exhaustive list of the types of information that may be required to be disclosed under information disclosure regulation:

- financial statements;
- asset values and valuation reports;
- prices, terms and conditions relating to price, and pricing methodologies;
- contracts;
- transactions with related parties;
- financial and non-financial performance measures;
- plans and forecasts;
- asset management plans (AMPs);
- quality performance and statistics;
- assumptions, policies, and methodologies used or applied in these or other areas; and
- consolidated information that includes information about unregulated goods or services.

2.3 Purpose of Information Disclosure

2.6 Section 53A of the Act provides that the purpose of information disclosure regulation is:

...to ensure that sufficient information is readily available to interested persons to assess whether the purpose of this [Part 4] is being met.

2.7 Section 52A sets out the purpose of Part 4 of the Act:

The purpose of this Part is to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods and services—

- (a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and
- (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and
- (c) share with consumers the benefits of efficiency gains in the supply of regulated goods or services, including through lower prices; and
- (d) are limited in their ability to extract excessive profits.

2.8 The Commission's interpretation of the Part 4 Purpose is that:

- the central purpose is to promote the long-term benefit of consumers in markets where there is little or no competition and little or no likelihood of a substantial increase in competition.
- this central purpose is to be achieved by promoting outcomes consistent with outcomes produced in workably competitive markets such that (a) to (d) occur.

- 2.9 The Commission has sought to identify the outcomes produced in workably competitive markets, and has sought to design an information disclosure regime to allow an assessment of whether consistent outcomes occur in regulated markets. The outcomes must promote the objectives set out in section 52A(1)(a)-(d) of the Act. As clarified in the Explanatory Note to the Commerce Amendment Bill,⁷ promoting the long-term interests of consumers by promoting outcomes consistent with workable competition "requires suppliers to have incentives to invest and innovate, have incentives to improve efficiency and provide services at a quality required by consumers, share the benefits of efficiency gains with consumers, and limit excessive profits".⁸ These 'requirements', or regulatory objectives, are set out in (a) to (d) of section 52A(1) of the Act.
- 2.10 The Commission's interpretation of the purpose of Part 4 is set out in more detail in the IMs Draft Reasons Paper.⁹ The Commission's draft decisions in respect of the Draft Information Disclosure Determination are consistent with that interpretation.

"Sufficient" information

- 2.11 In light of the purpose statement in section 53A of the Act, a key component of the Commission's Draft Information Disclosure Determination has been ensuring that "sufficient" information is made available. Some submitters argued that "sufficient" should be interpreted in a restrictive manner, so that sufficient information *only* should be disclosed and no more, suggesting a "necessary" standard applies.¹⁰ Other submissions implied that "sufficient" should be interpreted in a more permissive sense, suggesting that the onus is on ensuring that more relevant and detailed information is made available so that a greater range of interested persons can be better informed.¹¹
- 2.12 The Commission considers that there should be a requirement to disclose sufficient information so that all interested persons can make an informed assessment of whether the purpose of Part 4 is being met. Accordingly, "sufficient" can be read as setting a minimum requirement. The Commission is, however, mindful of the need to implement a cost-effective regulatory regime, and the Commission's considerations have included limiting the scope of disclosure obligations where there is little value in additional public disclosure.

"Interested persons"

- 2.13 The Commission considers that "interested persons" should be interpreted broadly, and includes consumers, suppliers and owners of the regulated supplier, and any other stakeholder of the regulated supplier. Interested persons may include airlines, business and leisure travellers, land developers, regional authorities, and other consumer groups. Further, and consistent with its preliminary view in the Discussion Paper,¹² the

⁷ The Explanatory Note to the Commerce Amendment Bill (201-1), Government Bill, as introduced to the House of Representatives, Wellington, 13 February 2008 (Explanatory Note) refers to (a) to (d) as objectives when setting out the rationale that informed the Part 4 Purpose.

⁸ Explanatory Note, supra n 12, page 4.

⁹ See Chapter 2 of Commerce Commission, *Draft Input Methodologies (Airport Services) Reasons Paper*, 31 May 2010.

¹⁰ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, (2 November 2009), paragraphs 27–36 and Vector, *Submission to the Commerce Commission on the Information Disclosure Paper*, 11 September 2009, paragraph 30.

¹¹ BARNZ, *Submission on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 8; BARNZ, *Cross Submission by BARNZ on NZ Airports' Submission with respect to the Commission's Information Disclosure Document*, 2 November 2009, page 6.

¹² Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraph 53.

Commission considers that “interested persons” includes the Commission as a regulator. Accordingly, information disclosure regulation should ensure that public disclosure of information by regulated suppliers enables a range of interested persons to assess whether outcomes consistent with outcomes produced in workably competitive markets are being promoted.¹³

- 2.14 The interpretation of “interested persons” is important because it informs the Commission for whom the information disclosure requirements need to be sufficient. The purpose of information disclosure requires sufficient information to be disclosed so that all interested persons can make an informed assessment.

2.4 Information Disclosure and Input Methodologies

- 2.15 The Draft IM Determinations contain the relevant methodologies, processes, rules and matters applicable to a particular sector, according to the type of regulation. Among other things, section 52S specifies that the Commission, in deciding or determining how regulation under Part 4 should apply to regulated goods and services, must apply every relevant input methodology. In addition, section 52S requires regulated suppliers to apply every relevant input methodology in accordance with the relevant section 52P determination.

- 2.16 Regulated suppliers that are subject to information disclosure regulation only under Part 4, such as Airports, are not required to apply input methodologies relating to cost of capital and pricing methodologies.¹⁴ However, the Commission may still apply any input methodologies relating to those matters as part of its monitoring, reporting and analysis obligations under section 53B. The Commission intends to determine and apply a cost of capital input methodology.

- 2.17 The input methodologies that are applicable to Information Disclosure Determinations, and that must be applied by Airports, are:

- valuation of assets;
- allocation of common costs; and
- treatment of taxation.

- 2.18 The Commission notes that at this stage the Draft Input Methodology Determination (“Draft IM Determination”) that applies in respect of information disclosure regulation for Airports is in draft form and subject to consultation. Any amendments to those Draft IM Determination may require consequential amendments before the Draft Information Disclosure Determination is finalised.

2.5 Commission’s General Approach

- 2.19 This part sets out some of the key factors that the Commission has had regard to in its overall approach to information disclosure for specified airport services. In particular, this part:

- sets out the overall framework within which the Draft Information Disclosure Determination is set;
- addresses concerns relating to the incentive effects of information disclosure regulation;

¹³ Commerce Act 1986, section 52A.

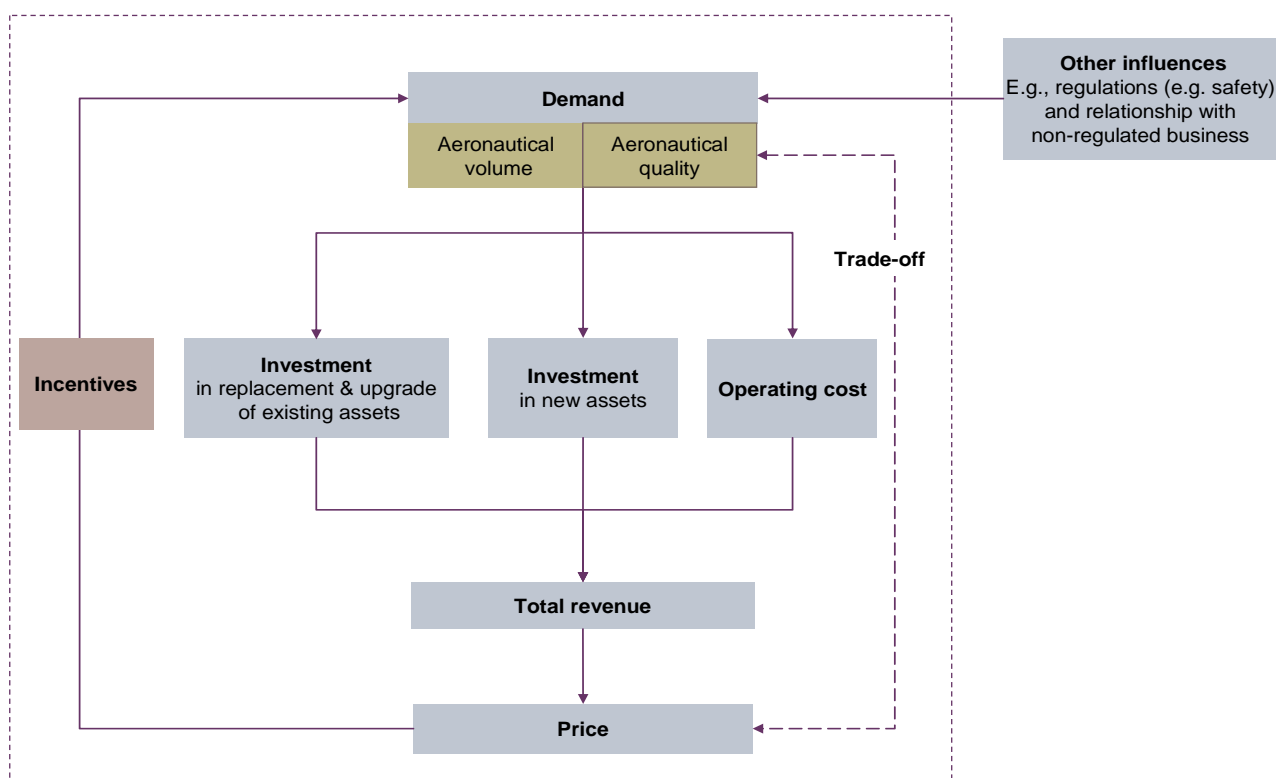
¹⁴ Commerce Act 1986, section 53F(1).

- discusses the need for the disclosure of forecast information; and
- sets out the Commission’s approach to disclosure requirements that touch on issues of commercial sensitivity.

Overall approach

2.20 The operation of an Airport involves a range of complex, interlinked activities. A simplified representation of the inter-relationships of financial and non-financial factors which may influence the operation of an airport is set out in Figure 1 below. The overall scope of the Draft Information Disclosure Determination is represented by the component included inside the dotted line.

Figure 1: Inter-relationship of airport financial and non-financial factors from an information disclosure perspective



2.21 In order to provide sufficient information to allow interested persons to assess whether the section 52A purpose statement is being met, the Draft Information Disclosure Determination is designed to make transparent to interested persons the pricing and investment decisions Airports make as part of operating an international airport, and the subsequent performance resulting from those decisions. In particular, the Draft Information Disclosure Determination seeks disclosure around:

- aeronautical demand in terms of throughput and quality;
- the rationale for and the level of investment required to meet the demand as well as the operating cost associated with meeting demand;
- the revenue requirement; and
- the approach to pricing used by Airports to meet their revenue requirements.

2.22 The Commission notes that pricing may influence Airport customers’ expectations for quality (e.g. low cost airlines and flag carriers may have different requirements in this

regard) and vice versa. Pricing decisions may also be used to provide incentives to customers, thus increasing future demand.

- 2.23 The various aspects of this framework are discussed in Chapters 3-6 of this Draft Reasons Paper.

Incentive effects of information disclosure regulation

- 2.24 The Commission has received a number of submissions on the purpose of information disclosure, and how this purpose should influence the development of specific information disclosure requirements. In particular, the Commission received submissions that information disclosure regulation is not intended to influence the behaviour of regulated suppliers. Instead, submissions contended that information disclosure regulation is a monitoring regime only, intended to observe market behaviour without influencing it.¹⁵

- 2.25 As discussed above, information disclosure provides a means for regulators and other interested persons to assess whether regulated suppliers face incentives to achieve outcomes consistent with outcomes produced in workably competitive markets such that the objectives listed in paragraphs (a) to (d) of section 52A are achieved. An effective information disclosure regime provides transparency to interested persons of the performance of regulated suppliers, and provides an ongoing source of information so that trends can be identified and monitored over time.

- 2.26 The Commission acknowledges, in line with the views of some submitting parties,¹⁶ that information disclosure regulation will likely have an effect on the incentives faced by regulated suppliers. For example, placing information and analysis about the regulated suppliers into the public domain can create incentives similar to those found in competitive markets by providing:

- sufficient information to consumers and other interested persons, including on the extent to which efficiency gains have been shared with consumers through lower prices (for a given quality) or improved quality (for a given price). Doing so may enhance consumers' countervailing market power, thereby assisting in limiting excessive profits, as well as in facilitating consumer engagement with regulated suppliers about the desired level of service quality;
- better information to the owners of regulated suppliers in some cases, for example where information disclosure allows comparisons with suppliers in other areas, may facilitate more effective governance and help them identify opportunities for value-enhancing trade in assets used to supply regulated services (e.g. consolidation of businesses), management contracting and so on, thereby promoting incentives for improved efficiency (including efficient investment) and innovation; and
- potentially increased incentives for the management of regulated suppliers to improve relative and absolute performance, both through the ability of interested persons to make comparisons and the public nature of the disclosures, similarly promoting incentives for improved efficiency (including efficient investment) and innovation.

¹⁵ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, pages 45–46.

¹⁶ NZAA, *Preliminary Comments by NZ Airports Association on the Commerce Commission Input Methodologies (Airport Services) Emerging Views Paper Pre February 2010 Workshop*, 1 February 2010, paragraph 23.

2.27 However, the Commission considers that it is important to distinguish this influence from the purpose of information disclosure as provided for in section 53A of the Act. While some incentive effects will flow from any information disclosure regime, the Commission considers that utilising the information disclosure regime to influence the investment and pricing decisions of regulated suppliers in a premeditated way falls outside the scope of the section 53A purpose statement. The Commission's information disclosure framework has been developed to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met.

Forecast information

2.28 The disclosure of forecast information, including information about suppliers' expectations, assists interested persons to make effective assessments of whether the purpose of Part 4 is being met. The disclosure of forecast information (in conjunction with historical information) also allows interested persons to compare forecast outcomes with actual outcomes. This allows for an assessment of the efficiency of investment and pricing decisions, and thus allows interested persons to assess whether outcomes are consistent with outcomes produced in workably competitive markets.

2.29 Some submitters expressed concerns that requiring disclosure of certain kinds of forecast information, such as financial forecast information, would unduly influence the approach of regulated suppliers in making investment and pricing decisions.¹⁷ The Commission notes that Part 4 expressly provides for the disclosure of forecast information.¹⁸

Confidential information

2.30 The Commission acknowledges that any information disclosure regulatory regime raises issues of confidentiality. Businesses may have good reasons to seek to maintain confidentiality, for example for reasons of commercial sensitivity or security. The Commission has sought to balance confidentiality with sufficient disclosure of information where appropriate, and has sought to minimise the need for the disclosure of such information. Where disclosure of particular information allows interested persons to make meaningful assessments of the performance of a regulated supplier that otherwise could not be made, the Commission considers that strong reasons would need to be given to justify the complete absence of any disclosure requirement in respect of that information.

Disclosure Templates

2.31 The Commission has developed draft templates for the disclosure of information so that interested persons can assess information that is provided in a consistent manner overtime and across different Airports.

2.6 Implementation Considerations

2.32 In the Discussion Paper, the Commission identified a number of principles intended to guide the Commission's decision making in the implementation of an effective information disclosure regulation. The Commission has previously noted that adopting a principled approach can help provide further understanding of the Commission's proposed approach to regulation under Part 4.

¹⁷ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 44.

¹⁸ Commerce Act 1986, section 53C(2)(g).

2.33 The Commission has had regard to the following considerations in formulating the draft Information Disclosure Requirements:

- relying, where possible, on existing information gathering practices to promote a cost-effective information disclosure regime;
- ensuring consistency of data, both between Airports and over time, to promote comparability of performance and therefore more meaningful assessment;
- providing for a degree of flexibility, so that Airports can present as realistic a picture as possible of their actual performance for interested persons to assess; and
- ensuring the Airports make any underlying assumptions or rationale explicit, so that interested persons can make an informed assessment of whether the purpose of Part 4 is being met.

2.34 The Commission received submissions suggesting a “materiality” principle,¹⁹ and that the Commission adopt some kind of explicit cost-benefit test as an implementation principle.²⁰ The Commission’s view is that key elements of both materiality and weighing the costs and benefits of particular requirements are incorporated into considerations of cost-effectiveness. The Commission considers that expressly adopting an additional principle along the lines of those proposed in submissions would potentially detract from the emphasis that the Commission’s primary concern is the establishment of an information disclosure regulatory regime in accordance with the Act. However, the Commission remains mindful of the need to ensure that any disclosed information is useful for interested persons.

2.7 The Airport Sector

2.35 The Commission considers that to be effective, information disclosure requirements may need to take account of any specific circumstances that apply to the specific sector being regulated. Accordingly, the Commission has sought to identify sector-specific factors that it may have regard to in determining information disclosure requirements.

2.36 One example of such a factor in the Airports sector is the AAA. Pursuant to the AAA, each Airport is required to consult with “substantial customers” as part of its process of amending prices for airport activities. These airport activities align with the specified airport services identified in the Act. Further, these consultation obligations require Airports to prepare and make available information relevant to the calculation of prices for airport activities and costs of major investments.

2.37 Consultation with specific consumers under the AAA serves a different purpose to public information disclosure under Part 4 of the Act. Consultation ensures the views of interested persons are provided to Airports so that those views are taken into account as part of good decision making. Public information disclosure, in contrast, informs interested persons broadly on the performance of Airports, promoting the purpose of information disclosure.

2.38 NZAA submitted that regulation of specified airport services under Part 4 of the Act and the AAA are part of a broader regulatory framework for the airport sector, and that

¹⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 48. Transpower New Zealand Limited, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 5.

²⁰ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 91.

a cost effective information disclosure regime would look for synergies between the two processes.²¹ The Commission acknowledges that as part of their consultation under the AAA, Airports already prepare and make available to their airline customers a significant amount of information. The Commission considers that much of this information would assist in promoting an effective information disclosure regime if it were publicly disclosed. Information made available in consultation therefore provides a useful starting point for setting information disclosure requirements. However, the Commission also considers that further preparation and disclosure of information will be necessary to fully give effect to the information disclosure regime. Accordingly, the Commission's broad approach has been to:

- leverage Airports' existing practices in respect of information preparation where that supports effective information disclosure; and
- require additional preparation and disclosure of information only where necessary for an effective information disclosure regime.

2.39 The Commission considers that this approach represents a move towards increased transparency from the current regime, as there is increased public disclosure of available information, and that it ensures cost-effective implementation of information disclosure regulation by drawing as much as possible on current practices. The AAA regime does not, however, alter the objectives of the Commission's implementation of an information disclosure regime pursuant to Part 4 of the Act.

2.40 In addition to considering the AAA, NZAA submitted that, in practice, investment in Airport assets takes account of the following factors:

- the provision of specified airport services involves a number of different asset classes with different investment cycles;
- investment decisions regarding major assets takes place under considerable uncertainty as demand is difficult to forecast given the volatility of passenger numbers;
- investment in major assets is extremely lumpy and has long lead-in times, further adding to investment uncertainty; and
- asset maintenance is required on a prompt basis, and often immediately due to safety concerns.²²

2.41 The Commission has considered these factors in determining the Draft Information Disclosure Determination.

2.8 Other Statutory Considerations

Summary and Analysis

2.42 Section 53B(2)(b) provides that the Commission:

...must, as soon as practicable after any information is publicly disclosed, publish a summary and analysis of that information for the purpose of promoting greater understanding of the performance of individual regulated suppliers, their relative performance, and the changes in performance over time.

²¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraphs 94–95.

²² NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraphs 178–189.

- 2.43 The requirement to publish a summary and analysis confers an ongoing, active role on the Commission in respect of the information disclosure regime after the information disclosure requirements have been set. The Commission considers that its summary and analysis obligations will contribute to ensuring that sufficient information is made available to all interested persons.
- 2.44 In addition to undertaking their own analysis, interested persons may find the Commission's summary and analysis, as part of the information made publicly available under the regulatory regime, useful in their assessment of whether regulated suppliers face incentives to produce outcomes consistent with outcomes produced in competitive markets such that the objectives listed in section 52(1) occur. The Commission considers that this addresses concerns expressed in some submissions that such disclosures "may well impair the benefits of the disclosures as interested persons may instead be overwhelmed by information".²³

Ministerial Report

- 2.45 Section 56G requires the Commission to report to the Minister of Commerce and the Minister of Transport as to how effectively information disclosure regulation is promoting the purpose in section 52A of the Act in respect of specified airport services.²⁴ NZAA submitted that the information disclosure regime for suppliers of specified airport services should not focus on the Ministerial report.²⁵ The Commission has made its draft decisions to seek to ensure that interested persons have sufficient information to assess whether the purpose of Part 4 is being met, and its preliminary view is that the information disclosures requirements set in the Draft Information Disclosure Determination will provide adequate information for the Commission to report effectively to the relevant Ministers. The Commission will look at the issues of the information needed for the Ministerial Report in more detail when it is required to start preparing the report.

Government Policy Statement

- 2.46 In addition to the provisions in Part 4, section 26 of the Act provides that the Commission, when exercising its powers under the Act, shall have regard to the Government's economic policies transmitted in writing from time to time to the Commission by the relevant Minister. The Government transmitted the Government's Policy Statement: Incentives of Regulated Businesses to Invest in Infrastructure, to the Commission in August 2006 ("the GPS").²⁶
- 2.47 The GPS states that the Government's economic policy objective is for regulated businesses to have incentives to invest in replacement, upgraded and new infrastructure and in related businesses for the long-term benefit of consumers. This objective will be achieved by:

²³ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 9.

²⁴ The timing of the report is dependent on the timing of the setting of any new prices for specified airport services by the supplier of those services, but will not be before 2012.

²⁵ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 5.

²⁶ New Zealand Government, *Statement to the Commerce Commission of economic policy of the Government: Incentives of regulated businesses to invest in infrastructure*, 7 August 2006. Although this GPS will need updating to reflect the passage of the CAA, the principles still apply in the meantime.

- regulatory stability, transparency and certainty giving businesses the confidence to make long-life investments;
- regulated rates of return being commercially realistic and taking full account of the long-term risks to consumers of under-investment in basic infrastructure; and
- regulated suppliers being confident they will not be disadvantaged in their businesses if they invest in other infrastructure and services.

2.48 The GPS also states that it is important regulatory control ensures that:

- the consumers of regulated businesses are not disadvantaged by the investments of regulated businesses in other infrastructure and services;
- regulated businesses are held accountable for making investments in that business where those investments have been provided for in regulated revenues and prices; and
- regulated businesses provide infrastructure at the quality required by consumers at an efficient price.

2.49 The Commission has had regard to the GPS when forming its draft decisions on the Draft Information Disclosure Determination.

CHAPTER 3: HISTORICAL FINANCIAL INFORMATION DISCLOSURES

3.1 This chapter sets out the Commission's draft decisions and supporting reasons relating to the disclosure of historical financial information and the return on investment (ROI) calculation.

3.1 Purpose

3.2 The disclosure of historical financial information assists interested persons to assess whether the performance of the Airports is broadly consistent with outcomes that are observed in workably competitive markets. In particular, the disclosure of historical financial information assists interested persons to assess whether Airports are limited in their ability to extract excessive profits, have incentives to improve efficiency, share with consumers the benefits of efficiency gains including through lower prices and have incentives to invest, including in replacement, upgraded and new assets.

3.3 The Act provides for the disclosure of a range of financial information, including financial statements, asset values and valuation reports, transactions with related parties, financial and non-financial performance measures, and consolidated information which may also include information about unregulated goods and services.²⁷

3.4 Over the lifetime of its assets, an efficient firm in a workably competitive market could expect to earn normal returns (i.e. its cost of capital). The opportunity to earn normal returns over the lifetime of an investment should allow a business to preserve its 'financial capital' (in real terms). Such an outcome is often referred to in accounting terms as financial capital maintenance (FCM).

3.5 The concept of FCM provides useful guidance in setting information disclosure requirements in respect of historical financial information, as disclosure requirements set consistent with the concept of FCM enable interested persons to assess the extent to which regulated supplier's profitability levels are consistent with outcomes in a workably competitive market over time.²⁸

3.6 Although the application of the FCM concept for the purposes of information disclosure does not, of itself, maintain financial capital, FCM provides valuable guidance in specifying how the value of the Regulatory Asset Base (RAB) is to be rolled forward, and how changes in asset value, as well as in other parameters, should be included in the measurement of ROI.

3.7 Financial information is also useful in assisting interested persons in assessing whether or not operational efficiency is occurring and incentives to invest are in place consistent with outcomes in a workably competitive market.

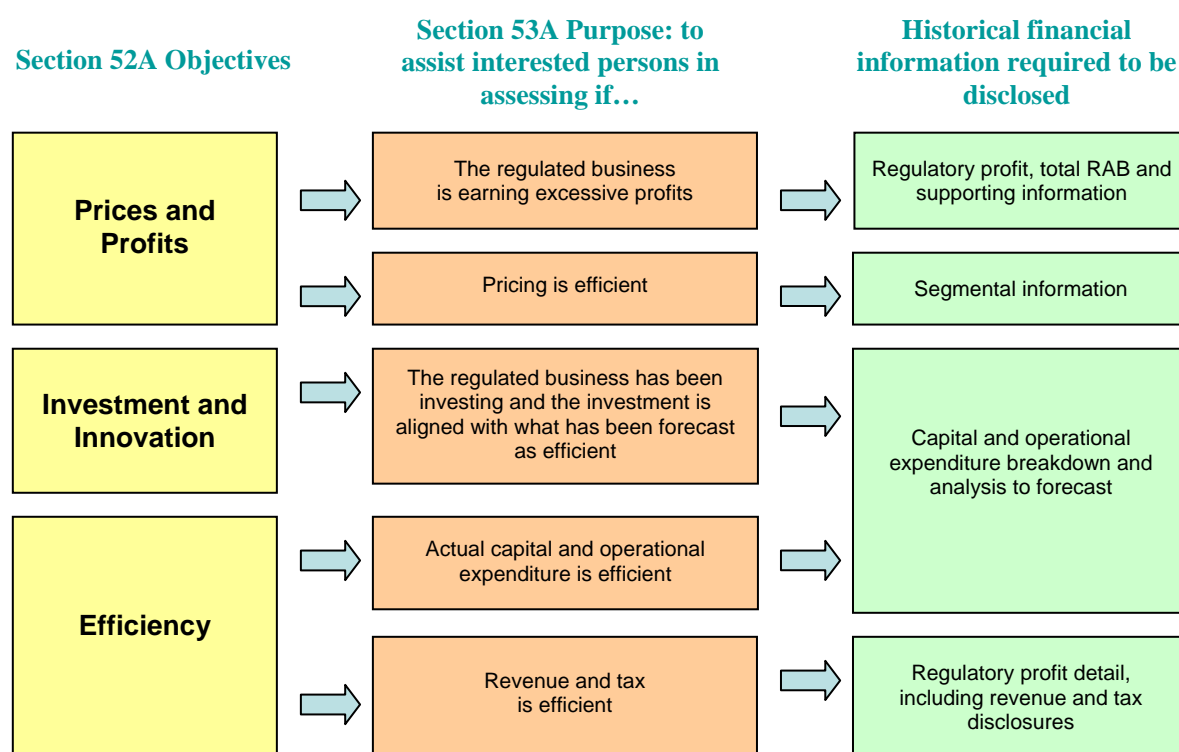
3.2 Approach

3.8 Figure 1 outlines the Commission's approach to the disclosure of historical financial information which will assist interested persons to assess whether the purpose of Part 4 is being met.

²⁷ Commerce Act 1986, section 53C(2).

²⁸ Further discussion on the concept of financial capital maintenance in a regulatory setting is available in Commerce Commission, *Input Methodologies Discussion Paper*, 19 June 2009, paragraphs 2.60–2.67.

Figure 2: Approach to historical financial information disclosure



- 3.9 Historical financial information is captured by businesses in an accounting system, which in general is a system for recording, classifying and summarising the activity of a business. It constitutes an integrated body of consistent information to enable an assessment of the financial performance, including the financial capacity of the business. Accounting information is produced for a variety of purposes, including internal management purposes and also external statutory purposes such as reporting to external stakeholders and the tax authorities.
- 3.10 The approach to the preparation of financial information is dependent on the purpose. For example, internal management accounting will generally be reported in accordance with the structure of management accountabilities and will generally contain a greater level of detail than is required for statutory financial reporting purposes. Accounting information prepared for external purposes is typically prepared on the general rules and principles known as ‘Generally Accepted Accounting Practices’ (GAAP), a term that is defined in the Financial Reporting Act 1993.
- 3.11 The purpose of regulatory reporting is distinct from other forms of external reporting. Accordingly, consideration needs to be given to the ability of GAAP reporting requirements to meet the purpose of Part 4. Where GAAP is not sufficient to meet the purpose of regulatory reporting alternate requirements are required. A key example of a purpose that is not met by GAAP is that regulatory reporting under Part 4 requires information to be disclosed based on a business activity, rather than an entity, basis. Appendix B summarises the key departures from GAAP.

- 3.12 GAAP, however, is a cost-effective means of reporting financial information, as it is well understood and is reflected in existing business systems and processes. Accordingly, the Commission considers that for the purposes of regulatory reporting that GAAP should be the starting point. Submitters generally agreed with applying GAAP as the starting point but modifying where necessary in order to meet the purposes of information disclosure.²⁹
- 3.13 Conversely, in some instances information required to be disclosed through GAAP may not be necessary for the purposes of regulatory reporting. Submitters generally supported the Commission's preliminary view, as set out in the Discussion Paper, that equity, working capital and cashflow information are not required for regulatory reporting purposes. Airline submitters, however, considered that financing information should be disclosed.³⁰ Paragraphs 3.22 to 3.26 provide further discussion regarding the disclosure of financing information.

Input Methodologies

- 3.14 As discussed above, the purpose of statutory financial reporting (which is prepared in accordance with GAAP) and regulatory reporting are not necessarily aligned. The Act provides for this with the requirement that the Commission determine, and that Airports apply, input methodologies.³¹ In regard to Information Disclosure, the application of Input Methodologies gives regulated suppliers and consumers a higher level of certainty regarding the accounting treatment than would otherwise be provided by GAAP.
- 3.15 The Input Methodologies required under the Act that are applicable to historical financial information disclosures are:
- valuation of assets, including depreciation and treatment of revaluations;
 - allocation of common costs; and
 - treatment of taxation.³²
- 3.16 Suppliers that are subject only to information disclosure regulation do not have to apply Input Methodologies in respect of pricing methodologies or for evaluating or determining the cost of capital. However, while they are not required to be applied, the Commission may use such input methodologies to monitor and analyse information.³³
- 3.17 The Commission has chosen to determine the basis for estimating the cost of capital for the purpose of meeting interested persons in assessing financial performance.³⁴

²⁹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 16; NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 63.

³⁰ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, pages 17–18.

³¹ Commerce Act 1986, section 52P(3)(c).

³² *ibid*, section 52T(1).

³³ *ibid*, section 53F.

³⁴ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper*, 31 May 2010, paragraph 1.2.14

3.3 Return on Investment

Purpose and Approach to the ROI

- 3.18 The ROI is an annual profitability indicator which may be used as a basis to assist interested persons to assess whether an Airport may be earning excess returns over time. The ROI measure assesses returns against capital investment. In assessing whether an Airport is earning excess returns, the ROI is compared to a weighted average cost of capital (WACC), which is an estimation of the percentage return on capital that is consistent with a return that may be achieved in a workably competitive market over time (i.e. the cost of capital). However, an ROI in excess of the cost of capital is, on its own, not determinative of excessive profits given that costs can vary from year to year or short-term profits above the cost of capital may simply reflect superior efficiency or innovation.
- 3.19 The ROI does, however, provide a headline indicator of profitability and financial performance, and as such is an important measure that can assist in making assessments as to whether efficiency gains are being shared, regulated suppliers have incentives to invest; and regulated prices are, in aggregate, free of cross subsidisation from unregulated services.
- 3.20 More fundamentally, however, it is important to note that any annual estimate of returns such as the ROI can only ever be an approximation of the economic returns of an investment. Any analysis of profitability will inevitably be over a time period shorter than the economic lifetimes of the assets involved, and will have to primarily rely on accounting-based rather than economic-based data, particularly in respect of asset values.³⁵ Accordingly, it is the analysis of the changes in disclosed ROIs over time, in light of changes in relevant disclosures relating to efficiency, which assists interested persons in assessing whether excessive profits are being limited, and whether financial capital is being maintained.
- 3.21 In determining the appropriate means for assessing returns, the Commission has considered several profitability measures, including ROI and Return on Equity, and has concluded that in order to assess returns broadly, the ROI is the appropriate measure of regulatory performance. Other means of assessing returns are more limited as they focus on the returns to particular stakeholders, such as financiers and shareholders. Accordingly, the Commission is of the view that the ROI is an appropriate measure of performance for the information disclosure regime.
- 3.22 Air NZ, however, raised a concern that where a regulated supplier can access finance at a lower rate than assumed in the cost of capital then they could be overcompensated for the cost of borrowing.³⁶ BARNZ submitted that the actual cost of finance was important for assessing whether there are incentives to invest and innovate, and also whether suppliers are limited in their ability to extract excessive profits.³⁷

³⁵ Profitability calculations are more correctly performed on a cash-flow basis and therefore over the life time of the asset. Where information is not available on the cash-flows over the life time of the asset, reliance is placed on accounting measures that estimate cash flows that are yet to be realised. For example, depreciation is an estimation of the historical or purchase cost of an asset used in the production of goods or services during a certain period.

³⁶ Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 11.

³⁷ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, pages 17–18.

- 3.23 In response to submitters' concerns, the Commission notes the role of input methodologies in respect of cost of capital is to determine a benchmark against which the profitability of Airports can be assessed.³⁸ The cost of capital is an estimation that is updated annually and is therefore an appropriate reflection of Airports' cost of capital. There may be instances, however, when Airports can access finance at a lower cost or have to pay a higher cost of finance than is assumed in the cost of capital. This can, however, be the outcome of a number of factors, some of which are not part of the provision of the regulated service, for example the risk profile including debt to equity ratio of the entire entity which includes unregulated business activities. Accordingly, it would be inappropriate for a regulatory assessment to be made when outcomes are significantly affected by unregulated business activity decisions.
- 3.24 The Commission notes also that for an assessment to be made on the financing costs associated with the regulated business, these costs would need to be allocated between the regulated and unregulated parts of the business. This would be complex given that an entity would generally not establish funding based on activities, but rather on the needs of the business as a whole.
- 3.25 BARNZ considered that the allocation of actual debt between regulated and unregulated activities could be done on the basis of pragmatic allocation rules.³⁹ The Commission considers that any such allocation would be arbitrary because there would not be one set of allocation rules that would reflect the basis for which debt may have been sourced.
- 3.26 Financing information is, however, required to determine the deductible interest in the tax calculation as outlined in the IMs Draft Reasons Paper. As outlined in the IMs Draft Reasons Paper, notional finance costs have been deemed appropriate in this instance due to the arbitrary nature of potential allocation rules and the limited effect notional compared to actual finance costs will have on an Airport's tax payable calculation and therefore the ROI.⁴⁰

Comparison to cost of capital

- 3.27 The cost of capital may be prepared on either a post-tax or a "vanilla" basis. The Commission considers that interested persons in New Zealand ("NZ") are more likely to be familiar with a post-tax WACC, but understands that regulators in a number of overseas jurisdictions use a vanilla WACC. Therefore, the Commission's draft decision as outlined in the IMs Draft Reasons Paper is that both a post-tax and vanilla WACC will be prepared.⁴¹ Accordingly, the Commission draft decision is that ROIs comparable to a post-tax and vanilla WACC are to be disclosed.
- 3.28 The difference between the ROI comparable to the vanilla WACC and the ROI comparable to the post-tax WACC is that any tax benefit of interest (the 'interest tax shield') is deducted from regulatory profit for comparison with the post-tax WACC. In determining the interest tax shield deduction, a notional tax rate and notional financing

³⁸ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper*, 31 May 2010, paragraph 6.1.6.

³⁹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 18.

⁴⁰ Further discussion on how finance costs are determined for regulatory tax are provided in Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper* 31 May 2010, paragraph 5.4.2.

⁴¹ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper* 31 May 2010, paragraph 6.3.1.

is used so the deduction is comparable to the inherent adjustment within the post-tax WACC.

- 3.29 The cost of capital may also be prepared on either a nominal or real basis with the nominal WACC being consistent with treating the revaluation gains (from either indexing or revaluation) as income in the regulatory profit. As outlined in further detail below, revaluation gains reflected in the RAB are to be accounted for in the regulatory profit to provide consistency with the FCM concept.

Treatment of Revaluations and Depreciation

- 3.30 The IMs Draft Reasons Paper outlines how revaluations and depreciation are determined for the roll-forward of the RAB.⁴² This section outlines how the revaluations and depreciation are to be treated in the calculation of the ROI.
- 3.31 NZAA submitted that the treatment of revaluations when rolling forward the RAB will depend on the asset valuation methodology.⁴³ If the roll-forward was based on indexed revaluations, it would be appropriate for revaluation gains to be included in regulatory profit. However if a methodology is adopted that results in large fluctuations then the extent of revaluations that are included in the regulatory profit would depend on the outcome of further consultation. BARNZ submitted that revaluations should be reflected in the regulatory profit at the same value as used to roll-forward the RAB, and that if revaluations were not included in the regulatory profit disclosure it would present a misleading picture of performance.⁴⁴
- 3.32 The Commission agrees that if revaluations which are included in the RAB were not included in the regulatory profit then a misleading picture of performance over time would be presented as the full economic return of the Airport would not be recognised. This would not be consistent with the concept of FCM, and therefore limit any ability to assess an Airport's profitability.⁴⁵
- 3.33 The Commission acknowledges that if the asset valuation methodology results in material fluctuations this will also result in fluctuations in the ROI. In particular, reflecting a revaluation gain (or loss) in the ROI prior to the change in asset value occurring, signals an expectation of higher (or lower) returns in the future. Whether such returns eventuate depends on the extent to which the change in asset value flows through into revenues.⁴⁶
- 3.34 As outlined in the Asset Valuation section of the IMs Draft Reasons Paper, the Commission's draft decision is that assets will be rolled forward on an indexed historical cost basis except for land which will be periodically revalued and rolled forward on an indexed historical basis in intervening years.⁴⁷ The Commission notes that the periodic revaluation of land establishes a potential for material fluctuations in

⁴² Ibid., paragraph 4.3.35 – 4.3.44.

⁴³ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 58.

⁴⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 12.

⁴⁵ Commerce Commission, *Input Methodologies Discussion Paper*, 19 June 2009, pages 192 and 193.

⁴⁶ For example, refer: Commerce Commission, *Authorisation for the Control of Supply of Natural Gas Distribution Services by Powerco Ltd and Vector Ltd, Decisions Paper*, 30 October 2008, Appendix F.

⁴⁷ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper*, 31 May 2010, paragraph 4.3.35 – 4.3.44

the ROI. Given the ROI needs to be considered over time the Commission considers that the practical approach to dealing with fluctuations resulting from periodic revaluations is to address them as part of the annual summary and analysis.

- 3.35 Accordingly, the Commission's draft decision is that revaluations and depreciation should be included in the regulatory profit to the extent that revaluations and depreciation are included in the roll-forward of the RAB.

Capital Contributions and Vested Assets

- 3.36 Capital contributions are contributions received from a customer or another third party for the purpose of constructing or enhancing an asset that is included in the RAB. Vested assets are those assets which are constructed by a third party, and are subsequently transferred to the regulated business who then takes ownership and responsibility for those assets. These may be transferred for no consideration or for partial consideration.
- 3.37 The treatment of vested assets in the RAB, which is to include the asset in the RAB at the cost to the Airport, is outlined in the IMs Draft Reasons Paper.⁴⁸ Where a regulated supplier has received a capital contribution, the treatment of the cost of the asset is accounted for in the RAB on the same basis as any newly acquired or commissioned assets as the only difference is that there is revenue associated with the acquisition or development of the asset.
- 3.38 NZAA submitted that transparency in respect of the treatment of capital contributions and vested assets is important but noted that an approach to recognising capital contributions and vested assets as income should not be prescribed. Rather, NZAA submitted that the approach should be considered at the relevant time, and may either be consistent recognition in the income and asset base in the same year, or spreading the value over the life of the assets.⁴⁹ BARNZ submitted that capital contributions and vested assets should be recognised as income on the same basis as they are included in the RAB as otherwise there is an opportunity to earn returns in excess of the financial capital maintenance rule.⁵⁰
- 3.39 The Commission is mindful that capital contributions and the vesting of assets are not typical transactions that are associated with Airports. However, given that the value of such transactions can be high it is considered appropriate to specify the approach to recognising them as income so interested persons and Airports obtain certainty on how such profits will be assessed.
- 3.40 To be consistent with the FCM concept, the value of capital contributions should be recognised as income because capital contributions are a cash flow received by the Airport in the capacity of providing regulated services. Vested assets, however, should not be recognised as income because the difference between the value of vested assets and the consideration paid for the assets is not recognised in the RAB.
- 3.41 The recognition of capital contributions as income establishes a potential for fluctuations in the ROI. As with fluctuations resulting from periodic revaluations, it is

⁴⁸ Ibid., paragraphs 4.4.105 – 4.4.107.

⁴⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 59.

⁵⁰ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 12.

considered the practical approach to dealing with fluctuations resulting from capital contributions is to address them as part of the annual summary and analysis.

- 3.42 Accordingly, the Commission's draft decision is that capital contributions and not vested assets should be recognised as income.

Gains and Losses on Sale

- 3.43 Given that the book value of the regulatory assets reflects the value of the assets as determined through the Asset Valuation section of the Draft IM Determination, consideration needs to be given to the impact a sale of an asset would have on the ROI assessment. Under GAAP, the difference between the sale price of an asset and the book value is reflected as a gain or loss in income. The Commission considers that the recognition of gains and losses on sale should be consistent with GAAP as the recognition of the gain or loss reflects the full economic benefit or cost of owning the asset.
- 3.44 However, as outlined in the IMs Draft Reasons Paper, where a regulatory asset is sold to another regulated supplier, the asset base from which a return can be earned should not be affected by the price.⁵¹ As such, if the value of the asset is not recognised at the purchase price then it would be inconsistent with the concept of FCM to recognise the gain or loss on sale. The concept of FCM provides for a normal return over the lifetime of the regulated assets, irrespective of whether the asset is sold or transferred between regulated suppliers. It is noted that the sale of assets between regulated suppliers is not common; therefore, this is not likely to be a significant issue.
- 3.45 There was general agreement from submitters with this approach. BARNZ, however, raised concerns about the value of assets that are transferred between regulated and unregulated business units, which are effectively done on basis that is not arm's length.⁵²
- 3.46 Any asset transfers between regulated and unregulated business units within the same entity are notional as there is no actual transfer of title. Accordingly, the value to which the asset is transferred is open to manipulation, which in turn can create a transfer of wealth between the regulated entity and its customers. To provide scrutiny around the value at which the asset is transferred assets should be transferred at market value, as verified by an independent valuer, and disclosed to the public.
- 3.47 Accordingly, the Commission's draft decision is that gains and losses on the sale of an asset should be recognised as income, consistent with GAAP, except where an asset is sold to another regulated supplier, when no gain or loss is to be recognised. Where an asset is sold to a related party or transferred to an unregulated business unit of the regulated entity, excluding adjustments to asset allocations, the value of the asset sale or transfer is deemed to be the market value of the asset as verified by an independent auditor and disclosed.

Lost and Found Assets

- 3.48 Lost and found assets are additions or deletions to the RAB as a result of new information regarding the ownership of assets which clarifies that an asset either does or does not belong in the RAB. The treatment of the value of lost and found assets in the

⁵¹ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper* 31 May 2010, paragraph 4.4.80.

⁵² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 16.

RAB and regulatory profit needs to be considered in light of FCM. The concept of FCM for information disclosure would suggest that where an economic gain has not occurred then no gain should be included in the assessment of returns.

- 3.49 The Commission considers that lost assets should be deemed never to have been in existence, and found assets are deemed to have always been in existence, because a regulated supplier should not expect to earn a greater or lesser return over time as a result of an asset being lost or found. For this reason no offsetting adjustment is required to be made to the regulatory profit of the business.
- 3.50 Accordingly, the Commission's draft decision is that lost and found assets will be reflected in the RAB, and that no corresponding gain or loss will be recognised in the regulatory profit.

Determination of Asset Value

- 3.51 In determining the appropriate basis by which an ROI assessment should be made, consideration is required to be given to the appropriate asset value on which returns are assessed. The Asset Valuation section of the Draft IM Determination outlines the basis by which the RAB is rolled forward. However, consideration still needs to be given to the appropriate point in time that the asset value should be determined for the purpose of assessing returns. This consideration is important because returns are earned over a period of time while assets values are generally reflected at a point in time.
- 3.52 The remainder of this section addresses the two key areas of consideration, being:
- the matching of returns earned from assets additions or disposals made during the year; and
 - the treatment of non-cash items in the current year.
- 3.53 The airport sector consists of large and lumpy asset additions which in turn can support changes in prices and therefore profit returns. Accordingly, the Commission considers it is appropriate that key capital projects commissioned in the current year are only included in the regulatory asset value on a proportionate basis, consistent with the proportion of the year for which returns have been earned from these assets. This allows comparability of returns earned with the assets employed to earn those returns.
- 3.54 In some instances, however, it may not be practical to make a proportional allocation of all asset additions and disposals. Therefore, the Commission has deemed it appropriate that minor additions (being those that are not a key commissioned project) be included at half of their value based on the assumption that minor assets are added equally throughout the year. The criteria for determining what is a commissioned project is to be the same as the criteria for key capital expenditure projects as specified for the Forecast Total Revenue and Supporting Information Disclosure (refer paragraphs 5.54-5.62).
- 3.55 Depreciation, revaluations and other non-cash adjustments to the RAB for the current year are deemed to be year-end adjustments and therefore are not included in the denominator. To include them in the denominator for the ROI calculation would be inconsistent with assessing annual returns in a manner consistent with FCM (and with NPV=0).⁵³ This is because, ideally, for comparability with the WACC, the denominator should be based on cash flow items only. The value of the RAB at the end

⁵³ For example, refer CRA, *Review of the Commerce Commission's Intention to Declare Control of Unison*, Appendix A: *Economic Returns and the NPV=0 Principle*, 28 October 2005, page 112.

of each year is effectively a proxy for the discounted value of the future cash flows at that date (i.e. discounted using the WACC). The change in the value of the RAB from year to year is due to cash flow investments made during the year (i.e. capital expenditure), as well as the net change in the RAB at the end of the year due to economic depreciation (i.e. regulatory depreciation, less revaluations). The change in economic depreciation at the end of the year reflects an expectation of greater (or lesser) cash flows from that date into the future. Consequently, neither regulatory depreciation nor revaluations relate to cash flows that occur during the year, and should not be recognised as such. To do so would make the ROI less comparable with the WACC.

- 3.56 NZAA submitted that depreciation is not a year-end concept but is recognised from the point of commissioning or purchase, and suggested a simplifying approach for the denominator of the ROI calculation, of using an average of the opening and closing balance of the RAB.⁵⁴
- 3.57 The Commission considers that NZAA is correct to indicate that depreciation is recognised from the point of commissioning or purchase in the regulatory profit. If, however, the effect of depreciation or revaluations were to be included in the RAB against which the returns are assessed then there would be a mismatch in respect of the ROI calculation. This is because the depreciation and revaluations are included in the asset valuation as a year-end adjustment.⁵⁵
- 3.58 The Commission's draft decision is that the asset value used in the ROI calculation must reflect the opening RAB value as determined by the Asset Valuation Input Methodology with an adjustment for the proportional value for asset additions and disposals to the extent that they were employed during the year. The current year non-cash adjustments to the RAB such as depreciation and revaluations are to be excluded from the asset value.

Draft Decisions Summary - ROI

- 3.59 The Commission's draft decision is that the ROI be disclosed on a basis that is comparable to both a nominal post-tax and vanilla WACC.
- 3.60 The formula for calculating the ROI that is comparable to the post-tax WACC is :

$$ROI = \frac{\text{Regulatory Profit} - \text{Interest Tax Shield}}{RIV}$$

- 3.61 The formula for calculating the ROI that is comparable to the vanilla WACC is:

$$ROI = \frac{\text{Regulatory Profit}}{RIV}$$

- 3.62 The components of the formulae are as follows:

$$\text{Regulatory Profit} = \text{Regulatory Income less operational expenses less depreciation less tax plus revaluations;}$$

⁵⁴ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 60.

⁵⁵ For example, refer to Appendix A (Economic Returns and the NPV=0 Principle) in CRA, *Review of the Commerce Commission's Intention to Declare Control of Unison*, 28 October 2005.

<i>Interest Tax Shield</i>	= an adjustment required to make the ROI comparable with a post-tax WACC (which equates to the interest tax deduction in the specification of the WACC formula);
RIV	= $RAB_0 + \sum_{i=1}^n (p_i \times A_i)$
RAB_0	= the RAB value at the beginning of the year;
A_i	= the regulatory value of asset i (the regulatory value of a disposal is negative);
p_i	= the proportion of the year following the addition/disposal of asset i ; and
n	= the number of assets added or disposed of during the year.

3.4 Regulatory Profit

- 3.63 Regulatory profit represents the returns earned by the regulated supplier that are assessed against the asset value, for the purpose of calculating the ROI. Therefore, regulatory profit assists interested persons in the assessment of whether excess returns are being earned.
- 3.64 The components that make up regulatory profit can also assist interested persons to make other assessments such as, for example, the efficiency of operational expenditure and pricing. These other forms of assessment are discussed in further detail in section 3.6. This section discusses those revenues and costs where the Commission has made a decision regarding their inclusion in Regulatory Profit as well as outlining the disclosures necessary for interested persons to make an assessment as to whether the purpose of Part 4 is being met.

Revenue and Other Income Disclosures

- 3.65 Regulatory income comprises revenue and other income from a range of sources. To enable an effective assessment of movements in profitability either between years, or between forecast and actual revenue some level of disaggregated disclosure is required. In determining the appropriate level of disclosure the Commission has considered the types of revenue received and income streams that have different characteristics.
- 3.66 The Commission considers an appropriate level of revenue desegregation would be linked to the types of prices imposed and the means for which revenue is collected. Because fluctuations in capital contributions and gains or losses on sale of assets can materially effect the regulatory profit it is also considered appropriate for these to be separately disclosed.
- 3.67 In addition, the disaggregated disclosure of revenue should allow reconciliation to the pricing methodology disclosure, which distinguishes between revenue collected through standard pricing and individually negotiated agreements such as rental income. Also, determination of pricing statistics as outlined in Chapter 6 is also aligned to prices.
- 3.68 Accordingly, the Commission's draft decision is that the disclosure of revenue is to be disaggregated into the types of prices imposed and distinguish between revenue collected through standard pricing and other revenue. Other income is also to be separately disclosed with specific disclosure of capital contributions and gains or losses on the sale of assets.

Regulatory Depreciation Disclosure

- 3.69 Regulatory depreciation is a significant component of regulatory profit and therefore a key consideration for interested persons in assessing profitability. Accordingly, interested persons need to understand how depreciation has been determined. The Commission's draft decision as outlined in the IMs Draft Reasons Paper is that a straight line depreciation method is required to be applied, with flexibility being catered for under certain circumstances.
- 3.70 Therefore, interested persons will have some understanding of depreciation where standard depreciation is applied but will require further information to understand the implications of applying flexible depreciation.
- 3.71 Changes in the way Airports depreciate their assets can have an impact on the ROI measure (depending on the materiality of the asset involved). Without sufficient information for interested persons to understand the impact of the change, the reported ROI could become misleading.
- 3.72 In a joint submission to the Commission on flexible depreciation, the NZAA and BARNZ, on behalf of Air NZ, AIAL, WIAL, and CIAL, proposed an approach that allows airports flexibility in setting asset lives, and in applying alternative depreciation methods, provided they disclose a range of information to enable interested persons to understand the approach being applied, and its impact on the RAB.⁵⁶
- 3.73 As outlined in the IMs Draft Reasons Paper an Airport may set or change asset lives for airport assets. In order for interested persons to assess whether the way in which an Airport is implementing straight-line depreciation, they need information on the asset lives and depreciation charges applied by Airports. Where an airport changes an asset life, interested persons should be able to understand the impact of the change on depreciation charges, and thus on the Airport's historical financial information disclosures.
- 3.74 The Commission has considered the application of a materiality threshold. It is not clear that such a threshold is necessary, or would have any substantial benefit. Further, materiality thresholds such as this tend to be somewhat arbitrary.
- 3.75 The Commission's draft decision is that Airports must disclose the following information in relation to asset lives:
- the asset lives for assets used to provide specified airport services; and
 - where an asset life changes, the new asset life, and the impact of the change on depreciation rates.
- 3.76 In addition, each Airport, in its initial disclosure should set its approach to setting asset lives and calculating depreciation in sufficient detail that interested persons will be able to understand the approach.
- 3.77 The IMs Draft Reasons Paper outlines how Airports may use a depreciation method other than straight-line depreciation.⁵⁷ This section sets out the specific information Airports must disclose for this purpose.

⁵⁶ NZAA & BARNZ, *Joint Submission on Flexible Depreciation*, 14 May 2010.

⁵⁷ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper* 31 May 2010, paragraph 4.4.132.

- 3.78 Accordingly, the Commission's draft decision is that Airports must disclose the following information in relation to assets where an Airport is depreciating on a different basis to standard depreciation:
- the methodology that the charge is based on. This should include the new asset life, where applicable;
 - the depreciation charge for the period;
 - the depreciated RAB value of the asset as a result of the depreciation charge; and
 - the depreciated RAB value of the asset had straight line depreciation been applied throughout the asset's lifetime, using the original asset life.
- 3.79 To assist interested persons in interpreting disclosed ROIs in each disclosure period, the above information would need to be disclosed annually.
- 3.80 Decisions to implement a depreciation method other than straight-line depreciation should be based on empirical data such as changes in expected demand over the life of the asset. In order for interested persons to be able to assess whether the proposed depreciation method is reasonable, and is consistent with the purpose of Part 4, the Commission considers Airports need to disclose sufficient information to justify why the proposed approach better meets the purpose of Part 4, in particular the objectives set out in section 52A(1)(a)-(d).
- 3.81 The justification should be based on empirical data, such as the demand forecasts on which the depreciation charge will be based, if applicable, and should set out key assumptions underpinning the depreciation method, such as total asset life in units. These assumptions may be supported by reports from independent experts to support the depreciation methodology. Similarly, if any customers have raised objections to the change in depreciation approach, disclosure of these will inform interested persons' assessment of whether the purpose of Part 4 is being met.
- 3.82 Accordingly the Commission considers Airports should disclose the following, in the disclosure period in which the depreciation method changes:
- justification for the change in depreciation approach and why it better promotes the objectives in section 52A(1)(a)-(d); and
 - the extent of customer disagreement by attaching any written objections from the airlines to the change in depreciation approach and supplier response to this.
- 3.83 Should an Airport subsequently change the alternative depreciation method, it must disclose the information described in paragraph 3.82 **Error! Reference source not found.** again. If an Airport changes any key assumptions underpinning the alternative depreciation method, it must disclose the amended assumptions.
- 3.84 Finally, in order for interested persons to be able to locate the above information in future periods, Airports should disclose the year in which the depreciation approach was changed, in each subsequent disclosure period.
- 3.85 The Commission's draft decision in relation to stranded assets as outlined in the IMs Draft Reasons Paper, is that where an asset is stranded or is likely to become stranded, Airports may alter the asset life or depreciation method as discussed above.
- 3.86 In workably competitive markets, Airports would have incentives to seek to continue to use, and earn a return on all their assets. Accordingly they would strive to find an alternative use for stranded assets, rather than writing them off. However, where

Airports have been unable to find an alternative use for the asset it is reasonable that they are able to earn a return of the capital invested—this will preserve incentives for investment in the future.⁵⁸

3.87 In order for interested persons to be able to assess whether the above objectives are being promoted under Part 4, the Commission considers that, where an Airport changes the depreciation of an asset on the basis that it is likely to become stranded, it should disclose the following information:

- a statement that the asset is likely to become stranded;
- justification for the asset being expected to (or have) become stranded; and
- steps the supplier has taken to reduce the risk of the asset's stranding, such as seeking an alternative use.

Cost Allocation Disclosures

3.88 The IMs Draft Reasons Paper outlines how costs and assets are to be allocated between regulated and unregulated business units as well as between activities. The allocation of costs and assets can have a significant impact on the reported performance of an Airport. Accordingly, it is the Commission's draft decision that an understanding of the degree to which common costs have been allocated and where that allocation has changed is required for interested persons to make an assessment as to the profitability of an Airport.

3.89 For interested persons to understand how costs have been allocated Airports should disclose each cost and asset allocator used to allocate operating costs and assets within operating cost asset categories. This should be accompanied by the following supporting information:

- the cost allocator type;
- the rationale for adopting one particular cost or asset value allocator; and
- the total value of operating costs and assets not directly attributable to each specified airport service and the unregulated service.

3.90 The Commission considers that when cost or asset allocation methodologies or cost or asset value allocator metrics change, additional disclosure of operating cost line items and assets should be made in the year of change. This should include the disclosure of allocation values in the year of change as well as the year before and after so that interested persons can understand the effect of the change. Airports should also include the reasons for the change.

3.91 This approach is appropriate as a time series of data is required to fully understand the impact of the change in methodology or metric and this should incentivise Airports not to change the methodologies and metrics unless the change is material and will outweigh the additional cost of reflecting these in disclosures.

Financial Incentives

3.92 Financial incentives encourage customers to increase uptake of Airports' services and generally take the form of reductions in prices through discounts rebates or credits (pricing incentives) or any other arrangements where an Airport Company agrees with a

⁵⁸ Commerce Act 1986, section 52A(1)(a).

- customer to provide goods or services, whether to the customer or a third party, in consideration for an uptake of services (other financial incentives).
- 3.93 NZAA submitted that financial incentives should not be publicly disclosed because Airports consult with airlines on all known information to establish future prices required to generate the appropriate cost of capital.⁵⁹ NZAA also submitted that airlines require confidentiality for any service changes (e.g. expansion of routes by existing carriers) and that it would be inappropriate for Airports to break this confidentiality.⁶⁰ Furthermore, NZAA argued in its post-workshop submission that even disclosure of aggregate figures may be sufficient for competitor airlines to ascertain the material terms of agreements which have been entered into by their competitors.⁶¹
- 3.94 As outlined further in Chapter 6, pricing incentives are required to allow interested persons to reconcile forecasted profitability and their assessment of it with actual profitability. Total financial incentives, including other financial incentives are also required so that interested persons can understand the costs incurred by Airports in increasing demand. Given the importance of disclosing financial incentives, the Commission considers that the disclosure of total pricing incentives appropriately balances the costs of potentially disclosing commercially sensitive information.
- 3.95 NZAA argued that it is the Airports' prerogative to reduce or cap their returns from new services by offering consumers financial incentives.⁶² The Commission acknowledges that Airports can set prices as they see fit and does not see the disclosure of the pricing incentives as limiting that ability.
- 3.96 Accordingly, the Commission's draft decision is that the value of total financial incentives and pricing incentives should be disclosed.

Merger and Acquisition Expenses

- 3.97 Merger and acquisition expenses tend to be irregular, but may be substantial when they occur. Accordingly, the Commission has considered the following issues:
- whether merger and acquisition expenses should be included as regulatory expenses; and if so
 - whether they should be separately disclosed for the purpose of assisting interested persons to understand the effect on profitability and the ROI.
- 3.98 NZAA submitted that merger and acquisition expenses should be included in the regulatory profit.⁶³ BARNZ, however, noted that there has been no merger and acquisition activity to date, and also they considered that costs associated with takeover activities on the stock exchange should not be included in the regulatory accounts as they consider these costs to be an ownership issue.⁶⁴ Air NZ agreed there should be

⁵⁹ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 48.

⁶⁰ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 48.

⁶¹ NZAA, *Airports Input Methodologies Post-Workshop Submission*, 8 March 2010, page 16, paragraph 53.

⁶² NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 48.

⁶³ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 64.

⁶⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 17.

separate disclosure but questioned whether these expenses should be included in the regulatory accounts when they are ownership expenses.⁶⁵

- 3.99 The Commission considers that completed merger and acquisition expenses incurred by the regulated business should be included in the operational expenditure of the regulatory accounts to the extent that the efficiencies as a result of merger and acquisition activity would provide a benefit to the regulated business. These benefits would need to be disclosed, and if there are no benefits (including where the merger or acquisition is not completed), any allocation of merger and acquisition expenses to the regulated business would require justification.
- 3.100 It is the Commission's draft decision that merger and acquisition expenses will be required to be disclosed, including disclosure of commentary substantiating the extent to which merger and acquisition expenses are allocated to the regulated parts of an Airport's business.

Insurance Expenses

- 3.101 Insurance expenses are usually reflected by the premiums paid to a third party insurer, and as such these expenses would be reflected in the operational expenditure disclosure. However, where an Airport chooses to self-insure, either partially or fully, this may lead to a lack of comparability between regulated suppliers.
- 3.102 Submitters did not consider this to be an issue, as none of the Airports currently self-insure. NZAA submitted that they considered that insurance expenses should be included in the operational expenses but it is not necessary for the expenses to be separately disclosed.⁶⁶
- 3.103 The Commission has considered the matter and agrees that insurance is not sufficiently significant relative to total Airport operational expenditure and accordingly separate disclosure in the operational expenses of the Regulatory Profit Statement is not required.
- 3.104 The Commission's draft decision is to include insurance expenses (excluding self-insurance expenses) as part of the operational expenditure but not separately disclose.

Levies and Rates

- 3.105 Under price-quality regulation for electricity lines services and gas pipeline services, the Commission intends to treat levies, rates and other costs with similar characteristics as pass-through costs. Pass-through costs are those costs that are outside the control of the regulated business and the amount is unable to be accurately forecast. Pass-through costs are relevant to price quality regulation as their effect is not considered in the regulation of prices. In the Discussion Paper the Commission preliminary view was that pass through costs should be separately disclosed to enable analysis of the impact of increases in pass-through costs.⁶⁷ This was supported in submissions.⁶⁸

⁶⁵ Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 11.

⁶⁶ NZAA, *Submission by NZ Airports Association on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 64.

⁶⁷ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 52.

⁶⁸ For example, BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 16.

3.106 However, because pass-through costs are a defined term for the purposes of price-quality regulation and Airports are not subject to price-quality regulation the Commission considers it inappropriate for Airport disclosures to refer to pass-through costs. The disclosure of those costs that would be classified as pass-through costs would, however, provide interested persons with information on costs that are outside the control of Airports. Accordingly the Commission's draft decision is that the cost of levies and rates should be separately disclosed.

Categories of Operational Expenditure

3.107 Transparency regarding the breakdown of regulatory operational expenses assists interested persons to understand the reason for movements in profitability and the ROI. Accordingly the Commission sees benefit in separately disclosing categories of major operational expenditure in the Regulatory Profit Statement as opposed to disclosing operational expenditure in aggregate where movements would not be transparent to interested persons.

3.108 NZAA submitted that overheads that can be directly allocated to an operating activity should be included in the costs of that activity and therefore the amount disclosed as management overhead would only reflect the residual amount that cannot be directly allocated.⁶⁹ NZAA also considered there should be separate disclosure of regulatory compliance costs and property management.⁷⁰ BARNZ submitted that a separate category for security and safety costs would be appropriate given that these costs have dramatically increased over the past decade as a result of external events.⁷¹

3.109 The Commission considers that disclosure of regulatory costs is not sufficiently material relative to the total Airport operational expenditure to warrant separate disclosure. Also disclosure of property expenses, separate from other Airport operational expenses is not considered to add any additional value in regard to informing movements in operational expenditure.

3.110 The Commission considers that separate disclosure of corporate overheads is valuable in the assessment of direct and indirect expenses. Corporate overheads should only reflect the indirect costs of managing the Airport, as all overhead costs that are directly associated with airport activities should be charged directly to the relevant expense code for the area of the business which is directly supported by the overhead and will therefore be disclosed within the appropriate operational expenditure category.

3.111 The Commission considers that asset maintenance should be in a separate category given the asset intensive nature of the Airport, and also the correlation between the age of assets, capital expenditure, and asset maintenance.

3.112 The Commission agrees that separate disclosure of Airport safety and security is appropriate given that these costs can have significant fluctuations as a result of external events and can therefore distort the core operational costs.

3.113 The Commission considers that all other operating expenses that are not required to be disclosed separately should be disclosed in aggregate as asset management and airport operations.

⁶⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 89.

⁷⁰ *ibid*, page 89.

⁷¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 50.

3.114 Accordingly, the Commission's draft decision is that the following categories of operational expenditure should be disclosed:

- corporate overheads;
- asset maintenance;
- asset management and airport operations; and
- safety and security.

Regulatory Tax Allowance

3.115 The Commission's reasons and draft decisions on the determination of the regulatory tax allowance to be deducted from regulatory profit are outlined in the IMs Draft Reasons Paper.⁷² This section outlines the Commission's draft decision and reasons for disclosing information regarding the regulatory tax allowance.

3.116 Regulatory tax is a significant component of regulatory profit. Accordingly, for interested persons to assess movements in profitability over time information regarding the movement in the tax allowance is required. In determining tax expense it is standard practice for businesses to take accounting profits and adjust them to determine taxable income for which the tax expense is derived. Airports, therefore, will have information that reconciles the regulatory income to taxable income.

3.117 Interested persons are therefore able to understand the movements in the regulatory tax allowance by understanding the regulatory profit and what adjustments have been made to it to determine the regulatory tax allowance. Accordingly, the Commission's draft decision is that a reconciliation of regulatory profit to the regulatory tax allowance should be disclosed.

3.5 Regulatory Asset Base

3.118 The section covers the disclosure of the RAB. The RAB is a key component of the ROI measure as it enables interested persons to assess the regulatory profit against a representation of the asset base. The Draft IM Determination outlines how the initial RAB value is to be determined, and how it will be rolled forward.⁷³ Also, the Draft IM Determination, among other things, outlines how assets which are shared between the regulated and unregulated parts of the business are included in the RAB. This section outlines the Commission's draft decisions and reasons for the disclosures that relate to the RAB.

3.119 In determining the appropriate level of disclosure of RAB information consideration has been given to what information would assist interested persons in assessing if the purpose of Part 4 is being achieved. In particular, disclosures should identify the movements in the RAB value and assist interested persons in understanding significant regulatory profit items such as depreciation and revaluations which are derived from the RAB. Disclosures can also assist interested persons in understanding the make up of the RAB which assists interested persons when interpreting performance.

3.120 The Commission's draft decisions and reasons for the disclosure of depreciation and revaluation information are outlined in paragraphs 3.69-3.87 above, while paragraphs 3.137-3.141 below outline the draft decisions and reasons regarding the disclosure of

⁷² Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper* 31 May 2010, Chapter 5.

⁷³ Commerce Commission, *Draft Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, Part 3.

capital expenditure. The remainder of this section, therefore, outlines the disclosure of the following:

- regulatory asset base roll-forward;
- works under construction;
- asset classes; and
- future development land.⁷⁴

Regulatory Asset Base Roll-Forward

- 3.121 Given the RAB is a key component of the profitability measure used by interested persons to determine whether excess profits have been earned, it is important that interested persons are able to understand how the value of the RAB has been determined. As outlined in the IMs Draft Reasons Paper the value of the RAB in any given year is determined by rolling forward the RAB value from previous years. Thus, for interested persons to understand how the RAB value has been determined information on the components of the roll-forward should be disclosed.
- 3.122 A number of the components of the roll-forward are also used in other respects in the assessment of profitability or other objectives of the Part 4 purpose. For example, depreciation and revaluations are used to determine regulatory profit and the value of assets commissioned is a product of capital expenditure after considering works under construction.
- 3.123 Also in understanding the movements in the RAB interested persons need to understand the extent to which assets that are valued differently are added or removed from the RAB. Accordingly the Commission's draft decision is that the components of the RAB roll-forward should be disclosed, separately identifying types of assets that are added to or removed from the RAB.

Works under construction

- 3.124 GAAP requires the disclosure of works under construction which accumulates the value of assets being constructed or assets which have been constructed but not yet commissioned. The movements in the roll-forward of works under construction, therefore, are capital expenditure and assets commissioned. The disclosure of these allows interested persons to reconcile their assessment of capital expenditure with the roll-forward of the RAB.
- 3.125 Accordingly, the Commission's draft decision is that the roll-forward of works under construction should be disclosed.
- 3.126 Consistent with GAAP, the Draft IM Determination allows airports to capitalise holding costs attributable to the construction of an asset.⁷⁵ The Commission's draft decision is that Airports must separately disclose such holding costs. This will enable interested persons to assess whether Airports have incentives to improve efficiency in relation to financing costs by comparing the Airports' disclosed holding costs to estimated holding costs calculated using the regulatory WACC (as established under the cost of capital IM).

⁷⁴ In this paper, references to "future development land" refer to land held by airports that was acquired or held to provide [aircraft and freight/airfield/specified passenger terminal activities] in the future (whether or not used for any other purpose in the meantime), under section 2 of the AAA.

⁷⁵ Commerce Commission, *Draft Input Methodology (Specified Airport Services) Determination 2010*, 31 May 2010, Clause 3.8.

Asset Classes

- 3.127 The disclosure of asset information by asset class enhances interested persons' understanding of what assets make up the asset value and how depreciation is determined. This understanding will assist interested person in their assessment as to whether the Purpose of Part 4 is being met, including their assessment of profitability and to a lesser extent efficiency, investment and innovation.
- 3.128 In determining the asset classes to be disclosed, therefore, the Commission has had regard to assets that are treated differently for depreciation purposes and the major categories of assets utilised in the provision of specified airport services.
- 3.129 Accordingly, it is the Commission's draft decision that a summarised RAB roll-forward should be disclosed for the following asset classes:
- Land;
 - Sealed surfaces;
 - Infrastructure and buildings; and
 - Vehicles, plant and equipment.

Future Development Land ("Land Held for Future Use")

- 3.130 The Commission's draft decisions and reasons on the treatment of future development land are outlined in the IMs Draft Reasons Paper.⁷⁶ In summary, Airports must exclude future development land held from the RAB, until the associated development has been 'commissioned'. Once development commences, Airports are required to include the 'initial value' and accumulated net holding costs in the works under construction account. Net holding costs include any revenues generated from the land (net of associated costs), and any revaluation gains or losses. The subsequent costs of construction will be added as the development is completed and then commissioned as discussed above.
- 3.131 The Commission considers that the separate disclosure, outside the RAB and financial performance measures, of information on the costs of holding land for future use will inform assessments by interested persons of the prudence and efficiency of Airports' investment programmes.⁷⁷ Accordingly, it is the Commission's draft decision that in disclosure periods prior to commissioning of a new development, Airports must separately disclose the following information concerning the cost of holding the land:
- the 'initial value' of the land;
 - the accumulated value of holding costs;
 - any accumulated income generated from the land, net of associated operating costs; and
 - accumulated gains or losses from revaluations.

3.6 Efficiency and Investment

- 3.132 This section covers the approach to disclosure of information which will assist interested persons' assessments of Airports' efficiency, the extent to which efficiency

⁷⁶ Commerce Commission, *Input Methodologies (Airport Services) Draft Reasons Paper*, 31 May 2010, paragraph 4.4.22

⁷⁷ Commerce Act 1986, section 52A(1)(a).

gains are shared through lower prices, and innovation and investment. There is discussion on the approach to assessing operational expenditure efficiency, pricing efficiency, capital expenditure investment incentives, and segmented reporting.

Operational Expenditure Efficiency

- 3.133 The disclosure of output volumes and operational expenditure needs to be sufficiently detailed to enable meaningful assessment. The disclosure of output volumes is covered in Chapter 4. The categories of operating expenditure are outlined at paragraph 3.114, and the disclosure of segmented reporting of regulated services is outlined at paragraphs 3.143–3.150.
- 3.134 Submissions from Air NZ, BARNZ and NZAA all recommended that the most appropriate cost-based indicator would be a measurement of costs per unit of output relevant to the regulated service.⁷⁸ These submissions consider that measuring expenditure against the asset base would not be an accurate indicator of whether efficiency has improved or whether the benefits of efficiency gains have been passed onto consumers.
- 3.135 There are many different ratios and performance measures that can be used to assess operational expenditure efficiency. Accordingly it would not be appropriate to limit interested persons' assessments to only those that are outlined in requirements. However sufficient information to enable interested persons to construct such ratios themselves to undertake, for example, trend assessments should be provided. This requires the disclosure of volume statistics as outlined at section 4.7 and the categories of operational expenditure as outlined in paragraph 3.114.
- 3.136 The Commission also considers that disclosure of operational expenditure in aggregate by business segment as discussed below at paragraph 3.143–3.150 will assist in providing additional information on operational expenditure efficiency.

Capital Expenditure Investment Incentives

- 3.137 Capital planning is built into the approach to setting the revenue requirement. This is discussed in Chapter 5. The Commission considers it is appropriate to disclose actual capital expenditure so that it can be compared against the forecast capital expenditure which is built into the revenue requirement.
- 3.138 The Commission acknowledges that due to the lumpy and irregular nature of capital projects undertaken by Airports, it can be difficult to establish meaningful performance indicators on an annual disclosure basis, and therefore any assessment should be carried out over a sufficient time period.
- 3.139 NZAA submitted that they considered it would be appropriate to disclose capital expenditure in the categories of capacity growth, renewal, maintenance and other, and also mandatory compliance based requirements.⁷⁹ BARNZ submitted that there was value in separately disclosing security expenditure, and also a separate category for asset relocation.⁸⁰

⁷⁸ For example Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 7.

⁷⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 90.

⁸⁰ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 52.

- 3.140 The Commission considers that there should be disclosure of actual capital expenditure comparable to forecast in categories that enable an assessment of the investment in replacement, upgraded and new assets. The Commission acknowledges that Airport development projects can be a combination of these categories. Accordingly the Commission considers that to further inform this assessment, that it is appropriate that there is an allocation between capital expenditure on new assets and capital expenditure on existing assets. The Commission considers that new assets are driven by capacity growth, and capital expenditure on existing assets is a combination of replacement and renewal. Also the Commission acknowledges that expenditure that is driven by compliance with security, safety and environment considerations is generally not discretionary and it is therefore appropriate to track this separately.
- 3.141 Accordingly it is the Commission's draft decision that the appropriate categories of capital expenditure for the purpose of tracking actual expenditure against forecast, are:
- capacity growth;
 - asset replacement and renewal; and
 - security, safety and environment.

Analysis of Actual to Forecast Expenditure

- 3.142 In the Commission's view the disclosure of actual to forecast expenditure will assist interested persons to reconcile their assessment of planned efficiency with actual outcomes. Accordingly it is the Commission's draft decision is that Airports should disclose the variance between actual and forecast operational and capital expenditure. This is discussed further in paragraphs 5.63 to 5.65, below.

Segmentation of Financial Information

- 3.143 Segmented reporting is a means of providing more meaningful disclosure by requiring reporting in respect of a diversified business by activity segment as opposed to aggregated reporting. This approach may be particularly useful where there are customers who only purchase services in one segment. Segmented reporting assists users of financial statements with understanding historical financial performance at a business segment level, and will also assist interested persons to make more informed judgements about the regulated business as a whole. Segmented reporting has been a requirement under the AAA.
- 3.144 NZAA submitted that the segmented reporting under the AAA had not been particularly useful for the assessment of performance.⁸¹ The segmentation under the AAA is based on the definition of 'identified airport activities', which has airfield activities, specified passenger terminal activities, and aircraft and freight activities as segments. NZAA's reasons for this view were that the end-to-end process for passengers encompasses both airfield and terminal activities, and it is the preference of some airlines to have bundling of airfield and terminal services into a single passenger charge.
- 3.145 BARNZ, on the other hand, submitted that separate disclosure of the segments is integral for interested persons to be able to meaningfully assess regulated supplier

⁸¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 95.

- performance in respect of the provision of specified airport services, and whether the purpose of Part 4 is being met.⁸²
- 3.146 In cross submissions, BARNZ disagreed with NZAA that segmented reporting has not been particularly useful, and submitted that all information should be provided separately for each segment, and not just financial and RAB information.⁸³
- 3.147 NZAA in its cross submission responded regarding the rationale of requiring segmented reporting on the basis of each specified activity having a separate customer base. It submitted that most revenue is from airfield and specified terminal activities, which comprise a bundle of services provided to the same passengers, and agreed that the customer base for aircraft and freight activity is distinct but consider this activity is not material in comparison to the other activities.⁸⁴
- 3.148 Following the Airports workshop on 17 and 18 February 2010, NZAA submitted that they had given further consideration to the appropriate level of cost allocation, and now consider it is reasonable for information disclosure to show the costs of each specified service.⁸⁵ NZAA did, however, continue to question how disclosure at the level of activities will assist in meeting the purpose of information disclosure, commenting that there is no direct relationship between the revenue derived from the three specified airport services and the manner in which costs are allocated and therefore the returns at the level of the specified airport services would often be misleading.⁸⁶ BARNZ submitted that disclosure of segmented information is essential to assess whether the purpose of Part 4 is being met. It advised that when setting prices, all three Airports apply separate building block analyses to airfield activities and to terminal activities and therefore the required revenue and resulting prices for each activity are separately determined based on the costs and assets associated with each activity.⁸⁷
- 3.149 The Commission considers that segmented information is useful as some consumers only purchase services in one segment and therefore aggregated information would not provide sufficient information to make meaningful assessments. It is noted that segmented information does not always align to how prices are charged, however. As outlined in Chapter 6 segmented disclosures provide for an ex post assessment to be made which is complemented by the pricing methodology disclosures which allows an ex ante assessment on the same basis as prices.
- 3.150 Accordingly, the Commission's draft decision is that segmented reporting aligned to the activities of specified airport services be disclosed.

3.7 Other Disclosures

- 3.151 This section covers additional information disclosures which will support the historical financial disclosures by providing transparency between regulatory disclosures and the

⁸² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 65.

⁸³ BARNZ, *Cross Submission by BARNZ on NZ Airports Submission with respect to the Commission's Information Disclosure Discussion Document*, 2 November 2009, page 4.

⁸⁴ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, page 11.

⁸⁵ NZAA, *Airports Input Methodologies Post-Workshop Submission*, 8 March 2010, page 45.

⁸⁶ *ibid*, page 48.

⁸⁷ BARNZ, *Post Workshop Submission on Commerce Commission Input Methodologies (Airport Services) Emerging Views Paper*, 8 March 2010.

whole entity. This includes disclosure of a consolidation statement, and also related party transactions.

Consolidation Statement

- 3.152 The primary requirement of regulatory financial reporting is to report on the regulated activities. However this can be a somewhat artificial split given that Airports do not operate with distinct boundaries between the regulated and unregulated aspects of the business. In addition, regulatory disclosures do not necessarily reflect statutory disclosures where reporting in accordance with GAAP does not meet regulatory purposes, or where an input methodology departs from GAAP.
- 3.153 For regulated suppliers that supply both regulated and unregulated goods and services, the primary requirement is to report on the assets and activities of the regulated services. However, under section 53D of the Act, the Commission may also require consolidated information to be publicly disclosed for the purpose of monitoring compliance with information disclosure regulation. Consolidated financial statements (and any other information referred to in section 53C) may be required to be disclosed in accordance with the provisions in section 53C(3).
- 3.154 BARNZ and Air NZ agreed that reconciliation between regulatory and statutory reporting should be publicly disclosed. NZAA submitted that a consolidation statement is not necessary as the disclosures of the regulated services are audited, and also providing the information would add further cost without providing any additional benefit. NZAA consider that audit certification verifying that regulated financial information has been properly extracted should be sufficient.
- 3.155 The Commission considers that the benefit of the transparency provided by the disclosure of a consolidation statement in allowing interested persons to undertake a meaningful assessment of the regulated part of the business relative to the whole business outweighs any additional cost. Accordingly, it is the Commission's draft decision that a consolidation statement should be publicly disclosed on an annual basis. In order to provide sufficient information for interested persons, the Commission considers there will be two aspects to a consolidation, being:
- a reconciliation between statutory and regulatory disclosures within the regulated business; and
 - a reconciliation between the regulated reporting and the statutory financial reporting for the whole entity.

Related Party Transactions

- 3.156 Related parties are generally third parties where there is a business or personal relationship which could influence the level of business transacted between the parties and the prices paid for goods or services. Transactions with related parties have the potential to affect the financial position and profitability of the Airports if the values do not reflect an arm's length commercial arrangement.
- 3.157 Airports undertake a mixture of regulated and unregulated activities which may be carried out by the same entity. Under GAAP,⁸⁸ the definition of a related party is limited to transactions by a party related to the entity and therefore does not consider transactions within an entity. Accordingly, the GAAP approach would not provide any

⁸⁸ New Zealand Institute of Accountants, *NZIAS 24 Related Parties*, clause 9.

transparency regarding the potential for the shifting of value between the regulated and unregulated parts of the business.

- 3.158 The Commission notes that related party transactions do not include movements in shared cost and asset allocation between regulated and unregulated activities as the treatment of these matters is to be disclosed in accordance with the cost allocation disclosures.
- 3.159 NZAA submitted that it agreed with disclosing related party transactions in accordance with GAAP.⁸⁹ NZAA also submitted that transfer pricing issues do not arise for Airports and therefore did not comment on applying the GAAP approach to related party transactions between business units.⁹⁰ NZAA did submit, however, that information disclosure regulation should not extend GAAP requirements to movements in the shared cost and asset allocations between regulated and unregulated businesses.⁹¹
- 3.160 BARNZ submitted that it considered that related party transactions should be disclosed transparently, and the onus on establishing concerns with commercial sensitivity should be with the related supplier to make an application to the Commission.⁹²
- 3.161 The Commission's draft decision is that related party transactions including transactions with the Airport and transactions between the regulated and unregulated business units of the Airport should be disclosed. This does not include movements in shared costs and assets, which will be carried out according to the Cost Allocation section of the Draft IM Determination. The Commission considers that this approach addresses the concern as to the potential to shift profits between the regulated and unregulated aspects of an Airport's business.

3.8 Transitional Provisions

- 3.162 As discussed in Chapter 7, the Draft Information Disclosure Determination provides for transitional provisions in respect of historical financial information disclosures. The effect of the transitional provisions is that:
- Airports are required to disclose information regarding the initial RAB value as part of their disclosures for the year ended 2011;
 - the disclosures of the year ended 2011 must be disclosed within 11 months after year end rather than 5 months; and
 - operational and capital expenditure are not required to be separated into the various categories for the year ended 2011.

⁸⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 65.

⁹⁰ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 66.

⁹¹ *Ibid.*, page 65.

⁹² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 19.

CHAPTER 4: QUALITY AND STATISTICS

4.1 This chapter sets out the reasons for the Commission's draft decisions concerning the disclosure of indicators which relate to the non-financial dimensions of specified airport services. Specifically, the chapter discusses:

- the role of quality indicators in information disclosure regulation;
- the Commission's approach to developing the disclosure requirements for quality;
- draft decisions concerning indicators of passenger satisfaction, capacity and utilisation, reliability, and operational improvement forum performance; and
- draft decisions concerning the disclosure of statistics.

4.2 Purpose

4.2 The Act provides that the Commission may require suppliers of regulated goods or services to disclose a range of quality performance measures and statistics.⁹³

4.3 Underlying any assessment of quality is the consideration of trade-offs that exists between the quality and price of a service. Given the price, is the level of quality efficient—i.e., is the level of quality providing what consumers want? Given the level of quality, is the price efficient—i.e., could the same level of quality have been achieved at a lower price? How will the price-quality trade-off be maintained whenever demand threatens to exceed existing capacity? In practice, these trade-offs are complex and difficult to assess. The quality indicators are therefore intended to provide interested persons with information that enables a general view to be taken on the delivery and maintenance of quality at an appropriate cost and price.

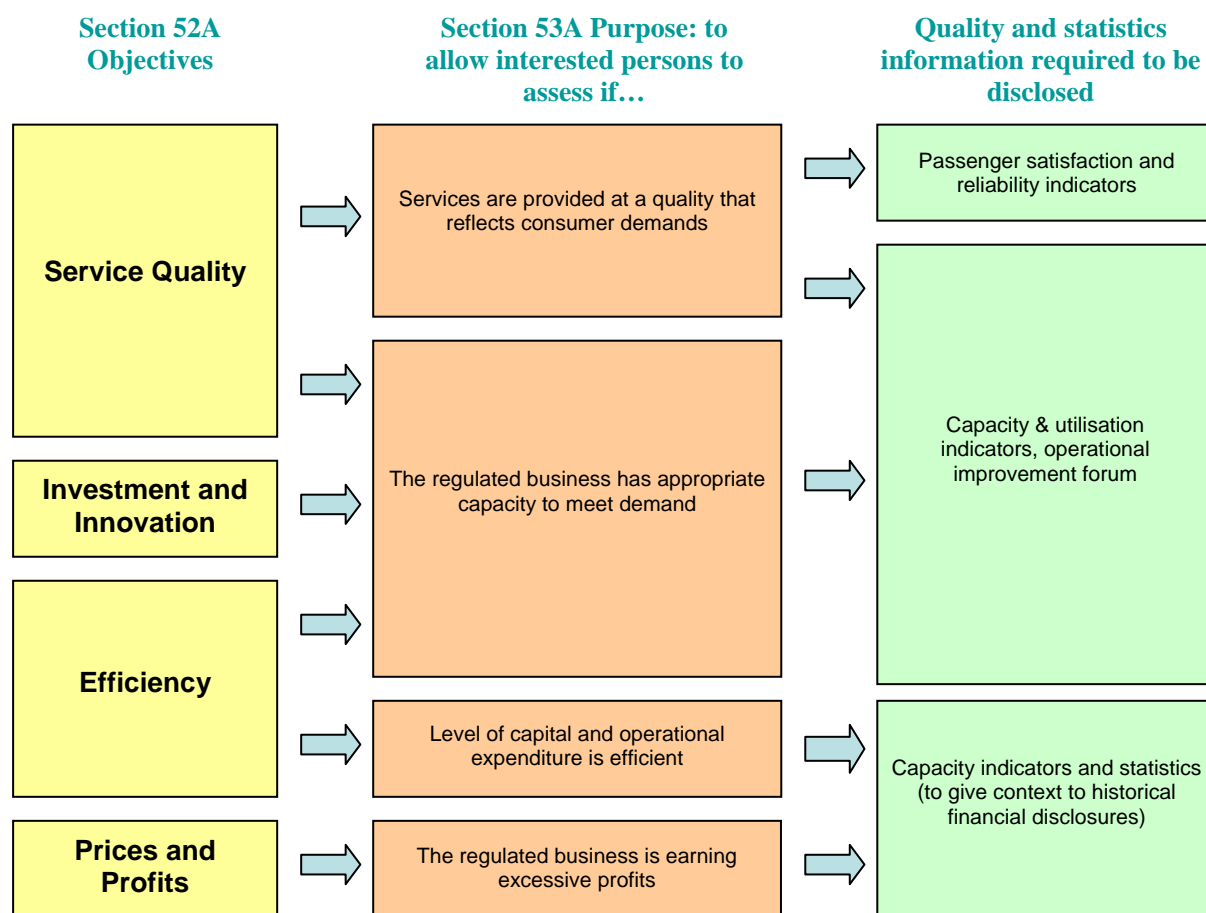
4.3 Approach

4.4 The disclosures inform an interested person's assessment of four of the objectives described in the Part 4 purpose statement—service quality; innovation and investment; efficiency; prices and profits.⁹⁴ Figure 3 is a diagrammatic overview of the relationship between the indicators described in this chapter and the four objectives.

⁹³ Commerce Act 1986, section 53C(2)(i).

⁹⁴ The purpose of information disclosure is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met. The purpose of Part 4 is set out in s 52A of the Act and includes considerations of service quality, innovation and investment, efficiency, prices and profits.

Figure 3: Information and purpose — quality and statistics disclosures



4.5 For disclosure of quality information, the Commission has focussed on dimensions of specified airport services that are:

- regarded by the consumers of specified airport services as important, mainly as evidenced in submissions. Interested persons are likely to wish to assess the quality of these services;
- critical to the movement of aircraft, passengers and freight. These services are essential to the operation of the Airport; and
- significant in terms of the Airport’s investment. Cost implications regarding the quality of these services are likely to be large.

4.6 There are usually many dimensions to the quality of a service and a single indicator will provide only a proximate assessment of the overall quality of the service or services to which it relates. The Commission has taken the following into consideration when assessing indicators:

- the capacity of the indicator to reasonably reflect the service quality perceived by consumers;
- the consistency of the methodology and the comparability of the results over time and between Airports;
- the cost of gathering the necessary data;
- the verifiability of the results; and

- the susceptibility of the indicator to interpretation.
- 4.7 The quality disclosure requirements for Airports may need to evolve as the importance and nature of services change, new methods or technologies for measuring service quality have been identified, and the concerns of different consumers of specified airport services become apparent. Although airlines have a clear concern for passenger satisfaction, the extent to which the interests of the airlines and their passengers are aligned in respect of the quality of specified airport services is unclear.
- 4.8 In preparing the Draft Information Disclosure Determination, the Commission considered the quality disclosure proposals contained in the Joint Working Document (“JWD”)⁹⁵ and submitted by the airline and Airport representative organisations NZAA and BARNZ.⁹⁶ The JWD proposed that three types of service quality measures be monitored through information disclosure: passenger perception; reliability of aeronautical services; and capacity and utilisation. Airbiz Aviation Strategies Ltd. (“Airbiz”) provided expert advice in the preparation of the JWD, particularly in respect of the proposed capacity and utilisation measures.⁹⁷ As was anticipated in the JWD, Airbiz was subsequently commissioned to review and further develop the capacity and utilisation section of the proposal and to derive test results for each proposed capacity and utilisation indicator, using past year’s data for each Airport. The report on that study (the “Airbiz report”) was endorsed by AIAL, CIAL, WIAL and BARNZ and submitted to the Commission.⁹⁸
- 4.9 The Commission has commissioned the consultancy company Network Advisory Services Pty Ltd (NAS) to recommend a list of service quality measures for specific Airport services in NZ. In preparing its recommendations, NAS took into account airport service quality disclosure requirements and guidelines that are used in overseas jurisdictions and the proposals that were contained in the JWD.⁹⁹ Draft findings by NAS were reflected in the specified airport services quality section of the Discussion Paper,¹⁰⁰ and the resultant list of possible service quality measures was presented to submitters for discussion at an airport quality working session conducted by the Commission in December 2009.¹⁰¹
- 4.10 In light of the considerations outlined above, the Commission’s view is that five categories of quality disclosure should apply to Airports. These categories are:
- passenger satisfaction;
 - reliability;
 - capacity and utilisation;

⁹⁵ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies*, 24 June 2009.

⁹⁶ The JWD was first submitted to the Commission on 29 June 2009 and again in NZAA, *Submission by NZ Airports Association on the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, Appendix 1.

⁹⁷ 29 June 2009 covering letter to submission by NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009.

⁹⁸ Joint Working Group (Auckland, Wellington, Christchurch Airports and BARNZ), *Capacity and Utilisation Measures Study*, Final Report, 14 May 2010.

⁹⁹ Network Advisory Services, *Regulation of Specified Airport Service: Information Disclosure—Quality Measures*, September 2009.

¹⁰⁰ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, section 14.3.6.

¹⁰¹ Airport Quality Working Session, Wellington Airport Conference Centre, 16 December 2009.

- operational improvement process; and
 - statistics.
- 4.11 Passenger satisfaction and reliability are primarily indicators of the delivered quality of a service. The operational improvement forum disclosure provides information on remedial action taken by Airports and, along with the capacity and utilisation indicators, contributes to the assessment of whether the Airport has appropriate capacity to meet demand. Statistics provide information on the scale of operations and, along with capacity indicators, provide context to historical financial disclosures contributing to assessments of whether an Airport is earning excessive profits and whether the level of capital and operational expenditure is efficient.
- 4.12 The Discussion Paper noted that safety is a dimension of service quality but that safety issues are already monitored by other industry-specific organisations.¹⁰² Following proposals in the Discussion Paper and to avoid unnecessary duplication and expense, safety has not been included in the draft requirements as a category of quality indicator.
- 4.13 Specified airport services relate to three activities.¹⁰³ Reliability indicators, capacity and utilisation indicators and the operational improvement forum all relate primarily to airfield and specified passenger terminal activities. Fixed electrical ground power (a reliability indicator) relates to airfield activities. The passenger satisfaction indicators relate solely to specified passenger terminal activities. Statistics disclosures relate to all three activities.¹⁰⁴
- 4.14 Submissions generally agreed with the proposal that quality be disclosed by passenger satisfaction, reliability, and capacity and utilisation indicators.¹⁰⁵ These three categories were originally proposed in the JWD and have been supported in subsequent submissions made by NZAA, BARNZ and Air NZ.¹⁰⁶
- 4.15 The draft disclosure requirements enable commentary information to be disclosed alongside the indicators. Text boxes are provided in the Excel templates for this purpose. These allow Airports to provide contextual disclosures which assist in the interpretation of the quantitative data reported. The inclusion of commentary information in part responds to the concern expressed in submissions by NZAA and

¹⁰² Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraph 791.

¹⁰³ The three activities are airfield activities, aircraft and freight activities and specified passenger terminal activities. These are defined in NZ Government, *Airport Authorities Act 1966*, section 2(1) as “identified airport activities”.

¹⁰⁴ The aircraft and freight activities relate to freight, hangars, refuelling, catering, waste disposal, and the holding of assets for those activities in the future. Aircraft and freight activities constitute a small part of the specified airport services. Averaged over the three specified airports, they attract only 6.2% of regulated revenue and employ 1.9% of staff. See CIAL, *Disclosure Financial Statements year ended 30 June 2009*, page 40; AIAL, *Disclosure Financial Statements year ended 30 June 2009*, pp. 35 & 46; WIAL, *Disclosure Financial Statements year ended 31 March 2009*, pp. 25 & 31.

¹⁰⁵ In respect of airport regulation, the Commission’s Information Disclosure Discussion Paper lists “passenger satisfaction”, “reliability”, and “capacity and utilisation” as “customer service”, “reliability of service” and “supply quality (including capacity and utilisation)”. Refer Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, section 14.3.6.

¹⁰⁶ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, p91; BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, page 53; Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 25.

- AIAL that interested persons must be able to understand the context of the information when interpreting quality indicators.¹⁰⁷
- 4.16 The Discussion Paper proposed that, to inform interested persons whether a regulated supplier is demonstrating an appropriate approach to investment planning, Airports would report consumer preferences by disclosing a target for each quality indicator. Each target would reflect the assessment of consumer requirements disclosed in the requisite quality section of a regulatory asset management plan.¹⁰⁸ In its submissions NZAA identified a number of potential difficulties in preparing quality targets for specified airport services. Comparing Airports to energy utilities, NZAA considered that “airports have a considerably wider range of service points provided to consumers and these are often provided in conjunction with a third party”.¹⁰⁹ While indicating that targets for passenger satisfaction indicators might be feasible, NZAA suggested that at least two years of survey data would need to be gathered in order to establish, with future disclosures commenting on Airport initiatives to achieve the targets.¹¹⁰ Although BARNZ and Air NZ supported the disclosure of targets and requisite quality requirements in their submissions, BARNZ suggested it might not be appropriate for targets to be articulated for some of the capacity and utilisation measures,¹¹¹ and later in cross submission, BARNZ stated that it did not support requisite quality disclosures.¹¹²
- 4.17 In the Commission’s view, determinations prepared under subpart 4 of Part 4 of the Act should not prescribe operational processes that unnecessarily extend beyond the acquisition, compilation, disclosure and assurance of information. For this reason, the Commission has excluded from the Draft Information Disclosure Determination the requirement to disclose a target for each quality indicator. To inform interested persons whether a regulated supplier is demonstrating an appropriate approach to investment planning, quality targets, where they exist, should be disclosed as commentary in respect of the initiatives taken to adjust the quality outcomes.
- 4.18 The reasons for prescribing the indicators in each of the five categories of disclosure are described below.

4.4 Passenger satisfaction

- 4.19 The Commission considers it is important for disclosed quality information to include indicators of passengers’ satisfaction with regulated passenger terminal services. By head-count, passengers constitute the largest group of consumers of specified airport

¹⁰⁷ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 36; NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 60.

¹⁰⁸ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraphs 365–366 & Table 8.

¹⁰⁹ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, pages 44–45.

¹¹⁰ *ibid*, paragraph 61(a).

¹¹¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 28, Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, pages 14–15.

¹¹² BARNZ, *Cross Submission by BARNZ on NZ Airports’ Submission with respect to the Commission’s Information Disclosure Document*, 2 November 2009, page 11.

- services.¹¹³ By revealing the extent to which the quality of service meets the expectations of passengers, passenger satisfaction surveys provide a direct source of information on whether the regulated services are being delivered at a quality reflective of consumer demands. Airports carry out passenger satisfaction surveys as a part of their normal business practice and these surveys provide a relatively low-cost measure of the quality of services provided. Each submission on Airport regulation supported the use of passenger surveys for indicating consumer satisfaction.¹¹⁴
- 4.20 BARNZ submitted that other surveys should be prescribed to canvas the views of other consumers.¹¹⁵ In the Commission's view any requirement on Airports to undertake and publicly disclose surveys of direct customers such as airlines may be of limited value because of the small number of respondents and the potential for the disclosed responses to be influenced by the timing of price consultations and other commercial negotiations that take place between the Airport and the customer. The Commission considers that reliability indicators and capacity and utilisation indicators provide a more robust source of information to interested persons about the quality of services that are supplied to consumers other than passengers.
- 4.21 The Commission notes that passenger perceptions of quality may not make a distinction between regulated and unregulated services. For example, the comfort of a regulated waiting area may be perceived differently if an (unregulated) shopping facility is located nearby. Indicators that reliably distinguish between the regulated and unregulated services can be more complex and potentially more costly than basic indicators that might suffer from some overlap. The Commission considers that the requirement for Airports to disclose both the results of passenger satisfaction surveys and the capacity and utilisation indicators associated with specified passenger terminal activities helps to strike a cost-effective balance when assessing passenger satisfaction.

ACI ASQ Quarterly Passenger Survey

- 4.22 The Airports Council International (ACI) is an international trade association whose purpose is to promote the interests of member airlines and contribute to improved service delivery.¹¹⁶ The organisation's Airport Service Quality (ASQ) "main programme" quarterly survey is an internationally recognised benchmarking programme to which 132 airports around the world subscribe.¹¹⁷ AIAL, CIAL and WIAL each subscribe to the programme, regarding it as an effective management tool for assessing shifts in service quality.¹¹⁸ The survey is used for regulatory purposes in overseas jurisdictions. The Commission considers that the ACI ASQ survey will

¹¹³ The smallest of the three airports by passenger number, Wellington, reported over 5¼ million passenger movements for the year ended 31 March 2009. See WIAL, *Consolidated annual report for the year ended 31 March 2009*, 15 May 2009, page 42.

¹¹⁴ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, pages 88–89; BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 48; Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 23.

¹¹⁵ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 59.

¹¹⁶ Airports Council International, *Annual Report 2009*, page 2.

¹¹⁷ *ibid*, page 10.

¹¹⁸ For information on the ACI ASQ survey, see the ASQ web page <http://www.airportservicequality.aero/content/survey.html>

- reasonably capture passenger concerns regarding the quality of specified airport services.¹¹⁹
- 4.23 All submissions proposed that eleven of the survey topics in the quarterly ACI ASQ survey be used as indicators of passenger satisfaction. These topics are:¹²⁰
- availability of baggage carts / trolleys;
 - ease of finding one's way through the terminal;
 - flight information screens;
 - walking distance inside the terminal;
 - ease of making connections with other flights;
 - courtesy and helpfulness of airport staff (excluding check-in and security);
 - availability of washrooms / toilets;
 - cleanliness of washrooms / toilets;
 - comfort of waiting / gate areas;
 - cleanliness of terminal; and
 - ambience of terminal.
- 4.24 Most of these topics are concerned with outcomes that result unambiguously from the provision of regulated services. The exceptions are perceptions of terminal ambience and ease of making connections; these perceptions could be affected not only by some of the unregulated services provided by the Airport but also by many of the service providers in the terminal. However, the integration of retail offerings with terminal operations is an important part of Airport operations. The Commission considers that the responses to the proposed survey topics provide effective indicators of passenger satisfaction with specified airport services.
- 4.25 Other topics in the ACI ASQ survey also provide relevant information concerning passenger satisfaction with regulated services. These are:
- feeling of being safe and secure;
 - waiting time at passport/personal ID inspection (at departure);
 - waiting time at security inspection; and
 - waiting time in check-in queue / line.
- 4.26 The provision of facilities and services for the operation of security and police services is defined as a specified passenger terminal activity.¹²¹ All services supplied by the Airports in markets directly related to this activity are therefore defined as specified airport services. The Commission considers that the quality of these facilities and services, to the extent that they affect passengers inside the terminal, will be reflected in

¹¹⁹ For example, the average ACI ASQ survey result for individual questions are assessed against target results in the formula used by the Commission for Aviation Regulation to set the maximum permitted revenue at Dublin Airport. See CAR, *Determination on Maximum Levels of Airport Charges at Dublin Airport*, Commission Paper 4/2009, 4 December 2009, Chapter 4. The ACCC approves the use of ACI ASQ survey results for individual questions within its quality of service monitoring programme in Australia. See ACCC, *Airport Quality of Service Monitoring Guideline—Statement of Reasons*, October 2008, page 10.

¹²⁰ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies*, 24 June 2009, page 2.

¹²¹ Airport Authorities Act 1966, item (a)(v) in definition of “specified passenger terminal activities”.

- feelings of safety and security.¹²² To assist interested persons make an appropriate assessment of the price-quality trade-off regarding terminal security, the Commission has included “feeling of being safe and secure” as a survey topic.
- 4.27 Waiting times, at passport, security and check-in, reflect the outcome of services that are not fully within the control of the Airport. For many specified airport services the outcome will depend both on the actions of the Airport and on external influences. External influences may include the weather and the actions of other agencies such as air traffic control, airlines and border service agencies. In such cases, the consumer’s experience of the service arises from the quality of the joint outcome and not from the quality of each contributory service.¹²³ The Commission considers that the consumer’s experience of a joint service outcome can often inform an interested person’s consideration of the price-quality trade-off more effectively than the technical quality of the regulated service provider’s contribution to that outcome, particularly in situations where an increased or reduced spend by the Airport does not affect the joint service outcome.
- 4.28 Airports are proposing to implement processes that will support reliability indicators and passenger service indicators which involve joint outcomes. A programme of root cause analysis is proposed to evaluate reliability information, describing the primary cause of the interruption and the agency responsible.¹²⁴ Airlines and Airports propose to meet regularly in an “operational improvement forum” to review the results of passenger surveys and identify areas where remedial action is required by the Airport, airline or border agencies.¹²⁵
- 4.29 Airport services include passenger flow design and management, facilities management and the provision of floor space.¹²⁶ One major outcome of these services, as perceived by passengers, is the time spent in queues. This time matters to passengers. Accordingly, the Commission has included the waiting times at passport and visa inspection, security inspection and check-in sites in the list of passenger survey results to be disclosed. Waiting times depend on a range of factors, including the number of border sector agency and airline staff on duty. If factors that determine outcomes are considered to be outside the Airport’s control, Airports should highlight these in the commentary box, as interested persons will need to understand the context when interpreting the indicator. For example, Airport investment to reduce queuing times may be ineffective if third party constraints have not also been addressed.
- 4.30 Air NZ, BARNZ, and NZAA have each submitted that mandated use of the ACI ASQ survey could create difficulties should that service cease to be relevant or cost effective.

¹²² The focus here is on the quality of services related to terminal security. As noted in paragraph 4.12 the regulations are not intended to extend to the safety dimension of service quality.

¹²³ Disclosures that relate to innovation might also involve joint responsibilities. BARNZ highlighted in its submission the role played by other parties in introducing airport innovations including ground power units, domestic check-in kiosks and Smartgate.

¹²⁴ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies*, 24 June 2009, page 4.

¹²⁵ *ibid*, page 4.

¹²⁶ For example minimal queuing for passengers is part of AIAL’s long term terminal strategy; terminal services that achieve a good level of service, conditions of stable flow, acceptable delays and good levels of comfort during the busy hour (IATA service level ‘C’) constitute part of WIAL’s aims; and CIAL’s terminal area and facility requirements for 2014 are similarly based on IATA service level ‘C’. See AIAL, *Masterplan: 2005 to 2025*, January 2006, p5; WIAL, *2030 The Master Plan*, January 2010, p26; and CIAL, *Airport Master Plan—2006*, 30 July 2006, p70.

- The Commission agrees, and passenger satisfaction disclosures may report the results of any survey programme that meets the disclosure specifications.
- 4.31 In the JWD, NZAA and BARNZ proposed that for Airports at which the international and domestic terminals are not separated (as is currently the case at Christchurch and Wellington), the Airport be able to elect whether or not to report separate survey results for the international and domestic terminals. The Commission has taken this into account and considers that the services received by international and domestic passengers are sufficiently independent to require that all Airports report separate survey results for the international and domestic terminals.¹²⁷
- 4.32 The JWD proposed that the average score for each question be disclosed. This score is a figure between 1 and 5, and is calculated as described in clause 8.3 of the requirements. Although many methods are available for reporting the results of a survey, the average score is a concise indicator of the degree of satisfaction of all respondents and appears to be commensurate with the level of detail required for financial disclosures. The Commission's current view is that, given the present differentiation of service levels provided by Airports, disclosure of the average score will provide interested persons with sufficient information to consider the trade-offs that exist between price and quality.
- 4.33 The Commission's draft decision is that the results of quarterly surveys of departing international and domestic passengers undertaken to identify passenger satisfaction in respect of service quality are to be disclosed as set out in Schedule 15 to the Draft Information Disclosure Determination.
- 4.34 The Draft Information Disclosure Determination requires that separate surveys of passengers departing on international flights and passengers departing on domestic flights be conducted in each calendar quarter. The Commission will accept for disclosure the results from the ACI ASQ survey subject to the survey meeting the specifications listed in clauses 8.2–8.5 of the Draft Information Disclosure Determination.

4.5 Reliability

- 4.35 Reliability of service indicators provide information on continuity of supply. Reliability is of particular concern when airlines, passengers, and other consumers are affected by consequent interruptions to scheduled flights. Both BARNZ and Air NZ have noted in their submissions that unexpected interruptions to service are of key interest as they can have a significant impact on airline operations, including commercial loss.¹²⁸ AIAL submitted that both airlines and passengers view "airport supply interruptions" very seriously.¹²⁹ The Commission is aware that if effective service level agreements are in place between Airports and airlines (or between Airports and passengers) then the price-quality trade-offs become explicit through the amount of compensation paid and disclosure regulation of service reliability becomes less important.

¹²⁷ Apart from check-in at Wellington airport which provides a common space for domestic and international passengers, the surveys cover distinct domestic and international facilities.

¹²⁸ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 30. Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, pp. 6–7.

¹²⁹ AIAL, *Auckland Airport Cross Submission to the Commerce Commission Information Disclosure*, 2 November 2009, paragraph 34.

4.36 NZAA and BARNZ have proposed in the JWD that two types of reliability indicators be disclosed:

- loss of material service indicators; and
- an on-time departure delay indicator.

Loss of material services indicators

4.37 The loss of material service indicators proposed in the JWD are similar to the interruption measures (i.e., total duration and number of interruptions to each material service during the financial year) disclosed by specified airport companies that are subject to the AAA disclosure regulations.¹³⁰ BARNZ and NZAA have proposed that:

- only unplanned interruptions should be disclosed. Under the AAA regulations, planned and unplanned interruptions are disclosed separately. BARNZ and NZAA agree that planned maintenance is not a concern for airlines as it can be adequately accommodated within schedules, whereas unplanned interruptions cause airlines the greatest degree of operational difficulty and have the greatest impact on airlines and passengers;¹³¹
- as with the AAA regulation definitions, an interruption occurs if the (material) service is withdrawn by the Airport during operational hours for a period of 15 minutes or longer, but does not include an interruption to runway services due to weather conditions;¹³²
- the material services, which are services that can materially impact the inbound and outbound operation of aircraft and therefore passengers and freight, should be:¹³³
 - runway;
 - taxiway;
 - contact stand and airbridge;
 - remote stand and means of embarking or disembarking the aircraft;
 - baggage sortation system (outbound); and
 - baggage reclaim.

The interruptions disclosed under the AAA relate only to the runway, stand positions, airbridge, and outbound baggage handling services.

4.38 The Commission notes that the proposed loss of material service indicators remain roughly consistent with previous disclosures made by Airports and would contribute to a long-term data series that allows interested persons to compare results with past performance. A requirement to disclose only unplanned interruptions requires a more precise definition of an unplanned interruption, and the Commission has extended the definition used in the AAA to include the period in which a planned withdrawal of service continues beyond the notified duration.

¹³⁰ NZ Government, *Airport Authorities (Airport Companies Information Disclosure) Regulations 1999*, SR 1999/242, Schedule, sections 8(1)(g) & 8(1)(h).

¹³¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 58; NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 61.

¹³² NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies*, 24 June 2009, page 5.

¹³³ *ibid*, page 4.

- 4.39 The NAS report identified other indicators used overseas and proposed their use in respect of material services reliability as they would provide context to the other loss of material services indicators.¹³⁴ These indicators are:
- number and duration of planned interruptions to outbound baggage sortation system during the financial year;
 - number and duration of planned interruptions to baggage reclaim belts during the financial year;
 - number of hours the outbound baggage sortation system is in use during the financial year; and
 - number of hours the baggage reclaim belts are in use during the financial year.
- 4.40 BARNZ has made clear in its submissions that airlines are not concerned with planned interruptions and indicated that airlines are able to adequately accommodate planned interruptions (including planned interruptions to the baggage systems) such that they have a relatively small effect on passengers.¹³⁵ This being the case, the Commission considers that indicators concerning the number and duration of planned interruptions to the inbound and outbound baggage systems are not needed. While the exact number of hours of operation of the inbound and outbound baggage systems at each Airport could inform an analysis of baggage system capital and operating costs, the level of detail contained in the financial disclosures is unlikely to support such an analysis. The Commission considers that indicators concerning the number of hours of operation of the inbound and outbound baggage systems are also not needed.
- 4.41 The NAS report also proposed three capacity and utilisation measures used overseas that concern the number of aircraft, and inbound and outbound passengers on international flights using airbridges during the year.¹³⁶ The Commission considers that choice of whether to use an airbridge is up to the airline concerned and that these measures would not necessarily indicate Airport service quality. To reflect unmet demand by airlines for an airbridge facility, Airports are required to disclose, in respect of international and domestic flights, the total number of aircraft movements during financial year where an airbridge was requested but was not available.

On time departure delay indicator

- 4.42 An on-time departure delay indicator, as proposed in the JWD, would be a new indicator to disclose the total number of affected flights for which the “scheduled service has been delayed by more than 15 minutes, primarily as a result of unavailability of identified airport activity services or facilities”. The JWD proposes that departure delays resulting from any service being unavailable—not just material services—be reported by this indicator.
- 4.43 The Commission considers that the introduction of an on-time departure delay indicator would ensure that losses of services that impact airlines and passengers are recorded,

¹³⁴ Network Advisory Services, *Regulation of Specified Airport Service: Information Disclosure—Quality Measures*, September 2009, table 10: List of recommended measures for specified passenger services, and Appendix 3, “ACCC’s QSM aspects”.

¹³⁵ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 58.

¹³⁶ Network Advisory Services, *Regulation of Specified Airport Service: Information Disclosure—Quality Measures*, September 2009, table 10: List of recommended measures for specified passenger services.

without requiring Airports to monitor the availability of a prohibitively large range of services.¹³⁷

- 4.44 For this indicator to be compiled and disclosed, airlines will need to ensure flight and departure delay information is made available to the Airports. The Commission notes NZAA's statement, made in cross submissions, that:¹³⁸

NZ Airports agrees with the comments in the BARNZ submission that the industry needs to develop the means to enable reporting of on time delays due to failure of airport facilities. Airports cannot achieve this without information from airlines.

- 4.45 Airport and airline representatives intend to work together to establish the mechanisms and information flows needed for reliable on-time departure delay information to be disclosed. NZAA and BARNZ have stated that:¹³⁹

Airlines and airports are committed to trialling the inclusion of this new statistic. This will require significant planning and is likely to require information provision by airlines and information technology solutions if it is to be collected efficiently. This will require a sufficient lead time.

- 4.46 At the Commission's Airports quality working session, this intention was supported by an Air NZ suggestion that BARNZ provides a forum for the provision of on-time departure delay information. The Commission recognises that the Airports and the airlines will need to establish and maintain the necessary information flows to support these disclosures.

Other considerations

- 4.47 The reliability indicators proposed in the JWD are designed to quantify the reliability of specified airport services from the perspective of aircraft operations.¹⁴⁰ BARNZ and Air NZ both participated in and endorsed the design of these indicators and the airlines intend to play a role in preparing the information for disclosure. This may better ensure the integrity of the results. BARNZ has stated that planned interruptions to material services have had only a limited impact on airlines. The Commission considers that if airlines have been affected in only a minor way by planned interruptions then this is likely to be true for passengers as well. For these reasons the Commission has adopted the reliability indicators described in the JWD.
- 4.48 The JWD described root cause analysis processes that would be developed to analyse the cause of all interruptions to material services and all interruptions that have resulted in an on-time departure delay. The processes would describe, where possible, the primary cause of the loss of service and who was responsible.¹⁴¹ In cross submission,

¹³⁷ This point has been made by NZAA and BARNZ. Refer BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 58.

¹³⁸ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 62.

¹³⁹ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies*, 24 June 2009, page 6.

¹⁴⁰ Material services relate to facilities whose unavailability can materially impact the inbound and outbound operation of aircraft. Departure delays relate to scheduled aircraft operations.

¹⁴¹ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 4; BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 55–56; NZAA, *Submission by NZ Airports Association on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 71; NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 45.

BARNZ noted that in its meetings with NZAA it was considered that the results from the root cause analysis should not be disclosed, largely because of the difficulties of auditing the assignment of responsibility for interruptions.¹⁴²

4.49 The Commission views the root cause analysis information as important for disclosure, as information that relates to the cause of the loss of the service and the time taken to resolve the loss is a significant consideration in understanding the adequacy of Airport investment and operating efficiency. Outcomes of the analysis also provide information to interested persons concerning the extent to which the causes of service loss are being resolved. Recognising that responsibility for all interruptions may not be resolvable, the Commission considers that unplanned losses of material services and on-time departure delays should be disclosed according to whether they were caused by:

- the Airport;
- airlines or other parties; or
- undetermined reasons.

4.50 Audit requirements discussed in paragraph 7.16 apply in respect of the verification of the reliability disclosures.

4.51 The Commission's draft decision is that reliability indicators are to be disclosed in respect of:

- interruptions to regulated services that resulted in on-time departure delays; and
- any interruption to material services;

in the form set out in Schedule 13 to the Draft Information Disclosure Determination. A planned withdrawal of service does not constitute an interruption.

4.52 Further, a description of the following must be included in the reliability comment box:

- how the responsibility for interruptions is determined;
- the reasons for each interruption categorised as "occurring for undetermined reasons" being so categorised; and
- the process the Airport has put in place for undertaking any operational improvement in respect of reliability.

4.6 Capacity and Utilisation

4.53 Capacity and utilisation indicators may be used together to assess the quality of service during periods of near-peak demand, identify potential service constraints and consider investment requirements. Used individually, the utilisation indicators provide information on the demand for the service and can assist interested persons in assessing the relative performance of regulated suppliers and the change in performance over time. To support the analysis by interested persons of the price-quality trade-off, the capacity and the utilisation of a number of the functional components of the Airport at near-peak times of operation are disclosed, as discussed below.

4.54 In the JWD, NZAA and BARNZ proposed that indicators of the capacity and utilisation of various functional components of the Airport be disclosed.¹⁴³ In its submissions, BARNZ described the purpose of capacity and utilisation indicators as follows:

¹⁴² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 56.

In particular, capacity, and utilisation of capacity, are indicators of whether investment is occurring in line with demand for the regulated service (s52A(1)(a)) and is also highly relevant to whether services are being provided at a quality that reflects consumer demands (s52A(1)(b)).¹⁴⁴

- 4.55 The Airbiz report considered the capacity and utilisation indicators proposal contained in the JWD in greater detail, and made particular reference to the following:¹⁴⁵
- identification of busy hours and busy days at each Airport;
 - definition and measurement of capacity (including floor area and notional throughput) of relevant functional areas at each Airport; and
 - trial measurements of utilisation for the relevant functional components of each Airport (using 2008/9 data).
- 4.56 BARNZ (with Air New Zealand) and NZAA (with Auckland, Wellington and Christchurch Airports) have adopted the Airbiz report as their joint proposal for airport capacity and utilisation measures.¹⁴⁶

Functional Components

- 4.57 The JWD proposed that capacity and utilisation indicators be disclosed for 15 “functional components” of the Airport operations (and for a 16th, composite component, comprising the functional components within the passenger terminal that experience passenger foot-traffic). The Airbiz report recommended subdividing one of the functional components and omitting another, with the total number remaining at 15. The Commission agrees that this is appropriate.¹⁴⁷ The Airbiz report contains no recommendations concerning utilisation indicators for the composite passenger terminal.
- 4.58 The functional components, described in the JWD as “critical assets and service points within those assets”, are Airport locations at which excess demand for services or facilities may occur. Two of the functional components, the airfield and the apron, are associated with aircraft and freight activities and airfield activities. The other 13 functional components proposed in the Airbiz report are associated with specified terminal activities. See Tables 1 and 2 in Appendix C for a summary of the proposed functional components, the capacity and utilisation indicators relevant to each, and the approach taken to preparing indicators in respect of each of the Auckland, Wellington and Christchurch Airport terminals.

¹⁴³ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies*, 24 June 2009, pages 7–12.

¹⁴⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 59. Also see Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 27.

¹⁴⁵ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010.

¹⁴⁶ NZAA and BARNZ, Covering letter to Commerce Commission, 18 May 2010.

¹⁴⁷ The JWD proposed a single category for passenger facilities and two categories (landside and airside) for circulation areas. The Airbiz report excludes passenger facilities as a functional component and further subdivides circulation areas from two to four categories—relating to areas for inbound and outbound passengers in the landside and airside parts of the terminal. Circulation areas constitute about half the total floor area of the functional components in a terminal, and Airbiz’s proposed subdivision of the circulation areas makes the corresponding utilisation indicators more meaningful. Although passenger facilities, which were defined in the JWD to include toilets, help desks, information desks, and telephone and internet facilities are important to passengers, the Commission considers that constraints are more likely to concern the availability of the facilities rather than the total floor area that is allocated to them.

- 4.59 No submissions proposed that capacity and utilisation be measured at other locations, and the Commission supports the list of functional components proposed in the Airbiz report. Excess demand experienced by any of these functional components may result in bottlenecks that reduce consumer benefit as a result of delays and overcrowding. Constraints at specific locations in the terminal might also matter to passengers (e.g. in the lifts and stairways), but the Commission considers that passenger survey disclosures can be reasonably expected to identify these constraints.
- 4.60 The functional components proposed in the Airbiz report are:
- airfield;
 - apron; and
 - 13 functional components within the terminal:
 - landside circulation (outbound);
 - check-in;
 - baggage (outbound), including the (non-public) baggage makeup area;
 - passport control (outbound);
 - security screening;
 - airside circulation (outbound);
 - departure lounges;
 - airside circulation (inbound);
 - passport control (inbound);
 - landside circulation (inbound)
 - baggage reclaim;
 - biosecurity screening & inspection & customs secondary inspection; and
 - arrivals concourse.

Busy hour and busy day

- 4.61 Capacity constraints can become a problem at times when demand is consistently high. It can be appropriate for a service to be briefly constrained during times of peak demand. If the cost of occasional congestion (i.e. excess demand) is less than the cost of remedial action required to ease the congestion, then it may be efficient to have occasional congestion. NZAA and BARNZ have proposed utilisation indicators that provide a snapshot of the demand at each of the Airport's functional components at a near-peak (rather than peak) time of use.

- 4.62 BARNZ stated in its submission that:

This snapshot should be taken on a representative busy day, (not being the busiest day of the year or a day affected by abnormal events, such as weather, equipment failure or a public holiday). It is widely accepted within the aviation industry that the peak hour or day used for designing airport facilities (and consequently for measuring utilisation) should be significantly busier than average, but should not be the busiest hour/day.¹⁴⁸

- 4.63 The Commission notes that a busy hour or busy day snapshot of demand is only one of many demand characteristics that Airports take into account when assessing quality in terms of capacity and utilisation. For example, as was stated by BARNZ, the duration of periods of high demand can also be important:

¹⁴⁸ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 47.

Airport facilities may be able to manage 2000 arriving passengers in a 60 minute period if the periods before or after this 60 minute period (the shoulders) only have 1000 passengers scheduled to arrive, but if there are three consecutive busy hours scheduled then the airport facilities may only be sufficient to process 1500 passengers per hour over this three hour period.¹⁴⁹

- 4.64 The Airbiz report listed a number of possible methodologies for identifying busy hours and busy days and took into account principles of transparency, relevance to NZ, and consistency over time when recommending methodologies for the Commission to prescribe.¹⁵⁰ Airbiz also considered it important that the selected hour be consistently ranked within the top 100 busiest hours in the year.¹⁵¹ The busy period measures proposed in the Airbiz report are summarised in Table 3 in Appendix C.
- 4.65 At the Commission's Airport quality working session, Airbiz confirmed that busy day and busy hour measures are used for investment planning by Airports in New Zealand. No alternatives to the use of busy day and busy hour indicators were proposed in submissions. The Commission accepts that snapshots of the demand at each of the Airports' functional components at a near-peak time of use (busy hour or busy day) can provide a straightforward indicator of site and facility utilisation and has adopted as busy hour and busy day definitions the derivation methodologies recommended in the Airbiz report.
- 4.66 Following the end of each financial year, the Airports should identify the busy hours and (if applicable) busy days relevant to each functional component.¹⁵² The utilisation indicator reflects the use of the facility during this busy period.

Capacity Indicators

- 4.67 The Airbiz report identified the functional components available at each Airport and reviewed the capacity indicator metrics proposed in the JWD. The capacity indicators proposed in the Airbiz report are listed in Tables 1 and 2 in Appendix C.
- 4.68 Under the proposal, the capacities of the airfield are reported by the indicators listed below.¹⁵³
- runway details, including name, length, width, shoulder width, code, instrument landing system category;
 - taxiway details, including name, length, width, status (full or part length), number of links; and
 - declared runway capacity (expressed in movements per hour) for visual and for instrument meteorological conditions and (VMC and IMC).¹⁵⁴

¹⁴⁹ Ibid, page 62 footnote 57.

¹⁵⁰ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, page 6.

¹⁵¹ Ibid, pages 15, 38 and 51.

¹⁵² Busy days apply only to apron utilisation. In respect of the functional components of the passenger terminal, busy hours are individually defined according to the direction of traffic flow (inbound or outbound) and where separate physical areas are provided for use by international and domestic passengers.

¹⁵³ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, pages 18, 41 & 54 (airfield description tables).

¹⁵⁴ The Airbiz report notes that there is no single and absolute measure of the capacity of a runway as this depends on a number of factors including traffic mix, spacing (required between the aircraft in various meteorological conditions) and runway occupancy time for each aircraft movement.

The runway and taxiway details inform the understanding of price-quality trade-offs, since they each relate to the Airport's capacity to handle increasing volumes of traffic and aircraft sizes. The declared runway capacity under different flight rules (movements per hour) provides an indication of the maximum number of aircraft movements that may occur at the Airport during a given hour in appropriate conditions. The capacity of the apron or aprons is described in terms of the total number of parking stands provided for each flight category and aircraft type.¹⁵⁵

- 4.69 Two indicators are proposed in the Airbiz report for describing the capacity of functional components of the passenger terminal(s):
- congestion capacity, stated in respect of the floor space of each functional component; and
 - throughput capacity, stated in respect of:
 - The number of outbound passengers that can be processed per hour. These indicators apply only to security screening, inbound passport control, outbound passport control, inbound baggage reclaim, inbound Customs & Ministry of Agriculture and Forestry screening of international passengers.
 - The number of outbound bags that can be processed per hour, along with an estimate of the corresponding number of passengers whose bags are processed. This indicator applies only to the outbound baggage makeup area.
- 4.70 The Commission sees merit in the list of capacity indicators proposed in the Airbiz report, and they are reflected in Schedule 14 to the Draft Information Disclosure Determination.

Utilisation

- 4.71 The Airbiz report recommended that the utilisation indicators for the airfield functional components should relate to the number of aircraft movements on the runway during the busy hour of the financial year, and that the utilisation indicators for the apron should relate to the number of aircraft movements on the runway during the busy day.¹⁵⁶ The reporting of busy day runway movements enables the stand utilisation (turnarounds per stand) to be assessed. The study recommended that the busy day movements be categorised by flight category and aircraft type. This allows detailed comparison to be made between the number of aircraft parked and the number of stands allocated.
- 4.72 In respect of passenger terminal utilisation, the Airbiz report proposes that busy hours be identified for each functional area of the terminal. For AIAL, this would require four separate busy hours would need to be identified¹⁵⁷ and for CIAL and WIAL, where some of the functional areas are shared by international and domestic passengers, six busy hours must be identified.¹⁵⁸ The number of busy hour passengers in each functional area of the terminal is able to be approximated by the number of passengers

¹⁵⁵ The Commission understands that in practice the airports assign aircraft stands to specific categories of flight (international, domestic, domestic regional, domestic local, or general aviation) and aircraft type (jet, turboprop, or various).

¹⁵⁶ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, pages 32, 47 & 58 (runway and apron utilisation tables).

¹⁵⁷ Four busy hours apply to the Auckland Airport terminal facilities, relating to the number of passengers travelling on inbound or outbound flights using the domestic or international terminals.

¹⁵⁸ The two additional busy hours applicable to the Christchurch and Wellington terminal facilities relate to the number of passengers travelling on inbound or outbound flights using either terminal.

- arriving at or departing from the Airport on international and/or domestic flights during the busy hour of the functional area.
- 4.73 To account for the different passenger flows within the terminal, the number of passengers during the busy hour for each functional area of the terminal must be adjusted to take account of:
- outbound domestic turboprop passengers (who do not pass through security screening);
 - inbound domestic transfer and transit passengers (who do not use the baggage reclaim facilities);
 - outbound domestic transfer and transit passengers (who do not pass through check-in and security screening);
 - inbound international transit and transfer passengers (who pass only through the inbound airside circulation facilities); and
 - outbound international transit and transfer passengers (who pass only through the outbound airside circulation facilities, the departure lounges, and the security screening facilities reserved for transfer and transit passengers).
- 4.74 Tables 1 and 2 in Appendix C describes the utilisation calculations proposed by Airbiz for each functional component in the passenger terminal.
- 4.75 The total number of passengers in the terminal during a busy hour provides an indication to interested persons of the adequacy with which the terminal building is able to cope with passenger traffic congestion.¹⁵⁹ For this reason, capacity and utilisation measures have been included in the draft determination that, in addition to capturing the number of inbound and outbound passengers at each functional component of the terminal, captures the total number of passengers in the terminal during the relevant busy hour. The floor area of the terminal considered relevant to total passenger numbers is the aggregate floor area of the functional components originally proposed in the JWD that experience foot traffic.
- 4.76 The NAS report considered regulatory measures of service quality used overseas and recommended further quality measures to supplement indicators that were proposed in the JWD. In respect of the capacity and utilisation indicators, the report recommended that indicators be prescribed in respect of Airport provision of seating, baggage trolleys, flight information display screens, and information points.
- **Seating.** Passenger seating areas are specifically listed in statute as a specified passenger terminal activity.¹⁶⁰ The provision of seating is important for passenger comfort. Disclosure of the number of seats available to passengers in departure lounges will allow the number of seats per passenger during the busy hour to be assessed. This provides a cost-effective method of supplementing the passenger satisfaction survey results concerning the level of satisfaction with the comfort of the waiting / gate areas. Accordingly, the Commission requires that number of seats available for passenger use in the departure lounges be disclosed.
 - **Baggage trolleys.** BARNZ's submissions reflected the recommendation in the NAS report that the number of baggage carts and trolleys for passenger use be

¹⁵⁹ This indicator was also proposed by NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies* (JWD), 24 June 2009, page 11.

¹⁶⁰ Airport Authorities Act 1966, definition of "specified passenger terminal activities", sub clause item (a)(i).

disclosed.¹⁶¹ The availability of baggage carts and trolleys is included by ASQ in its benchmark survey ratings for Airports. Disclosure would allow the number of trolleys per passenger during busy hours to be assessed. Although it is an imperfect indicator (the trolleys may not be where they are needed), disclosure of the number of trolleys provides a cost-effective way of supplementing the general results of the passenger satisfaction survey question on trolley availability. The availability of trolleys is important to passengers. Accordingly, the Commission requires that the number of baggage carts and trolleys available for passenger use be disclosed.

- **Flight information display screens and information points.** In submissions, BARNZ agreed with the recommendation contained in the NAS report that the number of flight information display screens be disclosed to supplement the results of the passenger surveys.¹⁶² The Commission considers that the quality of flight information display screens and information points is adequately captured by the passenger satisfaction survey questions concerning flight information screens and the ease with which passengers find their way around the terminal. Unlike the provision of seating and baggage trolleys, the quality of service provided by flight information display screens and, to a lesser extent, information points is unlikely to change significantly with passenger throughput. Furthermore, responses to the survey question on flight information screens captures a number of dimensions of quality, including the size of the screens, their location, and the nature of the information displayed.

4.77 To date there has been a common reluctance by airlines to provide passenger data. The Airbiz study found that, to a minor or moderate extent, information was missing from the passenger field of each Airport's database for the 12 months to 30 June 2009.¹⁶³ Using publicly available flight information and an assessed load factor, Airbiz was able to estimate the missing values. The Commission considers that it is in the interest of airlines to improve the data on passenger numbers that they provide to Airports. To aid interpretation by interested persons, Airports will need to include in the capacity and utilisation comment box an assessment of the accuracy of the passenger data used to prepare the utilisation indicators.

Other Indicators

4.78 In submissions BARNZ proposed the following capacity and utilisation indicators to supplement the passenger satisfaction indicators on washrooms:¹⁶⁴

- the number of toilets; and
- the range of bacteria counts in random samples of surfaces within the washroom.

4.79 The Commission considers that the two passenger satisfaction questions should provide sufficient information to allow interested persons to assess washroom service quality. If consistently poor survey results were to be disclosed, the Commission may need to consider whether more detailed indicators are necessary.

¹⁶¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 54.

¹⁶² *ibid*, page 54.

¹⁶³ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, page 12.

¹⁶⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 54.

4.80 The Commission's draft decision is that indicators of capacity and utilisation are to be disclosed for each functional component of the Airport in the form set out in Schedule 14 to the Draft Information Disclosure Determination.

4.7 Statistics

4.81 Statistics disclosures for regulated goods or services were described in the Discussion Paper as falling into the categories of asset information, demand, capacity and pricing, and as providing context and scale to the performance indicators so that more meaningful comparisons can be made between regulated suppliers in each sector.¹⁶⁵

4.82 The Discussion Paper presented the Commission's preliminary view that relevant statistical information for Airports should include:¹⁶⁶

- a description of the assets and the capacity of those assets;
- details on the international and domestic demand, including passengers (arriving and departing), freight tonnage and aircraft;
- details on international and domestic peak demand, including passengers (arriving and departing) and aircraft; and
- pricing statistics.

4.83 BARNZ agreed with the Commission's proposed statistics.¹⁶⁷ Air NZ agreed that a description of assets and their capacity should be disclosed.¹⁶⁸ NZAA agreed with the requirement to disclose statistical information, but recommended the capacity and utilisation indicators as providing the best indication of investment requirements and questioned the cost-effectiveness of providing descriptive asset information at the level of detail contained in periodic valuation reports which specified airport companies regulated under the AAA disclosure regime must disclose.¹⁶⁹

4.84 The Commission views statistical information as having a purpose beyond informing near-peak capacity and demand assessments. Information concerning annual sales volumes and service production volumes contributes, for example, to forecasts of growth, the assessment of investments and rates of return, the relationship between prices and revenue, and the relationship between production and expenditure.

Statistics proposed in the discussion paper

4.85 A required description of assets and their capacity is included in the capacity and utilisation disclosures.

4.86 Particularly since some Airports set charges that are based on passenger volumes, the Commission considers that annual passenger volumes are of relevance to interested persons and provides comparative pricing information irrespective of whether an Airport prices on a per passenger basis. The number of arriving and departing passengers also provides contextual information concerning passenger terminal service

¹⁶⁵ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraph X20.

¹⁶⁶ *ibid*, paragraph 811.

¹⁶⁷ BARNZ, *Cross Submission by BARNZ on NZ Airports' Submission with respect to the Commission's Information Disclosure Document*, 2 November 2009, page 11.

¹⁶⁸ Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 28.

¹⁶⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 75.

requirements. The Commission notes that specified airport companies under the AAA disclosure regulations are also required to disclose information in respect of passenger volumes.

4.87 BARNZ and NZAA expressed concern that the domestic freight information included in the Commission's preliminary view of required statistical disclosures would not be available.¹⁷⁰ BARNZ stated:

With respect to freight, BARNZ considers that international freight volumes should have to be disclosed. NZ Customs collects international freight volumes, hence an objective reliable information source exists for this. However, BARNZ is not aware of any such independent source of domestic freight information. Domestic freight is not required to be subject to the same security and border requirements as international freight. BARNZ considers that the cost of collecting domestic freight information outweighs the benefit.¹⁷¹

4.88 NZAA queried the benefit of measuring domestic freight data, noting:

- Airlines operating passenger services would need to advise Airports of freight volumes carried;
- Dedicated freight companies such as NZ Post for mail transport would need to advise Airports of freight volumes carried;
- A significant portion of the aircraft and freight revenue is earned from property leases and therefore has no relationship to volumes. A large proportion of freight is carried in the hold of passenger aircraft, and is therefore incidental to that business;
- Airports do not levy a charge that relates to freight volumes; and
- Airports earn revenue from aircraft carrying freight as landing charges, in the same manner as aircraft carrying passengers.¹⁷²

4.89 The Commission considers that, although freight operations are a potential driver of Airport growth, information concerning the annual volumes of domestic freight will not assist interested persons sufficiently to require the cost of collecting the domestic data.¹⁷³ The reasons are:

- a significant portion of freight revenue has no relationship to volumes;
- there is no requirement to disclose annual freight-related expenditures; and
- the assumptions that drive significant investments in freight facilities and services are disclosed in the forecast financial total revenue disclosures.

The Commission notes that airports that are subject to the AAA disclosure regulations are not required to disclose freight statistics. The Commission considers that the annual international freight volumes should be disclosed as these will still provide a useful indicator of consumer value that is provided by the Airports.

¹⁷⁰ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 93.

¹⁷¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 64.

¹⁷² NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, p93; NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 63.

¹⁷³ For example, airport freight projections are discussed in AIAL, *Masterplan: 2005 to 2025*, January 2006, pp 38, 53–56; and CIAL, *Airport Master Plan—2006*, 30 July 2006, pp32–38.

4.90 Airports typically have prices that are based on aircraft landings. The Commission considers therefore that the statistics disclosures should include the total number of scheduled landings of national and international flights broken down by aircraft. To assist interested persons when comparing Airport performance, aircraft types should be differentiated by the manufacturer's model. This approach will provide continuity with the AAA disclosure statistics, assisting interested persons to identify long term trends, and will assist in the comparison of price and revenue.

Other aircraft and airline statistics

4.91 BARNZ proposed that the following statistics relating to the supply of services be disclosed:¹⁷⁴

- total human resource costs;
- number of FTEs;
- throughput volume of any measure not included in the Commission's standard statistics on which that Airport levies a charge (i.e. seats, bags, fuel etc);
- number of aircraft landings; and
- total landed MCTOW.

4.92 The Commission agrees that both the remuneration payable to employees, including the value of benefits payable to employees, and the average number of full time equivalent employees throughout the financial year should be disclosed. This data set was required for disclosure by the Airports when regulated under the AAA disclosure regime. Disclosure in this form provides continuity to assist interested persons compare the costs of remuneration with those applicable to a competitive market.

4.93 The Commission does not consider the annual throughput of bags and fuel sales to be material to the purpose of information disclosure. Revenues are not categorised to the level of detail to allow total revenue from baggage and fuel services to be identified. The Commission considers that BARNZ's comments concerning disclosure of seat numbers, landings and total MCTOW to be adequately covered by the aircraft statistics disclosure requirements described in paragraph 4.90.

4.94 Some Airports actively pursue new airline consumers. This activity is reflected in regulated operating costs and may be a significant service to passengers if, by increasing competition between airlines, it lowers the price to passengers of air transport. To allow interested persons to make a price-quality assessment of this activity, the Commission has included a draft requirement for Airports to disclose the names of the commercial carriers that made (substantial) use of the Airport during the financial year.

4.95 The Commission's draft decision is that statistics concerning passenger numbers, freight tonnage, the details of aircraft landed, human resources and the number of commercial carriers using the Airport, during the financial year be disclosed in the form set out in Schedule 16 to the Draft Information Disclosure Determination.

¹⁷⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 63; BARNZ, *Cross Submission by BARNZ on NZ Airports' Submission with respect to the Commission's Information Disclosure Document*, 2 November 2009, page 11.

4.8 Operational Improvement Process

4.96 In the JWD, BARNZ and NZAA proposed that Airports institute a process whereby airlines and Airports would meet regularly to:

- identify any measures available either to:
 - reduce the likelihood of service losses which have caused loss of material services or on time departure delays from re-occurring; or
 - better manage such losses of service or on time departure delays so as to reduce the impact; and
- review quarterly passenger satisfaction surveys to identify where remedial action is required by the Airport, airline or border agencies.¹⁷⁵

4.97 The JWD proposed that Airports annually disclose the process that the Airport has put in place for undertaking such “operational improvement forums”.¹⁷⁶

4.98 The Commission considers that annual disclosure of the process that the Airport has in place for undertaking operational improvement forums would provide interested persons with information concerning incentives to improve efficiency and provide services at a quality that reflects consumer demands. Therefore, the Commission’s draft decision is that the process put in place by the Airport for it to meet regularly with airlines to improve the reliability and passenger satisfaction performance consistent with that reflected in the indicators is to be disclosed, as set out in Schedule 17 to the Draft Information Disclosure Determination.

4.9 Transitional Provisions

4.99 In consideration of the time that Airports will require to set up data collection and reporting processes, the following provisions are included in the draft determination.

- Airports are not required to disclose on-time departure delay indicators for the financial year ending 2011; and
- Airports are required to disclose passenger satisfaction indicators for quarters of the financial year ending 2011 during which they have undertaken ACI ASQ customer satisfaction surveys. If the surveys taken during the transition year generally meet the requirements set out in clauses 8.2–8.5 of the Draft Information Disclosure Determination but do not provide separate results for the international and domestic terminals, then results are to be disclosed in respect of the international terminal with a note to this effect included in the comment box.

4.100 The Commission notes that although Airports were required to collect loss of material service data, they were not required under the AAA disclosure requirements to categorise this information by party responsible. The Commission considers that no transition provisions should be required in respect of the loss of material service indicators since the Draft Information Disclosure Determination provides for these indicators to be categorised as occurring for undetermined reasons.

4.101 Airports have demonstrated that that capacity and utilisation indicators were able to be successfully derived from historic data for the year ended June 2009. The Commission

¹⁷⁵ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies* (JWD), 24 June 2009, page 4.

¹⁷⁶ *ibid*, page 5.

considers that that no transition provisions should be required in respect of capacity and utilisation indicators for the financial year ended 2011.

CHAPTER 5: FORECAST TOTAL REVENUE AND SUPPORTING INFORMATION

- 5.1 This chapter outlines the Commission's draft decisions on requirements to disclose forecast information, and the reasons underpinning those draft decisions, in particular forecast and total revenue requirements and supporting information, in respect of the supply of specified airport services. It sets out:
- the purpose of forecast information;
 - the Commission's approach to the disclosure of forecast information for specified airport services;
 - the Commission's draft decisions and reasons that inform the draft requirements to disclose forecast total revenue and supporting information;
 - how actual outcomes are to be reconciled to forecasts; and
 - the Commission's views regarding process issues pertinent to the disclosure of forecast information.

5.2 The disclosure of forecast total revenue requirements and supporting information is distinct from the pricing methodology disclosure draft decisions covered in Chapter 6. The objective of this chapter is to cover the process which occurs prior to price setting, i.e. the determination of the total revenue requirement. This chapter includes draft decisions related to disclosure of total revenue information, and additional supporting information required in planning future investments, including forecasts of capital and operational expenditure, and demand.

5.1 Purpose

- 5.3 The Act provides that information disclosure requirements may, without limitation, include plans and forecasts about demand, investment, prices, revenues, quality and service levels, capacity and spare capacity, and efficiency improvements.¹⁷⁷
- 5.4 Forecast information allows interested persons to assess a regulated supplier's expected and historical performance. Disclosure of historical information allows the retrospective assessment of performance only, and does not allow assessments of whether planned future profits are excessive, or whether current investment plans are designed to meet the long-term interests of consumers.
- 5.5 Forecast information assists with the assessment of whether expected profitability is excessive. It also assists with an assessment of whether suppliers are planning to meet forecast demand and requisite quality in their investment decisions, and can indicate whether such decisions are consistent with decisions expected to be made in workably competitive markets.
- 5.6 In the context of specified airport services the ability to assess pricing decisions is particularly important as prices (and therefore expected profitability) are set for a period of up to five years.¹⁷⁸ Accordingly, any assessment by interested persons of an Airport's profitability requires an evaluation of decisions made in the price setting process, such as the Airport's determination of its total revenue requirements for the pricing period and beyond.

¹⁷⁷ Commerce Act 1986, section 53C(2)(g).

¹⁷⁸ Airport Authorities Act 1966, section 4B(1)(b) and s 4B(2)(b).

- 5.7 An assessment of suppliers' investment efficiency and quality of service delivery requires information sufficient to link proposed expenditure to investment triggers, including the rationale for capital and operational expenditure in light of demand forecasts and the way an Airport identifies and attempts to meet consumers' expectations.
- 5.8 The assessment of regulated suppliers' historical performance is supported by the reconciliation of their forecasts with actual outcomes. This reconciliation informs the assessment of whether:
- planned investments were implemented efficiently (i.e. at cost and on time);
 - consumer demands were identified appropriately, and met effectively through investment; and
 - suppliers have followed appropriate incentives to innovate and improve efficiency in terms of investment behaviour and pricing, so as to meet price-quality trade-offs demanded by consumers of services.
- 5.9 This reconciliation forms part of the draft decisions for Airports information disclosure and is discussed further in section 5.5, below.

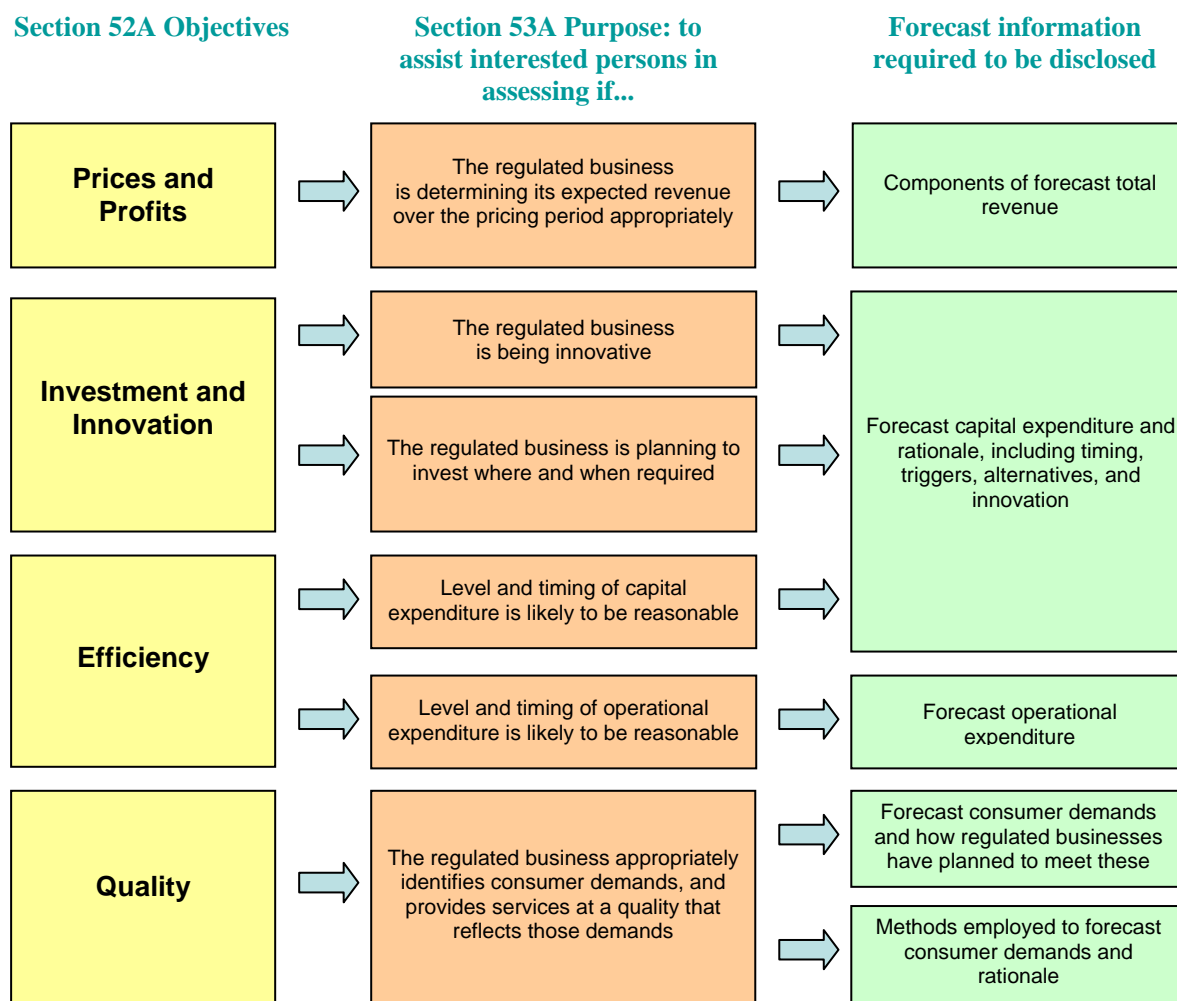
5.2 Approach to Forecast Information Disclosure for Airports

- 5.10 This section includes the Commission's rationale for requirements to disclose forecast information within Airports information disclosure, including a discussion of the Commission's preliminary views, submitters' responses, and the Commission's considerations of submitters' views. Following this, the chapter discusses key issues that were raised by attendees at the asset planning and forecast information working session ("working session") of 18 February 2010.

Commission's rationale for assessment of expected outcomes

- 5.11 The Commission's approach to the specification of forecast information disclosures for specified airport services is based on the purpose of information disclosure under section 53A. It is designed to enable interested persons to undertake an ex ante assessment of the specified airport services' forecast total revenue. In addition, consistency with historical financial information disclosures (outlined in Chapter 3) allows effective reconciliations between forecasts and actual outcomes to be made. Over time, this will assist interested persons to assess whether pricing and investment decisions were efficient.
- 5.12 Figure 4, below, displays the Commission's overall framework for the specification of forecast information disclosures for specified airport services.

Figure 4: Forecast information disclosure framework for Airports



- 5.13 The approach is designed to assist interested persons to assess:
- the appropriateness of the scope and timing of key capital expenditure projects in light of demand forecasts, consumers’ willingness to pay and the quality expectations of consumers;
 - the extent to which profitability is excessive (through the comparison of costs to revenue forecasts); and
 - Airports’ intentions to improve efficiency and to share those gains with consumers (through lower average prices and/or improved quality).

5.14 In setting its requirements the Commission has endeavoured to leverage, where possible, information already disclosed under the AAA and made available to airlines through the AAA price-setting consultation process. In proposing this approach, the Commission has considered the submissions received in respect of its preliminary views set out in the Discussion Paper. The remainder of this section sets out the Commission’s consideration of those submissions.

Preliminary views outlined in discussion paper of July 2009

5.15 In the Discussion Paper, the Commission’s preliminary view was that a requirement to disclose an AMP should be applied to all sectors subject to information disclosure.

AMPs were to include regulated suppliers' forecasts of capital expenditure, demand and quality expectations, description of assets, capital expenditure objectives, target service levels, specific development plans and performance evaluations for the forecast period. In addition, the Commission proposed that financial information disclosures include the key components of regulated total revenue and costs.¹⁷⁹ The Commission's preliminary view was that such a disclosure would meet the section 53A purpose by requiring the disclosure of regulated suppliers' asset management practices and the incentives they follow in the management of their assets and investments.¹⁸⁰

Submitters' response to preliminary views

- 5.16 BARNZ supported a requirement to disclose forecast and asset management planning information. BARNZ generally supported the Commission's preliminary views, and made suggestions beyond the Commission's proposals including enhancements to descriptions of assets covered, including justification for newly developed assets.¹⁸¹
- 5.17 Submissions and cross submissions received from Airports were less supportive of the disclosure of AMPs as outlined in the Discussion Paper. NZAA asserted that annual financial reporting, rather than disclosure of forecast capital expenditure information, was sufficient to demonstrate that investment is taking place.¹⁸² Further, NZAA considered that forecast capital expenditure does not provide any real evidence with regards to innovative activity, claiming that observed service enhancements arising from this expenditure are more indicative of innovation.¹⁸³ NZAA suggested that AMP disclosures are not suitable for the airports sector, expressing concern that proposed AMP disclosures, being highly prescriptive annual disclosures, will duplicate information already produced under AAA consultation processes and the development of master plans, increasing costs for little or no benefit.¹⁸⁴
- 5.18 NZAA considered that the key objectives of Part 4 could be met through a combination of current disclosures (for example, master plans) and the disclosure of annual master plan update comments, annual capital expenditure updates, innovation statements and customer service perception reporting.¹⁸⁵ BARNZ disagreed with the proposal to provide master plans as a means of meeting Part 4 objectives. BARNZ considered that master plans contain no quantitative information on planned investment expenditure, and provide only vague indications on likely timing or phasing of forecast investments, and the triggers for such investments.¹⁸⁶
- 5.19 In NZAA's view, the disclosure of capital expenditure forecasts is not necessary as such expenditure is reviewed through the price and capital expenditure consultation

¹⁷⁹ Commerce Commission, *Information Disclosure Discussion Paper*, 29th July 2009, paragraph 484.

¹⁸⁰ *Ibid.*, paragraph 417.

¹⁸¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 33.

¹⁸² NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 26.

¹⁸³ *Ibid.*

¹⁸⁴ *Ibid.*, page 52.

¹⁸⁵ *Ibid.*, pages 40–41.

¹⁸⁶ BARNZ, *Cross-submission by BARNZ on NZ Airports' submission with respect to the Commission's information disclosure discussion document*, 2 November 2009, page 7.

processes under the AAA.¹⁸⁷ According to NZAA these consultations meet the requirement for review of forecast capital expenditure and address any potential for the ‘gaming’ of forecasts.¹⁸⁸ In response BARNZ stated that such consultations fulfil neither of these roles. In BARNZ’s view public debate on the appropriateness or timing of planned investment is limited by the restriction of consultations to a few substantial customers, and by confidentiality restrictions placed upon airlines participating in consultations with Airports. BARNZ also noted that ‘gaming’ on forecasts has previously occurred despite the forecast capital expenditure information being made available through the consultation process.¹⁸⁹

- 5.20 NZAA expressed concern that requiring disclosure of certain kinds of forecast information, such as financial forecasts, would unduly influence the approach of regulated suppliers in making investment and pricing decisions.¹⁹⁰ NZAA suggested that the Commission’s proposals sought to influence investment decision making, which (in NZAA’s view) is moving beyond the purpose of information disclosure under the Act.¹⁹¹

Commission’s consideration of submissions

- 5.21 The Commission notes the concerns of submitters regarding the suitability and cost-effectiveness of AMP disclosure requirements for the airports sector. The Commission has taken into account the information already likely to be prepared and the systems in place for preparing it, both for the purposes of information disclosure and for the consultation process, under the AAA regime.
- 5.22 The Commission agrees with BARNZ’s view that the disclosure documents proposed by NZAA in place of AMP disclosure requirements are unsuitable for fulfilling the section 53A purpose of information disclosure. In particular the documents proposed do not contain information related specifically to the specified airport services regulated under Part 4, or sufficient information on forecast capital and operational expenditure, demand, or the requisite quality expectations of consumers, to determine whether the purpose of Part 4 is being met.
- 5.23 While acknowledging NZAA’s view that capital expenditure consultation under the AAA provides a review of forecast capex information, the Commission notes that the review is limited to the small number of interested persons that exceed the 5% consultation threshold mandated by the AAA.¹⁹² As discussed in Chapter 2, the information disclosure regime is premised on public disclosure of information, not disclosure to a limited subset of interested persons only. In addition, much of this information (such as master plans) is not consistent between Airports and is only

¹⁸⁷ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 46.

¹⁸⁸ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 80.

¹⁸⁹ BARNZ, *Cross-submission by BARNZ on NZ Airports’ submission with respect to the Commission’s information disclosure discussion document*, 2 November 2009, page 7.

¹⁹⁰ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 44.

¹⁹¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 170.

¹⁹² Under section 4B of the AAA, Airports must consult concerning charges for specified airport services with “substantial customers”, which is defined in the AAA as being a customer that contributes greater than 5% of the airports revenue in the last accounting period. See Airports Authorities Act 1966, section 4B.

disclosed voluntarily, with no obligation upon suppliers of specified airport services to continue to provide it.

- 5.24 In designing forecast information disclosure requirements the Commission is concerned with the provision of sufficient information to allow interested persons to make assessments of section 52A objectives, and has not sought to influence investment decision making by Airports. While the Commission considers that a greater level of specificity is required than in the alternative disclosures proposed by NZAA, the Commission is mindful of the need to balance prescriptiveness with the need to allow regulated suppliers the flexibility to disclose information in a manner that mirrors their current business practice where consistent with the purpose of information disclosure under Part 4 of the Act.
- 5.25 The Commission considers that the disclosure of information used in setting future revenue requirements under the AAA meets the purpose of information disclosure under Part 4, by providing interested persons with sufficient information to make assessments of suppliers of specified airport services in respect of their:
- future performance - expected profitability and investment efficiency in light of the prices set for specified airport services; and
 - historical performance, through the reconciliation of forecasts with actual outcomes.
- 5.26 The Commission notes that this approach should mean fewer additional costs for Airports.

Forecast disclosure period

- 5.27 The Commission is mindful of the need to require forecasts for a period sufficient for interested persons to make meaningful assessments of pricing and investment behaviour, balanced with possible limitations on suppliers' ability to forecast accurately and at reasonable cost.
- 5.28 The decision to set prices for relatively extended periods—e.g. typically for five years in the airports sector — is often observed in infrastructure intensive industries. The extended period coupled with their monopoly power means that Airports by themselves are unlikely to fully act in the interests of consumers. The Commission therefore considers it essential that consumers and other interested persons have sufficient information available over a suitable period to assess whether:
- prices adequately reflect planned expenditure; and
 - planned expenditure adequately reflects consumer demands.
- 5.29 In the case of Airports the Commission considers it appropriate for the forecast period to include a more detailed focus upon the five-year period immediately following the setting of prices for specified airport services. This initial five-year period reflects the extended period for which prices are typically set for specified airport services.¹⁹³
- 5.30 The Commission however considers that limiting the disclosure of forecast information to a five-year period is insufficient, as costs of large capital expenditure programmes (e.g. new runways or new terminals) frequently extend from one pricing period to the next. The Commission also recognises that the required timing of projects can be

¹⁹³ This contrasts with consumer-owned EDBs that, like Airports, are only subject to information disclosure regulation, but unlike Airports, typically reset prices annually.

- uncertain and might be brought forward or deferred.¹⁹⁴ A further five years of forecast information in addition to the initial forecast period reasonably allows shifts in project timing and cost to be identified, and captures the medium-term horizon required for planning Airport developments.
- 5.31 Where pricing arrangements extend beyond five years, (as evidenced by submissions concerning the agreed treatment of subsequent revaluations,¹⁹⁵ and AIAL's seven year pricing arrangement with airlines),¹⁹⁶ a 10-year forecast period enables interested persons to assess whether long term pricing arrangements are reflective of costs. It also allows fuller consideration of price movements that occur from one pricing period to the next, including consideration of whether any price shocks could have been reasonably foreseen.
- 5.32 Accordingly, the Commission considers that a forecast period of 10 years is appropriate for assessments by interested persons of medium-term issues including:
- project timing and pre-financing decisions – i.e. when consumers of services pay, through prices set for the initial forecast period, for capital expenditure programmes or projects that are realised following the initial period;¹⁹⁷
 - pricing arrangements that extend beyond five years; and
 - the magnitude of price movements from one period to the next.
- 5.33 At the working session, NZAA and the Airports confirmed that forecast information (including key building block input methodologies and outputs) for at least a five-year period was prepared as part of normal business practice.¹⁹⁸
- 5.34 BARNZ proposed in submissions that major capital expenditure projects which are likely to occur within 20 to 30 years be disclosed so that interested persons are aware of any major projects, and the indicative costs, as early as possible.¹⁹⁹ While the Commission considers that demand forecasts beyond 10 years are relevant, the Commission considers that disclosure of forecast cost information beyond the medium term would be necessarily uncertain, and would not substantially assist interested persons assess whether the long term benefit of consumers is being promoted.

Compliance costs and NZX listing rules

- 5.35 At the working session Airports expressed concern that requirements to disclose forecast financial information would impact upon the continuous disclosure obligations

¹⁹⁴ An example is AIAL's Northern Runway, as discussed in BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 34; and AIAL, *Auckland International Airport Limited ("Auckland Airport") Cross Submission on Input Methodologies Discussion Paper*, 28 August 2009, page 1.

¹⁹⁵ BARNZ, *Cross Submission by BARNZ on NZ Airports' Submission with respect to the Commission's Information Disclosure Document*, 2 November 2009, page 35.

¹⁹⁶ AIAL's pricing arrangement with Air New Zealand extended from 1 September 2000 until August 2007. See AIAL, *Cross Submission to the Commerce Commission following the Input Methodologies Conference*, 15 October 2009, paragraph 78.

¹⁹⁷ According to BARNZ, airport price setting has in the past pre-financed projects such as AIAL's domestic terminal in 2000. See BARNZ, *Cross Submission by BARNZ on NZ Airports' Submission with respect to the Commission's Information Disclosure Document*, 2 November 2009, page 12.

¹⁹⁸ Commerce Commission, *Asset Planning and Forecast Information for Airports: Working Session Papers*, Day 2, 18 February 2010, page 65.

¹⁹⁹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 32.

of publicly listed Airports and/or their holding companies. Airports were concerned that they would need to update the markets whenever forecasts change, adding significantly to compliance costs.²⁰⁰ AIAL claimed that investors would bear the costs of these continuous disclosure obligations,²⁰¹ and that forecast information should remain confidential so that continuous disclosure obligations are not triggered. NZAA considered that investors and consumers of services have different objectives; unnecessary forecast disclosures could affect investors' assessments of risk versus reward.²⁰²

- 5.36 As a general principle, which was supported by BARNZ in its submission,²⁰³ the Commission does not consider that company ownership structure should affect the types of information that must be disclosed under an information disclosure regime. Rather than accounting for ownership structure, the focus of the information disclosure regime must be on ensuring that sufficient information is readily available for interested persons, including forecast information. This principle is discussed in Chapter 2. The Commission notes that listed EDBs are currently required to disclose forecast information under Part 4, and that they have been able to manage NZX disclosure obligations.
- 5.37 The Commission does not consider that the existence of other disclosure obligations upon regulated suppliers in itself to be directly relevant to its determinations under Part 4—in principle, the prospect of disclosures under one regime should not prevent disclosures under another. The Commission notes Dr Layton's comments at the working session that interested persons should not remain uninformed (under a regulatory disclosure regime) simply because of suppliers' obligations to inform the capital markets.²⁰⁴ The Commission agrees and considers that the proposed disclosure of forecast information as outlined in this chapter remains appropriate after considering these submissions.

Commercial sensitivity and confidentiality

- 5.38 Attendees at the working session raised a number of concerns regarding commercial sensitivity and confidentiality in regard to forecast information disclosures. The Commission is aware of the extra sensitivity in respect of the disclosure of forecast information. The Commission's general approach to these issues is outlined in paragraph 2.30 of Chapter 2. The draft forecast disclosure requirements have been determined in accordance with this general approach.

Potential incentive effects of forecast information disclosure upon Airports' pricing decisions

- 5.39 The Commission notes the concerns of some submitters regarding the relationship between information disclosure and the price setting and consultation processes under the AAA. In its submission following the working session, NZAA asserted that the disclosure of forecast information has the ability to unduly influence the price setting

²⁰⁰ Commerce Commission, *Input Methodologies Airports Workshop*, workshop transcript, 18 February 2010, page 66.

²⁰¹ AIAL, *Submission to the Commerce Commission Input Methodologies and Information Disclosure*, 8 March 2010, paragraph 40e.

²⁰² NZAA, *Submission by NZ Airports Association on Asset Planning and Forecast Information Disclosure by Airports*, 8 March 2010, page 7.

²⁰³ BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 10.

²⁰⁴ Commerce Commission, *Airports Workshop*, workshop transcript, 18 February 2010, page 66.

process for specified airport services. NZAA noted three key reasons for the Commission to ensure that it does not do this when making its determination in regard to forecast information disclosure for Airports:

- such influence would be contrary to the intentions of Parliament in including Airports in the Commerce Act regime;
- information disclosure is a light-handed form of regulation, which is not intended to curb the responsibilities of market participants; and
- the Commission should not risk implementing procedures that may result in Airports reconsidering investment opportunities which facilitate growth in the aviation sector.²⁰⁵

5.40 BARNZ disagreed with the Airports' arguments, stating that there is no legitimate basis for the Airports' assertion that the Commission risks influencing the price-setting process for specified airport services, as the Airports retain the ability to set prices as they see fit.²⁰⁶

5.41 NZAA noted that the risk of unduly influencing the price-setting process will not become an issue unless the Commission seeks to exceed the bounds of information disclosure under Part 4.²⁰⁷ As discussed in Chapter 2, the Commission's primary focus is to design an information disclosure regime that is effective in meeting the section 53A purpose. The Commission notes that its proposed disclosure requirements are clearly provided for in the Act. Further, in the design or application of forecast information disclosure requirements, the Commission in no way intends to directly interfere with Airports' ability to set terms or prices as they see fit.

5.3 Forecast Total Revenue Disclosures

5.42 This section outlines the Commission's draft decisions in relation to forecast total revenue requirements. Following the table outlining these draft decisions (Table A) is a discussion of key issues raised by submitters following the working session in relation to these proposals.

Information required for an initial five-year forecast period

- 5.43 The Commission's draft decisions are that Airports should publicly disclose:
- an overview of the revenue methodology employed to determine the total revenue requirement;
 - the core elements used by the regulated supplier for determining the forecast total revenue requirement (e.g. return on capital, operational expenditure requirements, tax, investment required to maintain, enhance existing and developing new assets) and the underlying information and assumptions which are used by suppliers in setting these requirements (e.g. demand forecasts which underpin capital expenditure requirements); and

²⁰⁵ NZAA, *Submission by NZ Airports Association on Asset Planning and Forecast Information Disclosure by Airports*, 8 March 2010, paragraphs 34–36.

²⁰⁶ BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 13.

²⁰⁷ NZAA, *Submission by NZ Airports Association on Asset Planning and Forecast Information Disclosure by Airports*, 8 March 2010, paragraph 35.

- as applicable, details of where the above disclosures are not consistent with the previous year’s actual disclosures. This explanation should include details of the variances, in sufficient detail so that interested persons can reproduce the information consistent with previous years’ actual disclosures. This is discussed further below.

5.44 In addition the Commission’s draft decisions include annual disclosures of actual expenditure reconciled with forecast expenditure. This is discussed further below in Section 5.5.

5.45 Table (A) below outlines the Commission’s proposed total revenue requirement disclosures for suppliers of specified airport services.

Table A: Forecast total revenue requirement information

Disclosure Category	Description
Revenue Methodology	Overview of the methodology used to determine the forecast total revenue requirement.
Required Return on Capital	Forecast cost of capital, a description of the method used to determine it, (including assumptions and justifications) and the extent to which it is used in determining the forecast total revenue requirement.
Operating Costs	Forecast operating costs by cost category, and a description of the extent to which they are used to determine the forecast total revenue requirement.
Depreciation on Assets	Total forecast depreciation and weighted average depreciation rates for each asset class, and a description of the extent to which they are used to determine the forecast total revenue requirement. For a discussion of the relevant asset classes, refer to paragraph 3.129.
Taxation	Forecast tax payable, including permanent and temporary differences, ²⁰⁸ tax book value roll-forward and reconciliation of tax losses, and a description of the extent to which they are used to determine the forecast total revenue requirement.
Revaluation Gains/Losses	Forecast land revaluations, CPI and assumptions if used, and a description of the extent to which they are used to determine the forecast total revenue requirement.
Other income	Forecast capital contributions, gains or losses on asset sales, and any other regulated income, and a description of the extent to which they are used to determine the forecast total revenue requirement.
Other factors	Value(s) of any other factors considered in determining the forecast total revenue requirement, including the way they are factored into the forecast total revenue requirement.

²⁰⁸ Permanent and temporary differences are outlined in Commerce Commission, *Input Methodologies Discussion Paper*, Chapter 7, 19 June 2009.

5.46 The disclosures in Table (A) reflect the way the Airports have previously determined their revenue requirements, or confirmed their appropriateness in consultation under the AAA regime. While the Commission's draft decision is to require disclosures in the categories above, it does not require that each component be present in the revenue methodology implemented in practice by Airports. Airports are instead required to disclose any additional costs not captured in the traditional categories that contribute to the total revenue requirements for the initial five-year forecast period, in the 'Other Factors' disclosure category above.

Comparability of total revenue information to historical disclosures

5.47 To allow interested persons to make a meaningful assessment of suppliers' revenue forecasts in light of prices, the total revenue information disclosed needs to be comparable to historical revenue information disclosed in the regulatory profit statement outlined in Chapter 3. In its post-working session submission NZAA identified key areas where it believes issues may arise. These issues include:

- some revenue associated with regulated services under information disclosure is not included in the pricing consultation. Therefore, revenue consultations under the AAA process may be different to the revenue used for information disclosure purposes. NZAA identified aeronautical leases and terminal service prices as areas where this is the case;²⁰⁹
- pricing consultation is routinely performed on a basis different to that set by the Commission's disclosure requirements. NZAA identified RAB valuation, depreciation, revaluations and tax as possible areas where the basis may be different;²¹⁰ and
- any difference in the RAB value due to inconsistency with historical disclosures may also create a difference in other disclosures, such as depreciation, tax and return on assets.²¹¹

5.48 Where the information used in the consultation of prices is prepared on a different basis to how the ex-post assessment will be performed, the Commission considers that it may be difficult for interested persons to make meaningful assessments of the appropriateness of prices. Accordingly, the Commission's draft decision is that revenue information should be disclosed a) as it has been used in the pricing consultation, and b) accompanied by explanations where the scope and methodology underlying the forecast components differs from the previous year's actual disclosures of equivalent categories of information.

5.4 Supporting Information Used in Preparing Revenue Forecasts

5.49 Table B below outlines the Commission's draft decisions in regard to the disclosure of information supporting the forecast total revenue requirement.

5.50 Consistent with the focus on longer-term capital expenditure, information disclosed in accordance with Table B supporting the forecast total revenue requirement in Table A above is designed to assist interested persons to assess the relationship between Airports' medium and longer-term demand forecasts and planned expenditure, and both

²⁰⁹ NZAA cite terminal service charges at AIAL as an example. See NZAA, *Submission by NZ Airports Association on Asset Planning and Forecast Information Disclosure by Airports*, 8 March 2010, page 10.

²¹⁰ Ibid.

²¹¹ Ibid.

current and forecast pricing arrangements. In the Commission’s view this information informs the assessment of how appropriately the revenue requirements identified by suppliers for the initial pricing period reflect medium and longer-term forecasts under Table A.

5.51 The Commission proposes disclosure of capital expenditure, operational expenditure, and demand forecasts for both the initial five-year period pricing term, and for a five-year period beyond this initial period. It is the Commission’s draft decision that a lesser level of detail would be required for this second five-year period. This is consistent with the view that longer-term forecasts are likely to be less definite than shorter-term forecasts.²¹²

Table B: Supporting information used in preparing revenue forecasts

Disclosure Category	Initial 5 years - Requirements	Following 5 years - Requirements
RAB and Works under construction roll-forward	<ul style="list-style-type: none"> ▪ Forecast roll-forward of the starting RAB; and ▪ Forecast works under construction roll-forward. 	Not required
Capital Expenditure	<p>Forecast capital expenditure by category, including:</p> <ul style="list-style-type: none"> ▪ Overview of total capital expenditure programme including overall aims and objectives of proposed investments, including how they meet customer demand and requisite quality; and ▪ Details of key capital expenditure projects, including: <ul style="list-style-type: none"> – Description of the projects including aims and objectives; – A needs assessment (i.e. a justification based around the incentives followed) of each project, including supporting evidence; – Details of any consumer engagement undertaken in planning the project, including how project parameters were identified; – Overview of the process by which proposed capital expenditure was developed, including alternative options 	<p>Forecast capital expenditure by category, including:</p> <ul style="list-style-type: none"> ▪ Overview of key capital expenditure projects, including an overview of overall capital programme and the value of key capital projects; and ▪ Overall description including objectives of proposed investments.

²¹² Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraph 426.

	<p>considered, and the rationale for not adopting those alternatives; and</p> <ul style="list-style-type: none"> – Details of any constraints that would influence completion. 	
Operational Expenditure	Assumptions and justifications to support operational expenditure disclosure as part of the revenue methodology.	Not required.
Demand	Demand forecasts used in the determination of the revenue or pricing methodology. This includes annual and busy hour forecasts of international and domestic passenger arrivals and departures, and aircraft runway movements by busy hour, busy day and financial year, expressed in total MCTOW and number of aircraft.	Demand forecasts including forecast passenger, aircraft numbers and MCTOW demand.

RAB forecast disclosure

5.52 The RAB is a key driver behind calculations of the Required Return on Capital, Depreciation on Assets and Revaluation Gains/Losses outlined in Table (A). Accordingly, it is appropriate for interested persons to understand how the RAB has been rolled forward. Works under construction reconciles capital expenditure (as per the disclosures outlined above) with the RAB roll-forward.

Demand forecasts

5.53 The disclosure of demand forecasts informs interested persons’ assessments of the triggers followed by Airports in their investment decisions and the appropriateness of investment timing in relation to prices set for the forecast period. In relation to forecast demand, NZAA noted that forecast MCTOW is relevant only to the determination of aeronautical prices, and is not a relevant consideration for pricing on a per passenger basis.²¹³ While the Commission understands that pricing methodologies for passenger prices may not include MCTOW as a determinant, the Commission understands that MCTOW is also relevant to the assessment of asset management related activities, such as the determination of asset lives and renewal and maintenance timetables. Accordingly the Commission’s draft decision is to include MCTOW as a disclosure requirement in relation to demand forecasts, including freight-only forecasts.

Disclosure of capital expenditure project forecasts

5.54 The Commission’s draft decisions include requirements to disclose forecast capital expenditure and associated information by key capital expenditure project, for a 10-year period.

²¹³ NZAA, *Submission by NZ Airports Association on Asset Planning and Forecast Information Disclosure by Airports*, 8 March 2010, page 11.

- 5.55 Disclosure of details of key capital expenditure projects recognises the importance of large-scale projects in an Airports total forecast capital expenditure. It is included in the draft information disclosure requirements to allow interested persons to make a clear link between the indicative costs of proposed projects and:
- set prices for the forecast period; and
 - the benefits that the projects will deliver to consumers, in terms of the degree to which projects meet consumer demands.
- 5.56 In its submission BARNZ proposed that the outcome of consultation with consumers should be included in information supporting key capital projects disclosure.²¹⁴ The Commission agrees with this proposal, as this information will enable interested persons to better understand the role of consumer requirements in suppliers' investment planning. Accordingly details of key capital expenditure projects should include the outcomes of consultations with users, and indicate the degree to which users agree with project scope, timing and cost.
- 5.57 For the purposes of forecast information disclosure, it is the Commission's draft decision that key capital expenditure projects are defined as having the following characteristics:
- the capital expenditure project contributes to one or more clearly defined objectives which partly or wholly contribute to the provision of specified airport services;
 - the project expenditure is partly or fully included in forecast capital expenditure over the combined 10-year forecast period; and
 - the total forecast capital expenditure of the project over the forecast period is equal to or greater than \$30 million.
- 5.58 For avoidance of doubt, if there are separate capital projects that contribute to one output (or a set of broadly overlapping outputs) these projects should be reported as a single programme, together with details of each individual project comprising it. The Airport should also note the extent to which the expenditure is reflected in pricing for the combined 10-year forecast period.
- 5.59 In defining key capital expenditure projects, the Commission has had regard to the typical investment patterns of Airports (predominantly large and infrequent investment expenditure spread over a number of years). The Commission has considered several approaches to the definition of key capital expenditure projects including:
- an absolute threshold using a defined level of forecast expenditure;
 - a relative threshold using a percentage of forecast capital or operational expenditure; and
 - a relative threshold using a defined number of projects/programmes.
- 5.60 The Commission has decided that a simple absolute materiality threshold based on a defined level of forecast capital expenditure is appropriate. The Commission considers that to meet its purpose the threshold should be sufficiently low to capture projects that would be expected to have a material impact on the revenue requirement (and pricing)

²¹⁴ BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 4.

for the forecast period.²¹⁵ The Commission considers this to be a cost-effective approach as information on comparatively small projects would not need to be disclosed separately.

- 5.61 The Commission considers that a \$30 million threshold (as suggested by BARNZ at the working session and agreed to by Airports)²¹⁶ would be likely to capture projects that have a material impact on price. It would not capture smaller projects which are less material and likely to lead to the cost (incurred for more detailed disclosures required for key capital projects) to outweigh the benefit of such disclosures.
- 5.62 NZAA also considered that annual indexation of the threshold by CPI was appropriate.²¹⁷ The Commission agrees with NZAA that the threshold should remain relevant over time; however the Commission considers that formal indexation may add unnecessary costs to the regulatory process. The Commission considers that a regular review of the threshold in light of practical experience is likely to be a cost effective approach to ensuring the relevance of the threshold. Accordingly, the Commission's draft decision is to review the materiality threshold at five-year intervals.

5.5 Reconciliation of Forecasts to Actual Outcomes

- 5.63 For interested persons to assess actual efficiency interested persons will need to understand the extent to which forecast expenditure has actually been incurred. The Commission considers that this annual reconciliation provides interested persons with a greater understanding of whether innovation and efficiency are being realised in suppliers' investments over time, including consideration of the reasonableness of suppliers' forecasts, the appropriateness of pricing, investment timing and the extent to which projects are being pre-financed.²¹⁸
- 5.64 Accordingly the Commission's draft decisions include a requirement to disclose annual reconciliations of actual to forecast expenditure. This requirement contrasts with the other disclosures described in Tables (A) and (B) above, which are required only when prices are set.
- 5.65 The Commission notes that it may be appropriate for actual expenditure to vary from forecast, especially where assumptions employed in the forecast change or where new information becomes available. Accordingly the Commission has provided for Airports to demonstrate why actual expenditure has varied from forecast.

²¹⁵ Airports and airlines have generally agreed that the 20% of RAB threshold that triggers capital expenditure consultation under AAA does not capture a sufficient number of projects. See Commerce Commission, *Airports Workshop – Asset Planning and Forecast Information, Working Session Transcript*, Day Two, 18 February 2010, page 82, lines 23–33.

²¹⁶ *Working Session Transcript*, Day Two, 18 February 2010, page 83, lines 6–7. In its submission following the working session, BARNZ revised this threshold downwards, to \$5 million. See BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 13.

²¹⁷ NZAA, *Submission by NZ Airports Association on Asset Planning and Forecast Information Disclosure by Airports*, 8 March 2010, page 16.

²¹⁸ According to BARNZ, airport price setting has in the past pre-financed projects such as CIAL's domestic terminal in 2000. See BARNZ, *Cross-Submission to NZ Airports Submission on Information Disclosure*, 2 November 2009, page 7.

Annual capital expenditure updates

- 5.66 BARNZ considered that the initial five-year disclosure forecast period (for components of total revenue) is only appropriate if Airports are required to update capital expenditure forecasts on an annual basis for any material changes.²¹⁹
- 5.67 The Commission notes that any such change in capital expenditure forecasts of a material nature may trigger a round of pricing consultation, and therefore a review of capital expenditure by parties to the consultation. If such a material change did not trigger a round of pricing consultation, under the proposed disclosure regime Airports would be required to explain any variances to forecasts in the annual reconciliation of actual to forecast information.

5.6 Information Disclosure Process Considerations

- 5.68 This section discusses the Commission's draft decisions related to timing and frequency of forecast disclosures, and transitional provisions for forecast information disclosures.

Timing and frequency of disclosures

- 5.69 The Commission's draft decision is that the disclosures of forecast total revenue and supporting information should immediately follow the setting of prices for each specified airport service, and should be made within 20 working days of the posting of these prices. This disclosure also includes pricing methodology disclosures, as described in Chapter 6. In the Commission's view, disclosure immediately following the posting of prices maximises the utility of this information to interested persons.
- 5.70 As prices for specified airport services are typically set infrequently and apply for periods greater than one year, it is the Commission's view that annual forecast information disclosures as specified above are not necessary for the airports sector. This contrasts with regulated lines businesses that generally set prices on an annual basis, thereby making annual disclosures relevant to interested persons in those sectors.

Transitional provisions

- 5.71 As outlined in paragraphs 7.36 to 7.44 of Chapter 7, the Commission has established provisions to enable a smooth transition between information disclosure regimes of the AAA and Part 4.
- 5.72 For forecast information disclosure, the Commission requires a first disclosure in 2011 of the components of the forecast total revenue requirement and supporting information outlined in this chapter, based on the prices that were set in each Airport's previous price setting process. Subsequent disclosures will follow the subsequent setting of prices as outlined above.

²¹⁹ BARNZ suggest a materiality capital expenditure threshold of \$5 million. See BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 11.

CHAPTER 6: PRICING AND RELATED DISCLOSURES

6.1 This chapter sets out the Commission’s draft decisions and associated reasons regarding disclosure of pricing methodologies, standard prices, pricing incentives, pricing statistics, contracts, and policies.²²⁰ The chapter discusses how this information, along with other disclosures, can assist interested persons in assessing the efficiency of prices.

6.2 Purpose

6.2 In workably competitive markets, the cost of production, consumers’ demand responsiveness to price changes and demand for service quality determine the market price. In such markets, prices have the important function of balancing supply and demand for goods and services, and help in determining outcomes such as pricing efficiency, including allocating resources to the highest value uses, assisting with minimising costs of supply, and providing appropriate signals for investment and innovation. In sectors that are characterised by more limited competition, market forces play a reduced role in determining prices and related outcomes.

6.3 Disclosure of information relating to pricing can assist interested persons to assess whether the purpose of Part 4 is being met. In particular, it allows interested persons to assess whether the way in which prices are set by Airports is likely to lead to efficient prices. The importance of pricing is recognised by the Act which provides that information disclosure requirements may include pricing methodologies, prices, terms and conditions relating to prices, contracts, and assumptions, policies, and methodologies used or applied in these or other areas.²²¹

6.4 Disclosure of pricing statistics (i.e. average prices) can provide interested persons with information that assists them in assessing the overall performance of the regulated business. When used in the appropriate context, pricing statistics can provide insight regarding the overall profitability and efficiency of the regulated business compared to suppliers of comparable services. When using pricing statistics for comparative purposes, however, consideration should be given to other factors such as the local costs of products and services.

6.5 In this chapter, “average prices” refer to actual revenue and demand, whereas “standard prices” refer to forecast revenue and demand based on forward-looking assessments. “Actual prices” are standard prices adjusted for any variations in the headline price due to commercial arrangements.

6.3 Approach

6.6 Assessments of the efficiency of pricing can be performed on an ex ante or ex post basis. The Commission has outlined in Chapter 4 its draft decisions and reasons for the disclosure of segmented information to assist with ex post assessment of pricing efficiency. The disclosure of segmented historical financial information is designed to assist interested persons through the assessment of revenue and cost trends in the three segments (as well as overall). The Commission notes that the assessment of pricing efficiency using segmented information is limited, in that it is restricted to the activities for which segmented information is disclosed. In addition, the definition of the segments may be somewhat arbitrary, and may not be completely reflective of services

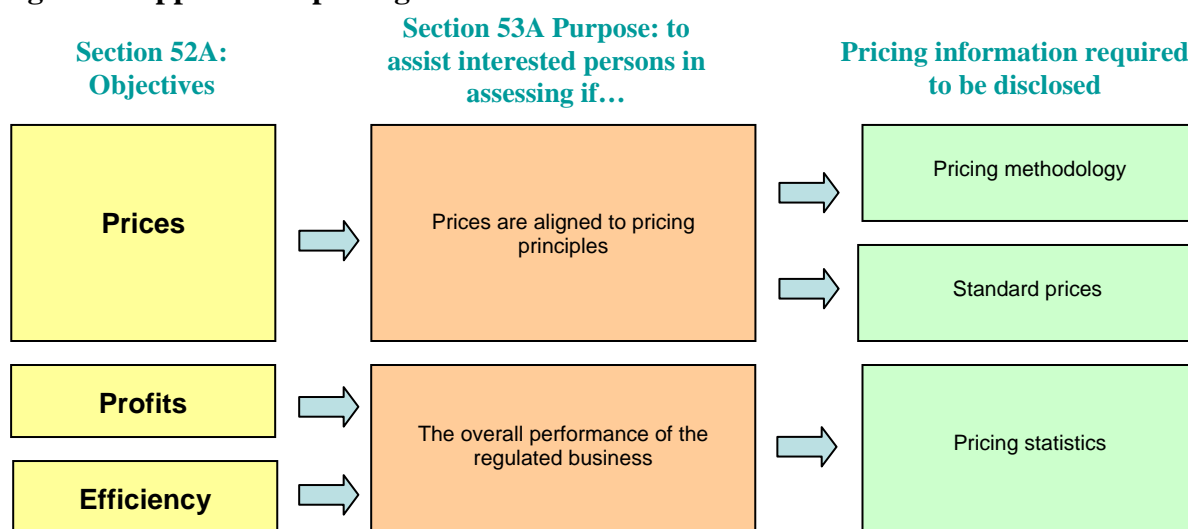
²²⁰ The prices discussed in this chapter relate to prices for which a standard price is set and exclude other income such as lease, concession and other income.

²²¹ Commerce Act 1986, s53C(2).

provided to different consumer groups.²²² However, the Commission considers that segmented disclosure allow a simple, headline assessment of prices for services that is consistent with pricing practices identified by the AAA.

- 6.7 The disclosure of pricing methodologies and standard prices also assists interested persons in assessing pricing efficiency but on an ex ante basis. Pricing efficiency is able to be assessed on an ex ante basis as Airports will be required to outline how prices reflect the forecast cost of providing services for which prices are set.
- 6.8 Figure 5 summarises the Commission’s approach to the disclosure of pricing information.

Figure 5: Approach to pricing information

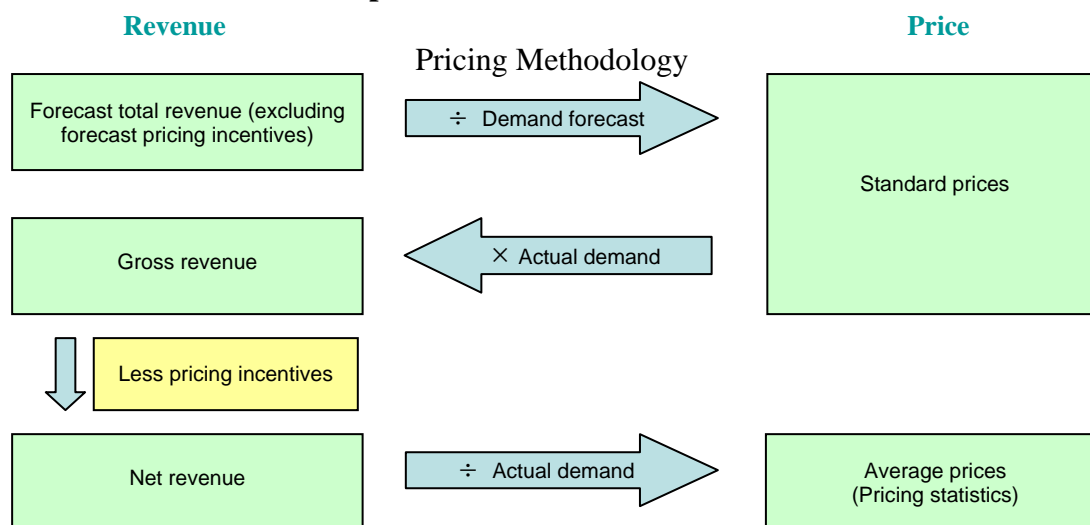


- 6.9 The Commission understands that currently all three Airports use pricing methodologies to set standard prices. Pricing methodologies build on the revenue requirement which is determined using the revenue methodology discussed further in Chapter 5.
- 6.10 The Commission understands that it is common practice for Airports to offer financial incentives, including discounts, rebates, credits, joint initiatives such as marketing campaigns and subsidised use of facilities to airlines, through commercial arrangements. Some of these financial incentives adjust the actual price paid (pricing incentives). Consequently, the prices charged to these consumers are not always consistent with the standard prices calculated using the pricing methodologies described in the previous paragraph.
- 6.11 The Commission has sought to make pricing incentives transparent so that interested persons can reconcile the forecast information disclosed in the forecast total revenue and pricing methodology disclosures with actual outcomes.²²³ Figure 6 outlines the relationship of forecast total revenue with standard prices and the disclosure of actual revenues. The figure also demonstrates how the Commission intends to manage the disclosure of total pricing incentives rather than specific incentives. By disclosing both

²²³ The disclosure of financial incentives other than pricing incentives is discussed further in paragraphs 3.92 - 3.94.

standard and average prices, interested persons can determine the average deduction in standard prices from pricing incentives, which allows for the confidentiality of pricing incentive agreements with individual customers to be maintained.

Figure 6: Price-revenue relationship



6.12 The Commission has been mindful to balance the need to provide interested persons with sufficient information with respect for commercially sensitive information. The Commission is also aware that the complexity of pricing arrangements may limit comprehensible disclosure. The Commission’s draft decisions outlined in this chapter reflect these constraints.

6.13 Section 53F(1)(a) provides that suppliers subject to information disclosure regulation only do not have to apply input methodologies for pricing methodologies.²²⁴ This is consistent with the obligation on Airports to operate as commercial undertakings.²²⁵ Further, given that Airports are able to set prices as they see fit, the Commission has provided for flexibility in the disclosure of pricing methodologies so that disclosures can accurately reflect actual pricing practices.

6.4 Pricing Methodology and Standard Prices

6.14 Pricing methodology disclosures provide information on the process for setting standard prices and how these prices relate to demand and reflect the cost incurred in providing the services for which prices are set.

6.15 The pricing methodology allocates forecast total revenue to each service for which a price is set. By linking the pricing methodology disclosure requirement to the forecast total revenue requirement disclosure outlined in Chapter 5, interested persons can reconcile their assessments of the future profitability of the Airports with the pricing efficiency assessments.

6.16 Pricing methodology disclosures assist interested persons in understanding the degree to which pricing methodologies result in prices that reflect underlying cost and customer demand. An understanding of the pricing methodologies is important for interested persons because Airports’ pricing decisions might lead to consumer demand that is

²²⁴ The Commission notes, however, that it has the ability but is not intending to set an input methodology for pricing methodologies for monitoring purposes as part of IM..

²²⁵ Airports Authorities Act 1966, section 4(3).

- inefficiently high or low (compared to a situation where prices are set in a workably competitive market).
- 6.17 Pricing methodology disclosures should at least assist in an assessment as to whether prices:
- signal the costs of service provision, such as:
 - being subsidy free;
 - having regard, to the extent practicable, to the level of available service capacity; and
 - signalling, to the extent practicable, the impact of additional usage on future investments costs;
 - reflect customer demand responsiveness, to the extent practicable;
 - are responsive to the requirements and circumstances of users (e.g. reflecting the economic value of specific services; and
 - have regard to price stability or other customer-focused outcomes.²²⁶
- 6.18 Airports are not required to adhere to any pricing methodology. Airports' approach to setting prices therefore varies between Airports, including the structure and level of prices and the extent to which services are bundled. Accordingly, the Commission has provided for flexibility around how information relating to the setting of prices can be disclosed.²²⁷
- 6.19 Airports generally include summaries of the pricing models within their written pricing proposals and charge setting decisions.²²⁸ Accordingly, the cost of complying with the pricing methodology disclosure requirements should be limited to the production of the information in a form consistent with the disclosure requirements.
- 6.20 BARNZ in its submission noted that transparent disclosure of pricing methodologies enables interested persons to assess whether efficient pricing principles are being applied by Airports and noted the importance of ensuring disclosed pricing methodologies are sufficiently detailed and informative to provide interested persons with a meaningful understanding of how prices are determined.²²⁹ The Commission agrees that pricing methodology disclosures should be sufficient to assist with these assessments.
- 6.21 Accordingly, the Commission's draft decision is that the pricing methodology disclosures will include:
- an overview of the price setting framework and pricing methodology;
 - details of the pricing methodology; and
 - an overview of the extent to which the application of the pricing methodology is expected to lead to efficient prices.

²²⁶ The assessments outlined are based on pricing principles that regulated suppliers are required to adhere to under Part 4 price-quality regulation.

²²⁷ It is noted that Airports are not required to apply Cost Allocation or Pricing Methodology Input Methodologies to the setting of prices.

²²⁸ BARNZ, *Cross Submission by BARNZ on NZ Airports' Submission with respect to the Commission's Information Disclosure Discussion Document*, 2 November 2009, page 12.

²²⁹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 36.

6.22 The Commission's draft decision is that Airports should disclose pricing methodologies and standard prices in combination with the total revenue requirement and supporting information disclosure (described in Chapter 5) within 20 working days following the setting of prices.

6.5 Pricing Incentives

6.23 Pricing incentives are any arrangements that have the effect of lowering the standard price provided to a customer. Such incentives usually take the form of discounts, rebates or credits. Standard prices as determined through the pricing methodology are a function of forecast total revenue for the supply of specified airport services and forecast demand. Accordingly, Airports would need to consider the effect pricing incentives have on profitability when setting prices.²³⁰

6.24 Profitability is affected by a reduction in the prices paid but incentives may also increase demand. To understand the short term impact of pricing incentives an understanding of the increase in demand resulting from the pricing incentives would ideally be available. It is, however, difficult to separate movements in demand resulting from pricing incentives from demand changes due to other economic factors faced by the customer. Accordingly, any assessment of pricing incentives is limited to the impact of those incentive mechanisms on prices.²³¹

6.25 To understand how pricing incentives have affected actual profitability, excluding the effect of demand changes, interested persons would need to compare the total value of actual pricing incentives with the allowance, if any, in the forecast total revenue requirement.

6.26 It is also noted that Airports can provide incentives to customers in alternate ways to pricing incentives. As outlined in Chapter 3 these incentives are also required to be disclosed.

6.27 Accordingly, the Commission's draft decision is that Airports disclose an annual aggregate of pricing incentives as part of the historical financial information disclosures.

6.6 Pricing Statistics

6.28 Pricing statistics are the result of combining actual revenue (Chapter 3) and demand statistics (Chapter 4) in the form of a ratio. Pricing statistics are ex post indicators, capturing the historical performance of the Airports. The disclosure of pricing statistics allows interested persons to compare a supplier's overall performance to that of other suppliers of similar services (paragraph 6.4).

6.29 Air NZ and BARNZ suggested detailed pricing statistics disclosures in their submissions.²³² Air NZ also noted that revenues should be disclosed by output categories, which is supported by NZAA in its cross submission.²³³

²³⁰ It is understood that Airports do not currently provide for (in the consultation on prices with significant customers) the effect of pricing incentives on forecast revenue. This may be because the net effect of the pricing incentives on short term profitability is considered marginal.

²³¹ Pricing statistics provides information for interested persons to determine the impact actual demand versus forecast demand has on revenue and therefore profitability.

²³² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 64 and Air New Zealand, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, page 28.

- 6.30 NZAA, however, expressed concern at the cost of preparing such information for disclosure. As noted in the discussion paper, the Commission is mindful that the preparation of pricing statistics can be costly where revenue and consumption data for consumer groups is not readily available. Accordingly the Commission has, where possible, based statistics on information that is readily available.
- 6.31 Pricing statistics are generally based on current pricing practices. In some instances, however, Airports are not consistent in the way they set prices. Standardised average price disclosures, therefore, while potentially costly, allow interested persons to compare prices between Airports which is considered beneficial to interested persons. Average price disclosures reflect the practice of overseas regulations, which are considered evidence of best international practices.
- 6.32 Pricing statistics also cover prices that relate to the three airport activities, namely, airfield, aircraft and freight, and specified passenger terminal activities. It therefore provides interested persons with sufficient information to assess the prices of the services related to these activities.
- 6.33 Accordingly, the Commission's draft decision is that pricing statistics should be disclosed annually on a standardised basis. Pricing statistics disclosed should be aligned to how prices are generally set by Airports and, where possible, to international best practice.

6.7 Other Disclosures Related to Pricing

Contracts

- 6.34 To make a fully informed assessment of whether prices are efficient, interested persons would require all price and non-price terms offered as part of the provision of services.
- 6.35 This would in principle assist interested persons in understanding the way in which prices are set. Of interest might be, for example, whether risk is appropriately allocated between price and non-price terms or whether the allocation reflects efficient pricing principles.
- 6.36 The Commission notes two issues around the feasibility of requesting such information. First, unlike EDBs and gas pipeline businesses, Airports offer a variety of regulated and unregulated services to consumers. Accordingly, the Commission considers that it would be difficult for Airports to isolate and present only the relevant information for regulated services in a cost-effective manner. Second, the Commission considers that commercial sensitivity may be compromised unnecessarily if full contracts are disclosed. Accordingly, the Commission's draft decision is that Airports will not be required to disclose contractual terms and conditions.

Policies

- 6.37 The Commission previously proposed in the Discussion Paper that Airports be required to disclose the following policies:²³⁴
- credit policy;
 - delegated authority policy;
 - profit distribution policy;

²³³ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 63.

²³⁴ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 109, paragraph 496.

- sponsorship policy; and
 - insurance policy.
- 6.38 Both BARNZ and Air NZ submitted that some policies would be more relevant to disclose than others.²³⁵ NZAA questioned the relevance of policy information for an information disclosure regime. In particular, NZAA noted that:
- credit policy is transparently disclosed and discussed as part of the AAA consultation;
 - delegation authorities is a management function;
 - profit distribution policy is irrelevant since the Commission has excluded equity from the annual financial information disclosure, and
 - the economic rationale for insurance policy disclosure is unclear. Moreover, since Airports resort to the commercial insurance market, particular insurance terms are required to be confidential between insurers and the insured.²³⁶
- 6.39 The Commission agrees with the points raised in NZAA's submission, and considers that the cost of collation, presentation, and audit of these policies would likely outweigh the potential benefits of such disclosures.²³⁷ Accordingly, it is the Commission's draft decision that information relating to policies is not required to be disclosed.

Transitional provisions

- 6.40 As discussed further in Chapter 7, Draft Information Disclosure Determination provides for transitional provisions in respect of pricing disclosures. The effect of the transitional provisions is that the initial disclosure of pricing methodologies and standard prices will be required in September 2011, and will include disclosure of information used in the most recent pricing decisions. Pricing statistics disclosures for the year ended 2011 will be required 11 months after the 2011 year end.

²³⁵ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 37 and Air NZ, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, 11 September 2009, page 18.

²³⁶ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 83.

²³⁷ A discussion on the benefits is provided in Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 109, paragraphs 497–501.

CHAPTER 7: CERTIFICATION, AUDIT, PUBLICATION AND TRANSITIONAL PROVISIONS

7.1 This chapter discusses the reasons for the Commission's draft decisions related to the certification, audit and publication of disclosed information. Transitional provisions for the implementation of the information disclosure requirements are also outlined.

7.1 Purpose and Approach to Verification

7.2 For information disclosure regulation to be effective and to assist interested persons assess whether the purpose of Part 4 is being met, interested persons must be able to rely on disclosed information being derived in accordance with the Draft Information Disclosure Determination. The Commission is therefore concerned to ensure an appropriate level of assurance is available in respect to the verification of that information. Section 53C(3) of the Act explicitly provides that a section 52P determination may require information to be verified by statutory declaration or audit. Section 53C(3)(f) also provides for the Commission to require other forms of verification.

7.3 In determining the verification requirements needed the Commission has considered the availability of supporting records, the level of prescription in the relevant requirements, the cost of providing the various forms of assurance and the extent to which reliance is placed on the information disclosed. The range of assurance options considered by the Commission includes:

- statutory declarations;
- director certifications;
- audit reports; and
- expert opinions.

7.4 Director certification is a relatively cost-effective means of gaining assurance as it is expected that directors would be able to certify information given their knowledge of the business. Accordingly, the Commission proposes that director certification will be required to certify that all information disclosures are compliant with the Draft Information Disclosure Determination.

7.5 Statutory declarations are a stronger form of certification owing to the sanctions that apply should a declaration be given falsely. Accordingly, the Commission does not intend for statutory declarations to certify all aspects of the disclosure that director certifications provide but intends to use them where directors can factually certify that something has occurred. The Commission proposes using Statutory Declarations only to certify the disclosure copies supplied to the Commission are a true copy of information disclosed to the public.

7.6 In some instances where significant reliance is placed on information it is more appropriate to have a third party certify that information. This form of assurance, however, does have its limitations and can be costly. The cost of gaining certification increases with the level of certification required. For example, audits will generally only provide assurance regarding the compilation of forecasts rather than to assert any opinion on the accuracy of forecasts. Accordingly, audit opinions are reserved for disclosures upon which the Commission requires a high level of assurance.

- 7.7 Expert opinions are valuable in seeking independent assurance in areas requiring specific expertise where an auditor may not be qualified. Generally speaking an audit opinion is preferred over an expert opinion due to the reliance that can be placed on the standard to which an audit opinion is provided. However, in some instances auditing standards or the expertise of auditors may limit the ability of an auditor to provide the required assurance on particular information. In some instances it may be necessary for an expert opinion to be required rather than an audit opinion. Financial auditors can, however, engage experts to supplement their areas of expertise so that they have the skill set available to complete the audit of disclosures as an alternative to suppliers requiring supplementary expert opinions.
- 7.8 The Commission notes that a level of assurance as to the accuracy of disclosures is provided through section 103 of the Act, which provides for penalties where a party knowingly provides false or misleading information to the Commission.
- 7.9 The following sections outline submitters' feedback on proposed verification requirements and the Commission's draft decisions regarding the application of statutory declaration, certification and audit requirements.

7.2 Statutory Declaration and Director Certification Requirements

- 7.10 The submissions received generally supported the Commission's preliminary view that director certification should be required for performance indicators, financial, asset forecast information, quality, statistics and pricing methodology disclosures. BARNZ suggested that there would be merit in the disclosures also being similarly certified by the relevant senior executive responsible for overseeing these aspects of the regulated service.²³⁸ NZAA agreed in principle that it is reasonable for directors to certify that disclosures comply with relevant requirements but noted that until such time as the position regarding AMPs was established it would be premature to agree certification is appropriate given the costs associated with due diligence are unknown.²³⁹ The Commission expects directors will seek whatever advice they consider is needed prior to signing disclosures, which may include senior executive certification. The Commission considers it appropriate for directors to decide if management certification is required.
- 7.11 The Commission is keen to ensure that pricing methodologies disclosed are applied by suppliers in setting prices. Accordingly, the director certification required for pricing methodologies includes an additional assurance that this is the case.
- 7.12 No concerns were raised in submissions relating to the preliminary view that statutory declarations, verifying that the information provided to the Commission is a true copy of the information made available to the public, should be attached to all information made available under any disclosure requirement.
- 7.13 The Commission's draft decisions relating to director certification and statutory declaration are therefore that:
- director certification is required for all disclosures to certify that the information being disclosed complies with the relevant requirements. The pricing

²³⁸ BARNZ *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 41.

²³⁹ NZAA *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 85.

methodology director certification should also certify that the pricing methodology has been used to set disclosed prices;

- statutory declarations verifying that the information provided to the Commission is a true copy of the information made available to the public are required to be attached to all information made available to the Commission under any disclosure requirement;
- statutory declarations are required to verify the accuracy of any additional information provided to the Commission pursuant to section 53B(1)(c) of the Act; and
- the director certification should be signed by two directors and attached to the disclosures when disclosure is made, including publication on the internet.

7.3 Audit Requirements

Disclosures for which audit reports are required, applicable audit requirements and limitations of audit requirements

- 7.14 There was general support in submissions for the Commission's preliminary view that audit reports should be required for performance indicator, financial and asset valuation information disclosures. However, concerns were raised relating to the audit of non-financial information and prospective information. Air NZ generally agreed with the Commission's proposed audit requirements but considered "the utility of having a financial auditor audit non-financial aspects of the disclosure would be questionable".²⁴⁰ NZAA did not support audit of prospective information, contending that requiring information to be audited to the assurance level recognised by Securities Regulations 1983 would be costly with little benefit.²⁴¹ BARNZ stated that it did not object to NZAA's suggestion that prospective information not be audited provided it is certified by directors and management.²⁴²
- 7.15 The Commission considers that different auditing requirements are appropriate depending upon the nature of information being audited. For example, different audit requirements would be appropriate for historical financial information to that for non-financial information due to the nature of the underlying information. The Commission has taken into account the standard of verification considered appropriate in each case when establishing audit requirements. Further, the Commission understands that an auditor who qualifies as an Independent Auditor (as defined in the Draft Information Disclosure Determination) would be qualified to complete all aspects of the audit engagement.
- 7.16 With respect to the audit of non-financial information, the auditor is required to provide an opinion on whether the information has been prepared in accordance with guidance (if any) issued pursuant to the Draft Information Disclosure Determination, and calculated based on the source data provided.
- 7.17 The Commission considers an acceptable level of assurance with regard to prospective information will be available through director certification. The added scrutiny

²⁴⁰ Air NZ, *Submission to the Commerce Commission on Information Disclosure Discussion Paper*, 11 September 2009, page 20.

²⁴¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 85.

²⁴² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 41.

provided by the consultation process required under the AAA,²⁴³ is such that the Commission considers a similar level of assurance as required by the Securities Regulations 1983 is not required.

7.18 The Commission has considered the audit of forecast information included in the proposed Report on the Expenditure Statement component of annual disclosures. The Commission notes that the audit is intended to assure interested persons that the forecast figures incorporated in the Actual Expenditure Analysis Statement have been correctly translated from the five-yearly Report on the Forecast Revenue Requirements. The forecasts included in the Report on the Forecast Revenue Requirements, required at five-yearly intervals (or upon resetting prices), are not required to be audited. However, certification by directors of the forecast figures included in the Report on the Forecast Revenue Requirements is required.

7.19 The Commission's draft decisions relating to audit requirements are therefore that:

- historical financial, quality and statistics disclosures will be required to be audited; and
- forecast information is not required to be audited.

7.20 However, auditors will be required to verify that forecast information included as part of the Report on the Expenditure Statement is consistent with forecast information previously disclosed.

Form of Audit Reports

7.21 The Commission's preliminary view, as stated in the Discussion Paper,²⁴⁴ was that audit reports should be flexible enough to allow for changes in the New Zealand Auditing Standards and therefore avoid potential conflicts which may arise should New Zealand Audit Standards be amended. This was supported by submissions.²⁴⁵ Similarly the Commission's preliminary view²⁴⁶ that the disclosure requirements should include a number of provisions setting out the Commission's expectations in respect of the scope and content of the report, and the standard of assurance for the audit report, was supported by submitters.²⁴⁷

7.22 Further, the Commission's draft decision is that audit reports should include a statement as to whether the disclosures comply with the requirements and include explanations of any material non-compliance. Requiring a statement as to whether the disclosures comply with the requirements and the seeking of an explanation of any material non-compliance provides added assurance that the requirements have been complied with.

Addressee/duty of care to the Commission

7.23 The Commission received submissions from BARNZ and Air NZ supporting the preliminary view that audit reports should be addressed to interested persons and

²⁴³ Airport Authorities Act 1966, Section 4C 'Specified airport companies must consult concerning capital expenditure plans'.

²⁴⁴ Commerce Commission; *Information Disclosure Discussion Paper*, 29 July 2009, page 117.

²⁴⁵ For example, BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 42.

²⁴⁶ Commerce Commission; *Information Disclosure Discussion Paper*, 29 July 2009, page 117.

²⁴⁷ For example, BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 42.

contain a statement acknowledging the auditor's duty of care to the Commission.²⁴⁸ NZAA agreed it is appropriate that audit reports are addressed to 'interested persons' but does not consider any separate acknowledgment of a duty of care to the Commission should also be required.²⁴⁹ The Commission considers that there is an implied duty of care owed to the Commission in its capacity as an interested person and accepts that requiring a statement acknowledging the auditor has a duty of care to the Commission is unnecessary. Accordingly, the Commission's draft decision relating to the addressee of audit reports is that audit reports are to be addressed to interested persons.

Auditor qualifications

7.24 No issues were raised by submitters in respect to the appropriateness of the auditor qualifications proposed in the Discussion Paper. The Commission considers that the standards and guidance regarding auditor independence published by the Institute of Chartered Accountants (NZICA) provides appropriate guidance relating to auditor independence.²⁵⁰

7.25 Accordingly, the Commission's draft decision in respect to auditor qualifications is that the auditor is required to:

- be qualified as auditor of a company under the Companies Act 1993, or where the regulated supplier is a public entity be the auditor-general;
- have no relationship likely to involve a conflict of interest;
- not have assisted with the compilation of the information or provided advice or opinions on the methodologies or processes used in compiling the information; and
- not be associated with any person who has provided assistance, advice or opinions in preparing the disclosures.

7.4 Publication, Retention of Information and Timing of Disclosures

7.26 This section addresses issues relating to publication, retention of information and timing of disclosures and outlines the Commission's relevant draft decisions.

Publication / form of disclosures

7.27 The Commission may, under section 53B(1)(a), determine how information is to be publicly disclosed. In the Discussion Paper the Commission proposed that "publicly disclose" incorporate an obligation to disclose information in the *Gazette* so that interested persons are made aware that the information has been disclosed.²⁵¹ The Commission received submissions that supported the need for information to be publicly disclosed. However, the need for notification in the *Gazette* was questioned. NZAA considered that notification was not required as notification would not improve the process.²⁵² BARNZ and Air NZ suggested an alternative approach would be for

²⁴⁸ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 119.

²⁴⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 86.

²⁵⁰ New Zealand Institute of Chartered Accountants, *Code of Ethics: Independence in Assurance Engagements*, August 2003.

²⁵¹ Commerce Commission; *Information Disclosure Discussion Paper*, 29 July 2009, page 113.

²⁵² NZAA, *Submission by the NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 83.

- regulated suppliers to notify interested persons, with BARNZ further suggesting regulated suppliers be required to maintain a register of 'interested persons'.²⁵³
- 7.28 The Commission noted the concerns but considered notification in the *Gazette* provided interested persons with an independent record of disclosure. The Commission considers requiring notification in the *Gazette*, identifying the Internet site where information disclosed can be found and where hard copies of that information can be inspected or obtained, rather than requiring regulated suppliers to maintain a register of interested persons better enables all interested persons opportunity to access the information.
- 7.29 BARNZ and Air NZ identified concerns with the Commission's preliminary view that Airports notify each consumer by whom a charge is payable. NZAA noted that Airports do not know in advance who the end-consumers will ultimately be.²⁵⁴ The Commission acknowledges also that the customers of suppliers are not located in a particular geographic region (as is the case with, for example, customers of Electricity Distribution Businesses). The Commission accepts having prices publicly disclosed provides sufficient disclosure. It is therefore the Commission's draft decision that all disclosures should be publicly disclosed and notified in the *Gazette*.
- 7.30 Submitters generally supported the preliminary views set out in the Discussion Paper²⁵⁵ on the proposed use of standardised forms with Excel templates used, where possible, and that records be retained by suppliers for at least seven years. BARNZ,²⁵⁶ in agreeing records should be retained for at least seven years, considered it is good practice for information to be retained for a significantly longer period. Accordingly, the Commission's draft decision is that information should be disclosed in a standardised form with Microsoft Excel templates to be used, where possible, and information supporting disclosures be retained at least seven years. This will better ensure that disclosures are internally consistent.
- 7.31 For the above reasons, the Commission's draft decisions relating to the publication and retention of information are that:
- performance indicators, financial, asset valuation, quality, statistics and asset management forecast information should be disclosed as an annual disclosure package;
 - the annual, pricing methodology, prices and Report on the Forecast Revenue Requirements disclosures are to be publicly disclosed and notified in the *Gazette* so that interested persons are made aware when the disclosures are made;
 - where information is required to be disclosed in a standardised form, regulated suppliers are to make disclosures consistent with standardised templates provided as part of the Draft Information Disclosure Determination. Where standard templates can be used disclosures are to be made available to the Commission in Microsoft Excel format so as to better ensure that disclosures are internally consistent; and

²⁵³ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 39.

²⁵⁴ NZAA, *Submission by the NZ Airports Association on the Information Disclosure Discussion Paper*, 11 September 2009, page 83.

²⁵⁵ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 115.

²⁵⁶ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 40.

- information supporting disclosures to be retained for at least 7 years.

Timing of disclosures /regulatory year end

- 7.32 The Commission received submissions from BARNZ and Air NZ that disclosures should be available within three months of the regulatory year-end, with BARNZ suggesting that, if it is not possible to disclose financial results within three months of the regulatory year-end then non-financial information should be disclosed earlier.²⁵⁷ NZAA noted that interested persons have commented that the timeliness of information ought to be improved from the existing five-month standard, and submitted that annual disclosure of service level performance should occur 12 months to end of quarter three (i.e. based on calendar quarters) with disclosure required by balance date.²⁵⁸ The Commission's view is that the various components of the annual disclosure are interrelated. The Commission's, and interested persons', ability to analyse the disclosed information is enhanced if the information relates to common time periods. Accordingly the Commission considers that a longer reporting period is appropriate – with all components of the annual disclosure relating to a common reporting period.
- 7.33 The timing of pricing methodologies disclosure is addressed in paragraph 6.22 of Chapter 6. The Commission's preliminary view, as expressed in the Discussion Paper, was that pricing methodologies in place at the beginning of the regulatory year should be disclosed at the beginning of the regulatory year and within one month of a change or the adoption of a different methodology. An initial pricing disclosure (based on the most recent price changes prior to September 2011), (along with an initial forecast total revenue disclosure) is now required to be disclosed in September 2011. Thereafter, a pricing methodology disclosure is required to be disclosed within 20 working days after a price change occurring.
- 7.34 The Commission notes submissions comment that currently WIAL is the only Airport which has a 31 March statutory year-end and is thus aligned with the proposed 31 March year end. BARNZ and Air NZ outlined their concern that additional costs would be imposed upon CIAL and AIAL, as their statutory financial reporting year ends are not similarly aligned.²⁵⁹ The Commission has considered the additional costs incurred in requiring additional financial statements for an alternative year-end date, and has decided to allow Airports to prepare disclosures on the basis that their regulatory year-end align with the year-end dates of their statutory financial statements.
- 7.35 For the above reasons the Commission's draft decisions relating to the timing of disclosures are that:
- annual disclosure, consisting of performance indicators, financial, asset valuation, quality, statistics, and asset management forecast information, should be disclosed within five months of the regulatory year-end;

²⁵⁷ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 40; Air NZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 19.

²⁵⁸ NZAA, *Submission by the NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 84.

²⁵⁹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 40; Air NZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 19

- forecast revenue requirements, pricing methodologies and prices should be disclosed within 20 working days following the setting of prices under the Airports Authorities Act 1966; and
- the regulatory period will align with each Airport's financial year.

7.5 Initial Disclosure Year and Transitional Provisions

7.36 In determining the appropriate financial year to which Airports would be required to make their initial disclosure the Commission has considered the:

- timing of interested persons' assessments of performance;
- timing of indirect benefits of the information disclosure regime; and
- Commission's obligations under section 56G of the Act.

7.37 The information disclosure regime is premised on consistent disclosures over a period of time so that Airport performance can be assessed by interested persons in an ongoing and meaningful manner. As such, the earlier the period to which information disclosure applies, the sooner interested persons will be able to assess whether the Part 4 objectives are being achieved.

7.38 As outlined in paragraph 2.45 of Chapter 2, section 56G requires the Commission to as soon as practicable after any new price for a specified airport service is set in or after 2012 to review information disclosed, consult with interested persons and report to the Ministers of Commerce and Transport on the effectiveness of information disclosure regulation. The wording implies that the Ministerial report is to be based on disclosed information supplemented by consultation.

7.39 In making an assessment on the effectiveness of information disclosure, ideally performance measures should be considered over time rather than in isolation. This allows for abnormal performance and trends to be identified. The larger the series of information that is available, therefore, the more accurate that assessment.

7.40 The Commission, however, may not be able to rely solely on historical information to undertake an ex post assessment of performance, as any decisions made by Airports around planned profitability and future investments will not be represented in historical information until at least one year's performance is reported under new pricing. Accordingly, the Commission will need to make an ex ante assessment of decisions made by Airports when setting prices.

7.41 By using forecast information to make an ex ante assessment as to how effectively information disclosure regulation under the Act is promoting the purpose, a comparison should be made to decisions made before the regulation took effect. Accordingly, it would be appropriate to have forecast revenue requirement, demand forecast and pricing methodology information based on previous pricing decisions available.

7.42 The Commission considers an initial regulatory asset valuation report, making transparent movements from previously disclosed regulatory asset values, is required. This will assist interested persons understanding of how the initial RAB has been established.

7.43 Any introduction of new disclosure requirements requires the collection of information that may in some instances require the establishment of new systems. The Commission is mindful of the need to mitigate regulatory costs for Airports. The Commission considers that the proposed approach strikes an appropriate balance between making

available to interested persons as early as possible sufficient information for the purposes of information disclosure and the possible costs to Airports.

7.44 Accordingly, it is the Commission's draft decision that:

- the initial disclosure year for historical financial, quality and statistical information be for the financial year ended 2011. However, disclosures will not be required until 11 months after year end;
- the initial forecast revenue requirement, demand forecast and pricing methodology disclosure be required by 30 September 2011 and include disclosure of information used in the most recent pricing decisions;
- an initial regulatory asset value disclosure be required within 11 months after the financial year ended 2011; and
- transitional provisions be established so that the following information is not required as part of the year ended 2011 historical financial, quality and statistics disclosure:
 - operational and capital expenditure categories compliant with the disclosure requirements;
 - passenger satisfaction survey results; and
 - reliability information.

APPENDIX A: INFORMATION DISCLOSURE FRAMEWORK SUMMARY DIAGRAMS

Figure A1: Disclosures informing ex post assessments

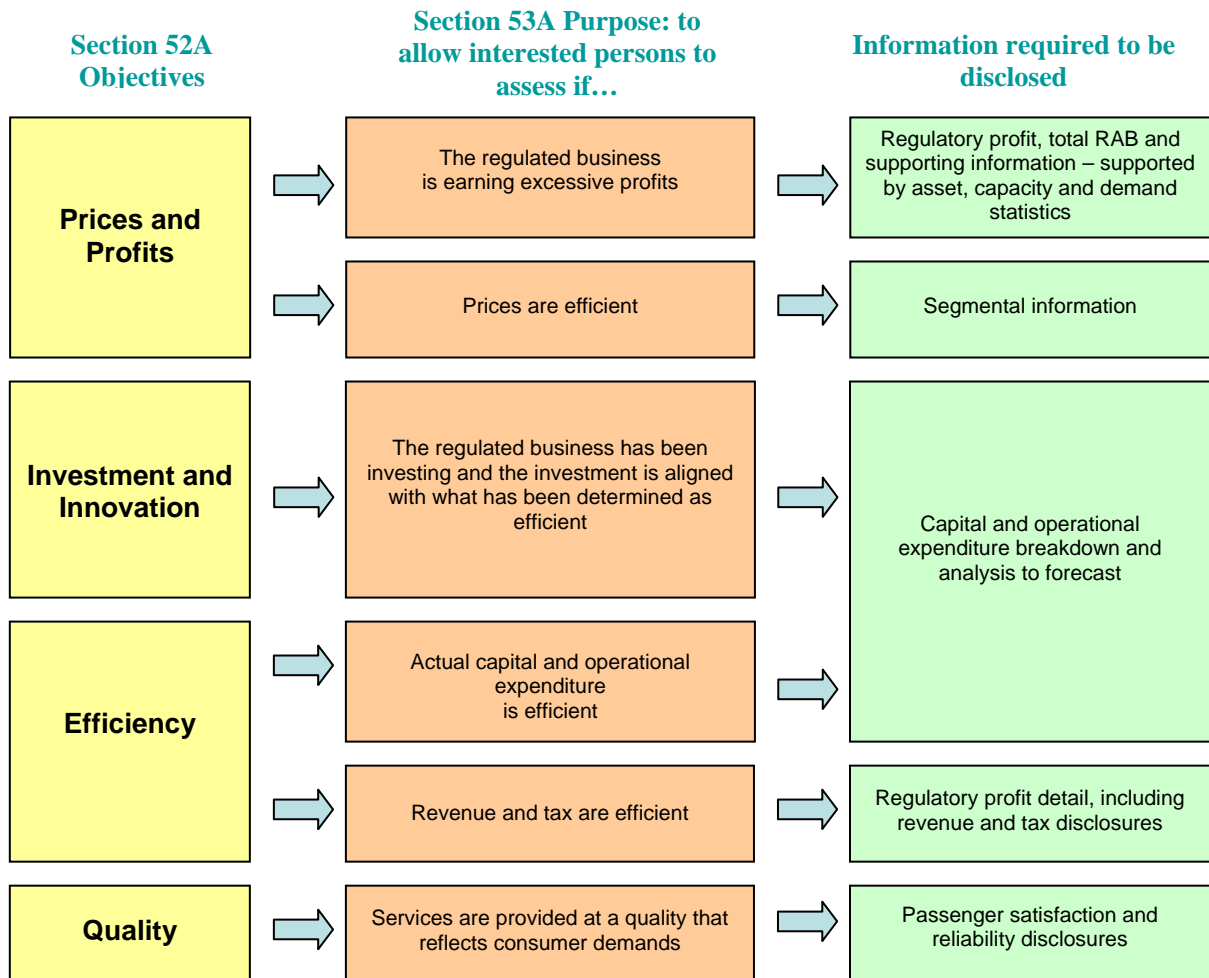
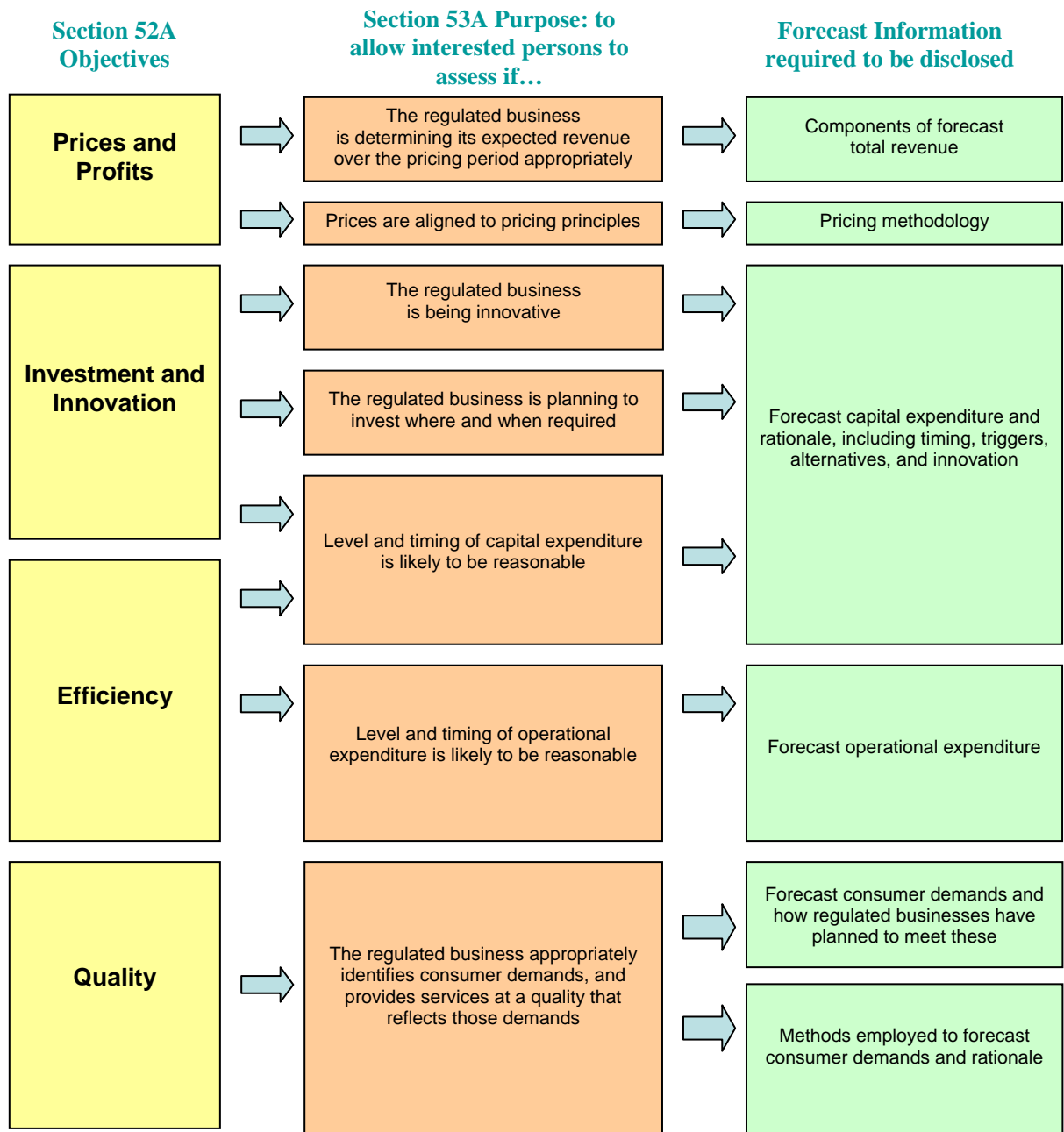


Figure A2: Disclosures informing ex ante assessments



APPENDIX B: SUMMARY OF KEY DEPARTURES FROM GAAP

The purpose of regulatory reporting is distinct from other forms of external reporting. Accordingly, the Commission while applying generally accepted accounting practice (GAAP) has sought to refine or amend GAAP where the purpose of information disclosure is unable to be met through its application.

Accounting information prepared for external purposes is typically prepared on the basis of financial reporting standards and other authoritative support known as GAAP, a term which is defined in the Financial Reporting Act 1993. Because GAAP is well understood and is reflected in existing business systems and processes, the Commission's draft decision is that GAAP should be the starting point for preparing information disclosures.

Outlined below are the key areas where the Commission draft decisions included in the IMs Draft Reasons Paper and this Paper are not consistent or a refinement of GAAP.

Initial RAB Value

- For regulatory purposes the Initial RAB value is specified based on the airport's 2009 disclosures.²⁶⁰ Because the airport's 2009 disclosures were prepared in accordance with GAAP, the initial RAB will generally be valued consistent with GAAP, except that:
 - the following assets are excluded
 - assets held for future use;
 - other excluded assets;
 - excluded intangible assets; and
 - works under construction;
 - land is to be valued at Market Value Alternative Use (MVAU); and
 - asset values are to be adjusted in accordance with cost allocation.

RAB Roll Forward

- For regulatory reporting purposes depreciation is required to be calculated on a straight-line basis with the ability for Airports to use an alternative method where it better meets the purpose of Part 4. This is a refinement of the GAAP approach which requires that the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed, although this generally also adopts a straight line approach.
- Revaluation for regulatory reporting purposes is determined using CPI indexation for non-land assets, with land asset being permitted to be revalued based on MVAU every 5 years, with CPI based valuation in the intervening years. The MVAU revaluations of land is consistent with GAAP, however CPI revaluations are not.
- Airports are required to exclude land held for future use from the RAB until the associated development has been commissioned. This is

²⁶⁰ Being the disclosures made pursuant to Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

different to GAAP which requires assets for which there is a currently undetermined future use to be recognised as investment property rather than property, plant and equipment.

- Goodwill and some other intangible assets are not recognised in the RAB for regulatory reporting requirements. This is inconsistent with GAAP which requires the recognition of goodwill.
- Where an asset is stranded airports may accelerate depreciation or use a non-standard depreciation approach (with additional disclosure obligations). Under GAAP stranded assets are required to be assessed under the NZ IAS 36 impairment standard. This requires asset values to be immediately reduced by the difference between the carrying value and the recoverable value if the latter is lower. This may result in different outcomes.
- Assets (other than land) acquired or sold between other regulated businesses or between related parties have specific treatments within the regulatory framework. GAAP does not treat these transactions differently.
- Where land is sold by an Airport the RAB is to be reduced by the market value. This is inconsistent with GAAP which requires only the net book value of the asset to be removed from property plant and equipment.

Cost Allocation

- No guidance is available under GAAP

Treatment of Tax

- For regulatory reporting purposes, Airports are required to apply a tax payable approach, with cost allocation and IRD tax rules to be used to determine the regulatory tax allowance. This is inconsistent with GAAP which requires a deferred tax approach to be applied.
- While GAAP requires the use of actual interest costs in the determination of tax expense, for regulatory reporting purposes notional assumptions are used.
- Where an asset is acquired from another Airport, the acquiring airport is required to use the tax book value of the selling Airport as its opening tax book value. This is inconsistent with tax rules which require the acquiring airport to use the acquisition value (adjusted for goodwill).

Cost of Capital

- No guidance is available under GAAP

Pricing methodologies

- No guidance is available under GAAP

ROI

- Only earnings per share and dividends per share measures are required

to be disclosed under GAAP, although in practice other profit performance measures may be disclosed.

Regulatory Profit (non IMs)

- The classification of regulatory revenue and expense items are generally refinements of GAAP disclosure requirements. GAAP, however, requires the separate disclosure of the nature and amounts of material items.
- For regulatory reporting purposes all revaluations gains or losses are recognised as income. This is not consistent with GAAP which requires some revaluations to be recognised in reserves (comprehensive income).
- Capital contributions are required to be treated as regulatory income in the year they are received for regulatory purposes. GAAP provides for these contributions to be spread over the life of the contract or the remaining useful life of the asset where the associated provision of services is ongoing.
- For regulatory reporting purposes gains or losses on assets sales are treated differently where an asset is sold to another regulated supplier or to a related party. GAAP does not have separate treatment.
- The value of financial incentives is to be separately disclosed for regulatory purposes. Under GAAP financial incentives such as trade discounts and volume rebates are not, required to be disclosed separately.

RAB (non IMs)

- The specification of regulatory asset classes is a refinement of GAAP which allows entities some discretion as to the level of disaggregation of asset classes.

Other disclosures

- Disclosure of an entity's transactions on a regulated business activity basis may differ from GAAP which requires activity reporting on an operating segment basis.
- For regulatory reporting requirement the definition of related party transactions has been extended to include transactions between the regulated and non-regulated parts of the Airport Company.
- Regulatory disclosures do not require presentation of the following which are required for GAAP purposes:
 - statement of cash flows;
 - statement of changes in equity;
 - statement of financial position; and
 - various note disclosures.

APPENDIX C: CAPACITY AND UTILISATION QUALITY INDICATORS

Summary of Capacity and Utilisation Indicators proposed by AIAL, WIAL, CIAL & BARNZ²⁶¹

Table 1: Indicators for Airfield and Apron

	Functional Component			Capacity Indicator		Applicable busy period	Utilisation calculation
	Travel direction	Area	Terminal	Congestion & capability	Throughput		
1	Unspecified	Airfield	Unspecified	Runway description, taxiway description ²⁶²	Movements per hour ²⁶³	Busy hour	Movements during the busy hour, expressed by flight category
2		Apron		Number of stands, expressed by flight category and aircraft type ²⁶⁴			

Table 2: Indicators for Terminals

	Functional Component			Capacity Indicator		Applicable busy hour	Utilisation calculation (passenger numbers during busy hour) ²⁶⁵		
	Travel direction	Area	Terminal	Congestion & capability	Throughput		AIAL	WIAL ²⁶⁶	CIAL
3	Departures	Landside circulation	International	Floor area		Outbound international	Outbound international less transit & transfer	x	x

²⁶¹ Summary prepared from Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010.

²⁶² Runway description comprising name, length, width, shoulder width, code, and instrument landing system category; taxiway description comprising name, length, width, status (full or part length), and number of links.

²⁶³ Movements capacity expressed as declared capacity by runway and meteorological conditions (VMC and IMC).

²⁶⁴ Flight categories: international, domestic, domestic regional, and domestic local. Aircraft type: jet and turboprop. Terminal access: aerobridge, ground, and remote.

²⁶⁵ Airbiz also expresses utilisation as the number of passengers during the busy hour divided by the floor area in hundreds of square metres for each functional component in the terminal. The exception is the baggage make-up area as the floor area is not used by passengers.

²⁶⁶ The Commission understands that the WIAL and CIAL terminals currently have no operational transit facilities for international passengers.

	Functional Component			Capacity Indicator		Applicable busy hour	Utilisation calculation (passenger numbers during busy hour) ²⁶⁵		
	Travel direction	Area	Terminal	Congestion & capability	Throughput		AIAL	WIAL ²⁶⁶	CIAL
			Domestic	Floor area		Outbound domestic	Outbound domestic	×	×
			Common	Floor area		Outbound combined		Outbound combined	Outbound combined
4		Check-in	International	Floor area		Outbound international	Outbound international less transit & transfer	×	Outbound international
			Domestic	Floor area		Outbound domestic	Outbound domestic less transit & transfer estimate	×	Outbound domestic less transit & transfer estimate
			Common	Floor area		Outbound combined		Outbound combined less domestic transit & transfer estimate	×
			Passport control (outbound)	International	Floor area	Passengers per hour (notional limit)	Outbound international	Outbound international less transit & transfer	Outbound international
6		Security screening	International	Floor area	Passengers per hour (notional limit) for international and for transit screening stations	Outbound international	Outbound international less transit & transfer wrt floor area; separate wrt screening stations	Outbound international	Outbound international

	Functional Component			Capacity Indicator		Applicable busy hour	Utilisation calculation (passenger numbers during busy hour) ²⁶⁵		
	Travel direction	Area	Terminal	Congestion & capability	Throughput		AIAL	WIAL ²⁶⁶	CIAL
			Domestic	Floor area	Passengers per hour (notional limit)	Outbound domestic	Outbound domestic less outbound turboprop passengers	Outbound domestic less outbound turboprop passengers	Outbound domestic less outbound turboprop passengers
7		Airside circulation	International	Floor area		Outbound international	Outbound international	Outbound international	Outbound international
			Domestic	Floor area		Outbound domestic	Outbound domestic	Outbound domestic	Outbound domestic
8		Departure lounges	International	Floor area		Outbound international	Outbound international	Outbound international	Outbound international
			Domestic	Floor area		Outbound domestic	Outbound domestic	Outbound domestic	Outbound domestic
9		Baggage makeup area ²⁶⁷	International	Floor area	Bags per hour, Passengers per hour (notional limits)	Outbound international	Outbound international less transit & transfer	×	Outbound international
			Domestic	Floor area	Bags per hour, Passengers per hour (notional limits)	Outbound domestic	Outbound domestic less transit & transfer estimate	×	Outbound domestic less transit & transfer estimate
			Common	Floor area	Bags per hour, Passengers per hour (notional limit)	Outbound combined	×	Outbound combined less domestic transit & transfer estimate	×
10		Arrivals	Airside circulation	International	Floor area		Inbound international	Inbound international	Inbound international

²⁶⁷ Although (unlike the other functional components in the terminal) the baggage make-up floor area is not a public area, the number of passengers served during the busy hour remains reflective of its utilisation.

	Functional Component			Capacity Indicator		Applicable busy hour	Utilisation calculation (passenger numbers during busy hour) ²⁶⁵		
	Travel direction	Area	Terminal	Congestion & capability	Throughput		AIAL	WIAL ²⁶⁶	CIAL
			Domestic	Floor area		Inbound domestic	Inbound domestic	Inbound domestic	Inbound domestic
11		Landside circulation	Domestic	Floor area		Inbound domestic	×	Inbound domestic	×
12		Passport control (inbound)	International	Floor area	Passengers per hour (notional limit)	Inbound international	Inbound international less transit & transfer	Inbound international	Inbound international
13		Baggage reclaim	International	Floor area	Passengers per hour (notional limit)	Inbound international	Inbound international less transit & transfer	Inbound international	Inbound international
			Domestic	Floor area	Passengers per hour (notional limit)	Inbound domestic	Inbound domestic less transit & transfer estimate	Inbound domestic less transit & transfer estimate	Inbound domestic less transit & transfer estimate
14		Biosecurity screening & inspection & customs secondary inspection	International	Floor area	Passengers per hour (notional limit for biosecurity screening)	Inbound international	Inbound international less transit & transfer	Inbound international	Inbound international
15		Arrivals concourse	International	Floor area		Inbound international	Inbound international less transit & transfer	×	Inbound international
			Domestic	Floor area		Inbound domestic	Inbound domestic	×	Inbound domestic
			Common	Floor area		Inbound combined	×	Inbound combined	×

	Functional Component			Capacity Indicator		Applicable busy hour	Utilisation calculation (passenger numbers during busy hour) ²⁶⁵		
	Travel direction	Area	Terminal	Congestion & capability	Throughput		AIAL	WIAL ²⁶⁶	CIAL
16	Unspecified ²⁶⁸	Total of the functional areas in terminal excluding baggage makeup area	All	Not determined		Not defined	Not defined	Not defined	Not defined

Table 3: Busy period measures proposed by AIAL, WIAL, CIAL & BARNZ²⁶⁹

Functional components	Location and direction of flow	Busy period	Methodology to identify busy period
Airfield, apron	Aircraft movements (either inbound or outbound aircraft)	Day	18 th busiest day in the year (i.e. “95 th percentile day”)
Passenger terminal (13 components)	Inbound passengers at international terminal	Hour	30 th busiest hour in the year
	Inbound passengers at domestic terminal	Hour	30 th busiest hour in the year
	Outbound passengers at international terminal	Hour	30 th busiest hour in the year
	Outbound passengers at domestic terminal	Hour	30 th busiest hour in the year
	Inbound passengers at either (“combined”) terminal	Hour	30 th busiest hour in the year
	Outbound passengers at either (“combined”)terminal	Hour	30 th busiest hour in the year

²⁶⁸ The total of the functional areas in the terminal excluding baggage makeup area is listed as a functional component in the JWD but is not included in the Airbiz report.

²⁶⁹ As used in Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010.

