

INFORMATION DISCLOSURE (AIRPORT SERVICES)

REASONS PAPER

22 DECEMBER 2010



COMMERCE COMMISSION

Regulation Branch

Commerce Commission

Wellington

NEW ZEALAND

22 December 2010

ISBN: 978-1-869451-35-6

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GLOSSARY OF TERMS AND ABBREVIATIONS

| Term/Abbreviation | Definition |
|--------------------------|---|
| AAA | Airport 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 s 56B of Part 4 of the Commerce Act 1986 |
| BARNZ | Board of Airline Representatives New Zealand Incorporated |
| CIAL | Christchurch International Airport Limited |
| The Commission | The Commerce Commission |
| CPI | Consumer Price Index |
| Discussion Paper | Commerce Commission, Information Disclosure Discussion Paper, 29 July 2009 |
| Draft ID Determination | Commerce Commission, Commerce Act (Specified Airport Services Information Disclosure) Determination, draft, 31 May 2010 |
| Draft ID Reasons Paper | Commerce Commission, Information Disclosure (Airport Services) Draft Reasons Paper, 31 May 2010 |
| Draft IM Determination | Commerce Commission, Draft Commerce Act Input Methodologies (Specified Airport Services) Determination, 1 June 2010 |
| Draft IM Reasons Paper | Commerce Commission, Input Methodologies (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 |
| ID Determination | Commerce Act (Specified Airport Services Information Disclosure) Determination 2010, 22 December 2010, Decision 715 |
| ID Update Paper | Commerce Commission, Information Disclosure (Airport Services) Consultation Update Paper, 11 October 2010 |

| Term/Abbreviation | Definition |
|--------------------------------|--|
| IM Determination | Commerce Act (Specified Airport Services Input Methodologies) Determination, 22 December 2010, Decision 709 |
| IM Reasons Paper | Input Methodologies (Airport Services) Reasons Paper, 22 December 2010 |
| IM Update Paper | Input Methodologies (Airport Services) Consultation Update Paper, 1 October 2010 |
| IMs | Input Methodologies |
| 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 | New Zealand Institute of Chartered Accountants |
| NZX | New Zealand stock exchange |
| Part 4 | Part 4 of the Commerce Act 1986 |
| Provisions Paper | Commerce Commission, Regulatory Provisions of the Commerce Act 1986 Discussion Paper |
| Quality Working Session | Airports Quality Working Session, held by the Commerce Commission on 16 December 2009 |
| RAB | Regulatory Asset Base |
| Regulated Suppliers | Regulated entities under Part 4 of the Commerce Act 1986 |
| Revised Draft ID Determination | Commerce Commission, Draft Commerce Act (Specified Airport Services Information Disclosure) Determination 2010, 11 October 2010 |
| Revised Draft IM Determination | Commerce Commission, Revised Draft Commerce Act Input Methodologies (Specified Airport Services) Determination, 2010, 1 October 2010 |
| RIV | Regulatory Investment Value |
| ROI | Return on Investment |
| Technical Working Session | Airports Technical Working Session, held by the Commerce Commission on 13 September 2010 |
| Suppliers | Regulated entities under Part 4 of the Commerce Act 1986 |
| 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 provides the reasons for the Commission’s information disclosure requirements as set out in the Commerce Act (Airport Information Disclosure) Determination 2010 (ID Determination).
- X2 The three airports that are regulated under the Commerce Act 1986 (‘the Act’) as suppliers of specified airport services are Auckland International Airport Limited (AIAL), Wellington International Airport Limited (WIAL), and Christchurch International Airport Limited (CIAL), referred to as ‘Airports’.
- X3 The purpose of information disclosure regulation is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 of the Act is being met. In setting the ID Determination, the Commission has considered what information is needed by interested persons to assess whether the long-term benefits of consumers are being promoted, through the promotion of outcomes consistent with those produced in competitive markets, such that Airports:
- a. have incentives to innovate and invest, including in replacement, upgraded, and new assets;
 - b. have incentives to improve efficiency and provide services at a quality that reflects consumer demands;
 - 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.
- X4 The Commission has focused on the information that needs to be disclosed to assist interested persons to make this kind of assessment. This approach is intended to ensure a cost effective but robust regime. In order to achieve this the Commission has:
- a. relied, where possible, on Airports’ existing information gathering practices;
 - b. aimed for consistent disclosed information, both between Airports and over time;
 - c. provided for a degree of flexibility, so that Airports can present as realistic a picture as possible of their actual performance; and
 - d. sought to ensure the underlying assumptions or rationale for information are explicit.
- X5 The Commission has also had regard to the responsibilities of Airports in relation to the Airports Authorities Act 1966 (the AAA).
- X6 The ID Determination provides for the disclosure of historical financial information, quality performance measures, forecasts of total revenue requirements, pricing methodologies, prices, and other key statistics. In addition, the ID Determination sets out publication, certification and audit requirements.
- X7 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. The historical financial information disclosure requirements will provide for a set of regulatory disclosures, including:

- a. Report on Return on Investment;
 - b. Report on Regulatory Profit;
 - c. Report on Regulatory Tax Allowance;
 - d. Report on Regulatory Asset Base Roll-Forward;
 - e. Report on Related Party Transactions;
 - f. Report on Actual to Forecast Expenditure;
 - g. Report on Segmented Information; and
 - h. Consolidation Statement.
- X8 GAAP is the starting point for these disclosures but has been modified where necessary for regulatory purposes, including through the application of input methodologies.
- X9 When disclosing historical financial information, Airports are required to apply input methodologies for the valuation of assets (including depreciation and treatment of revaluations), the allocation of common costs, and the treatment of taxation. The Commission has also set 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.
- X10 The disclosures of quality and statistics include a comprehensive set of measures of passenger satisfaction, reliability, capacity and utilisation, operational improvement, and other statistics.
- X11 The disclosures relating to forecast total revenue requirements are intended to align with the price setting process that airports are required to undertake under the AAA. 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 historical financial disclosures will also reconcile forecasts with actual annual outcomes.
- X12 This is an alternative approach to the Commission's information disclosure requirements for electricity distribution 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.
- X13 The Commission has taken a flexible but transparent approach to disclosure requirements of prices and pricing methodologies. Suppliers of specified airport services are not required to apply a particular pricing methodology but are required under the ID Determination to disclose information about the pricing methodologies that they do use.
- X14 Information relating to an Airport's financial position and the quality of its specified airport services are to be made on an annual basis. These disclosures are to be made within five months after the end of the Airport's financial year, which is 31 March for WIAL, and 30 June for AIAL and CIAL. Under the transitional provisions, disclosures for the 2011 financial year will not be required until 11 months after the end of that first financial year.

X15 Different audit and director certifications are required dependent upon the nature of information being disclosed. 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.

Table X1: Overview of the ID Determination

| Chapter | Summary of Key Features of the ID Determination | Reference |
|---|--|--------------------------------|
| Chapter Three: Historical Financial Information | <p>The ID Determination requires that 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; – the formula for calculating the ROI that is comparable to the post-tax WACC is:¹ $ROI = \frac{\text{Regulatory Profit} - \text{Interest Tax Shield}}{RIV}$ – the formula for calculating the ROI that is comparable to the vanilla WACC is: $ROI = \frac{\text{Regulatory Profit}}{RIV}$ <ul style="list-style-type: none"> ▪ include revaluations and depreciation in the regulatory profit—to the extent that revaluations and depreciation are included in the roll-forward of the RAB; ▪ net capital contributions off against asset values; ▪ recognise gains and losses on the sale of an asset as income, except where an asset is sold to a related party or 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 | Clause 2.3, Schedules 1–10, 23 |

¹ RIV is an abbreviation for regulatory investment value. RIV is discussed in detail in Chapter 3, paragraphs 3.35 to 3.39.

| Chapter | Summary of Key Features of the ID Determination | Reference |
|--|---|--|
| | <p>periods prior to commissioning of a new development;</p> <ul style="list-style-type: none"> ▪ 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 business disclosure with the Airport Company’s financial results; and ▪ include details of related party transactions (including transfers between the regulated and unregulated business units of the Airport Company). | |
| <p>Chapter Four: Quality and Statistics</p> | <p>The ID Determination requires that 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 aircraft landings, terminal access, passenger numbers, commercial carriers, and human resources; and ▪ the processes for undertaking operational improvement forums regarding reliability indicators and passenger satisfaction indicators. | <p>Clause 2.4, Schedules 12–17</p> |
| <p>Chapter Five: Forecast Total Revenue and Supporting Information</p> | <p>The ID Determination requires that the disclosures of forecast total revenue and supporting information include:</p> <ul style="list-style-type: none"> ▪ the components of Airports’ total revenue requirements, including the revenue methodology, revenue components, and other factors as applicable; ▪ an explanation of why the basis for the forecast total revenue disclosures is not consistent with the previous year’s actual disclosures (where applicable); ▪ supporting forecast information, including capital expenditure, operational expenditure and demand; and ▪ annual reconciliations of actual expenditure to forecast expenditure. <p>The first disclosure of forecast total revenue requirements will be required in 2011 and will be a disclosure of total revenue requirements relating to current prices. Subsequent disclosures will be required within 20 working days of a decision to set prices for each specified airport service.</p> | <p>Clause 2.5, Schedules 18 & 19</p> |
| <p>Chapter Six: Pricing and</p> | <p>The ID Determination requires that the disclosures of pricing</p> | <p>Clause 2.5(2) and 2.5(3),</p> |

| Chapter | Summary of Key Features of the ID Determination | Reference |
|--|---|--|
| <p>Related Disclosures</p> | <p>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. <p>Disclosures relating to prices include:</p> <ul style="list-style-type: none"> ▪ standard prices; ▪ annual aggregate of financial and pricing incentives; and ▪ pricing statistics. | <p>Schedule 18</p> |
| <p>Chapter Seven: Publication, certification audit and transitional provisions</p> | <p>The ID Determination requires that disclosures will require:</p> <ul style="list-style-type: none"> ▪ director certification; and ▪ audit reports of historical financial, quality and statistics disclosures. <p>Other features of the ID Determination 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 a decision to set 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 for the initial disclosure year; ▪ 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 and initial asset allocation adjustment disclosure will be required within 11 months after the financial year ended 2011; and ▪ transitional provisions so that the following information is not required for the annual disclosure for the year ended 2011: <ul style="list-style-type: none"> – breakdowns of total capital and operational expenditure; – passenger satisfaction survey results; – reliability information; and – ROI comparative information. | <p>Clauses 2.6–2.10, Schedules 20–22</p> |

CHAPTER 1: INTRODUCTION

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

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, s 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)–(d) above are set out from s 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 (AAA Regulations) cease to apply to each of the three Airports beyond the 2009/10 financial year.³

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

² Commerce Act 1986, s 56A(3).

³ Airports Authorities Act 1966, s 9A(1AAA).

1.3 Reasons Paper

Purpose and Scope of Reasons Paper

- 1.7 The purpose of this Paper is to set out the reasoning for the disclosure requirements for specified airport services as set out in the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010 (ID Determination).

Structure of Reasons Paper

- 1.8 The chapters and appendices that make up the Paper are set out in the following tables.

| Chapter | Title and Topic |
|----------------|---|
| Chapter One | Introduction Introduces the information disclosure regulations and discusses the scope and overall structure of the Paper |
| Chapter Two | Regulatory Framework and General Approach Discusses the relevant provisions of the Act and broad framework issues |
| Chapter Three | Historical Financial Information Disclosures Sets out the reasons for the disclosure requirements for historical financial information |
| Chapter Four | Quality and Statistics Sets out the reasons for the disclosure requirements for quality and statistics |
| Chapter Five | Forecast Total Revenue and Supporting Information Sets out the reasons for the disclosure requirements for forecast total revenue and supporting information |
| Chapter Six | Pricing and Related Disclosures Sets out the reasons for the disclosure requirements for pricing and pricing methodologies |
| Chapter Seven | Certification, Audit, Publication and Transitional Provisions Sets out the reasons for the certification, publication and transitional provisions requirements |

| Appendices | Title and Topic |
|-------------------|---|
| Appendix A | Information Disclosure Framework Summary Diagrams |
| Appendix B | Summary of Key Departures from GAAP |
| Appendix C | Reliability Conditions for Disclosure |

1.4 Consultation Process

1.9 The ID Determination has been made following an extensive consultation process. The consultation steps, working sessions and associated papers were as follows:

| Key Papers/Consultation Steps | Dates |
|---|-------------------|
| Commerce Commission, Regulatory Provisions of the Commerce Act 1986—Discussion Paper ⁴ released | 19 December 2008 |
| Commerce Commission, Information Disclosure Discussion Paper ⁵ released | 29 July 2009 |
| Airports quality working session held | 15 December 2009 |
| Commerce Commission, Asset Planning and Forecast Information for Airports: Working Session Papers ⁶ released | 29 January 2010 |
| Airports Workshop—Asset Planning and Forecast Information held | 18 February 2010 |
| Commerce Commission, Information Disclosure (Airports Services) Draft Reasons Paper ⁷ and draft Commerce Act (Specified Airport Services Information Disclosure) Determination 2010 ⁸ released for consultation | 31 May 2010 |
| Airports Information Disclosure technical working session papers ⁹ released | 31 August 2010 |
| Airports Information Disclosure technical working session held | 13 September 2010 |
| Commerce Commission, Airports Information Disclosure Consultation Update paper and Revised Draft Commerce Act (Specified Airport Services Information Disclosure) Determination ¹⁰ released for technical consultation | 11 October 2010 |
| Final Determination made | 22 December 2010 |

⁴ Commerce Commission, *Regulatory Provisions of the Commerce Act 1986—Discussion Paper*, 19 December 2008.

⁵ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009.

⁶ Commerce Commission, *Asset Planning and Forecast Information for Airports: Working Session Papers*, 29 January 2010.

⁷ Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination*, draft, 31 May 2010.

⁸ Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination*, draft, 31 May 2010.

⁹ Commerce Commission, *Information Disclosure for Specified Airport Services Technical Working Session—Session Agenda*, 13 September 2010.

¹⁰ Commerce Commission, *Information Disclosure (Airport Services) Consultation Update Paper*, 11 October 2010 – includes Revised Draft *Commerce Act (Specified Airport Services Information Disclosure) Determination*, 2010.

- 1.10 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). In addition to these submissions, the Commission has assessed and considered the advice received from the following external advisors:
- Network Advisory Services Pty Ltd (NAS); and
 - PKF Martin Jarvie Ltd.
- 1.11 Copies of all non-confidential consultation material, including discussion papers, minutes from working sessions, submissions and cross-submissions are available on the Commission's website.

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 the ID 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 also outlines other key factors that the Commission has considered as part of its decision making, including factors specific to Airports and the role of the Commission's summary and analysis obligations.

2.2 Setting Information Disclosure Requirements

- 2.3 Specified airport services are subject to information disclosure regulation under Part 4 pursuant to s 56C of the Act. The effect of being subject to information disclosure regulation is set out in s 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 s 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 s 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(1) 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 s 52A(1)(a)–(d) of the Act. As clarified in the Explanatory Note to the Commerce Amendment Bill,¹¹ promoting the long-term interests of consumers by promoting outcomes consistent with 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”.¹² These ‘requirements’, or regulatory objectives, are set out in (a) to (d) of s 52A(1) of the Act.
- 2.10 The Commission’s interpretation of the purpose of Part 4 and discussion on the concept of workable competition is set out in more detail in the IM Reasons Paper.¹³ The Commission’s ID Determination is consistent with that interpretation.

“Sufficient” information

- 2.11 A key component of the Commission’s ID 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.¹⁴ 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.¹⁵
- 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

¹¹ 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.

¹² Explanatory Note, supra n 11, page 4.

¹³ See Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, chapter 2.

¹⁴ 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.

¹⁵ BARNZ, *Submission on 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 Discussion Document*, 2 November 2009, page 6.

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 view in the Discussion Paper,¹⁶ the 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.¹⁷
- 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 IM Determinations contain the relevant methodologies, processes, rules and matters applicable to a particular sector, according to the type of regulation. Among other things, s 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, s 52S requires regulated suppliers to apply every relevant input methodology in accordance with the relevant s 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.¹⁸ However, the Commission may still apply any input methodologies relating to those matters as part of its monitoring, reporting and analysis obligations under s 53B. The Commission has determined a cost of capital input methodology for this purpose.
- 2.17 The input methodologies that are applicable to the ID Determination, and that must be applied by Airports, are:
- valuation of assets;
 - allocation of common costs; and
 - treatment of taxation.

¹⁶ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraph 53.

¹⁷ Commerce Act 1986, s 52A.

¹⁸ Commerce Act 1986, s 53F(1).

2.5 Commission’s General Approach

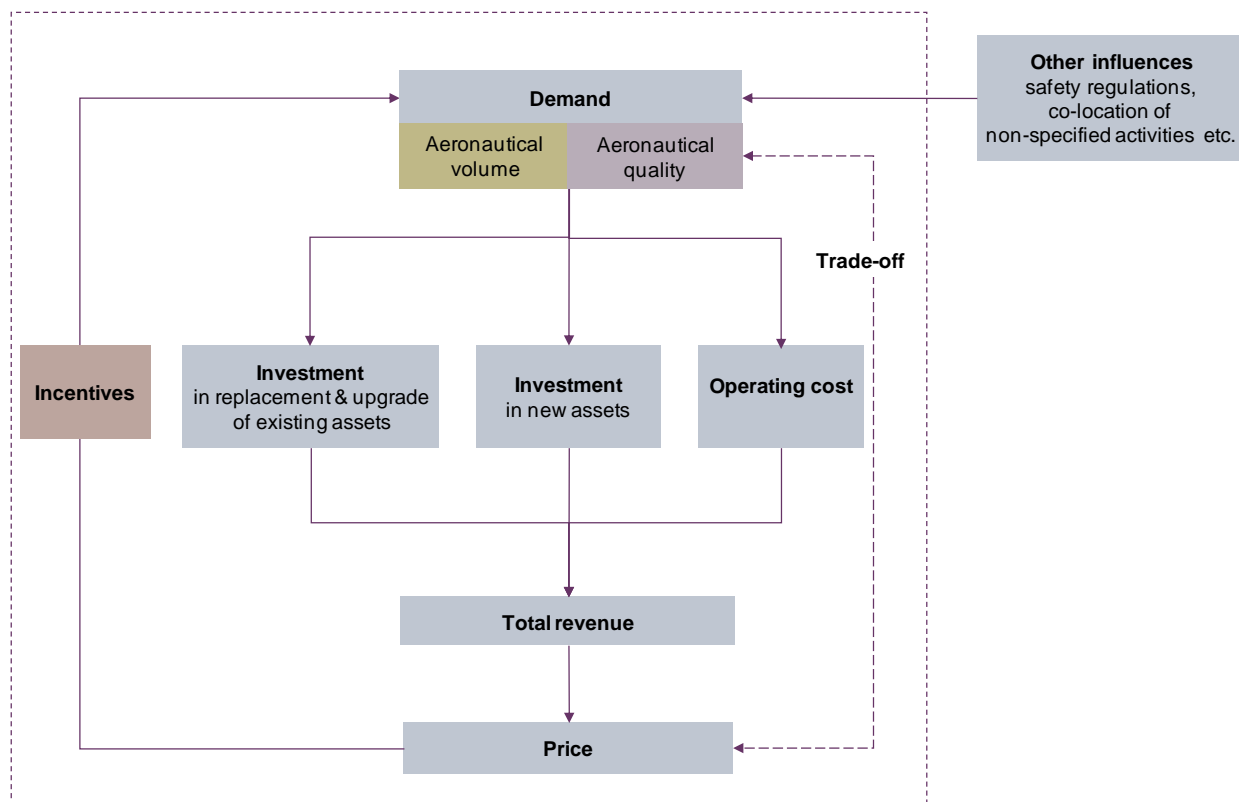
2.18 This part sets out some of the key factors that the Commission has had regard to in its overall approach to information disclosure for specified airport services. In particular, this part:

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

2.19 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 2.1 below. The overall scope of the ID Determination is represented by the component included inside the dotted line.

Figure 2.1 Inter-relationship of airport financial and non-financial factors from an information disclosure perspective



2.20 In order to provide sufficient information to allow interested persons to assess whether the s 52A purpose statement is being met, the ID 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 ID 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 total revenue requirement; and
- the approach to pricing used by Airports to meet their revenue requirements.

2.21 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.

2.22 The various aspects of this framework are discussed in Chapters 3–6 of this Reasons Paper.

Incentive effects of information disclosure regulation

2.23 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.¹⁹

2.24 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 s 52A are achieved. An effective information disclosure regime provides transparency to interested persons on the performance of regulated suppliers, and provides an ongoing source of information so that trends can be identified and monitored over time.

2.25 For example, in order to assess whether a supplier is earning excess profits, interested persons need information on the returns earned from the supply of regulated services, and the value of the assets used in supplying the regulated services. This type of information is referred to in s 53(2)(a) and (b).

¹⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, pages 45–46.

- 2.26 The Commission acknowledges, in line with the views of some submitting parties,²⁰ that information disclosure regulation will likely have an effect on the incentives faced by regulated suppliers.
- 2.27 Specified Airport Services are regulated under Part 4. Given the Part 4 purpose, it is clear that the supply of those services is likely to be, and is intended to be, influenced by information disclosure regulation. This effect should help to promote outcomes consistent with those produced in workably competitive markets, for the long-term benefits of consumers.
- 2.28 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:
- information to consumers and other interested persons, about the extent to which efficiency gains have been shared with consumers through lower prices or other means (consistent with s 52A(1)(c)). Doing so is likely to enhance consumers' countervailing market power, which may result in excessive profits being limited (consistent with s 52A(1)(d)), and may facilitate consumer engagement with regulated suppliers about the desired level of service quality (consistent with s 52A(1)(b));
 - better information to the owners of regulated suppliers. For example, information disclosure may allow comparison with suppliers in other areas. This may facilitate more effective governance and help owners 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 (consistent with s 52A(1)(a) and (b)); and
 - increased incentives for the management of regulated suppliers to improve relative and absolute performance, consistent with s 52A(1)(a) and (b).
- 2.29 However, the Commission considers that it is important to distinguish this influence from the purpose of information disclosure as provided for in s 53A of the Act. While some incentive effects will flow from any information disclosure regime, 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.
- 2.30 Some submitters have argued that the Commission is setting de facto price control of airport services. This is incorrect. The Commission appreciates that Airports are able to charge as they see fit. The information required by the Commission's ID Determination is based on the information listed in s 53(2) (which is not an exhaustive list) and is considered necessary to assess whether the purpose of Part 4 is being met.

²⁰ 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.

- 2.31 However, as discussed above, the new regime may, among other things, help to create incentives for Airports to ensure that the returns they generate are not excessive.

Forecast information

- 2.32 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.
- 2.33 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.²¹ The Commission notes that Part 4 expressly provides for the disclosure of forecast information.²²

Confidential information

- 2.34 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. The Act contemplates that the Commission may need to exempt a person, on application, from making information publicly available under the information disclosure requirements where the Commission considers the information to be commercially sensitive.²³

Disclosure Templates

- 2.35 The Commission has developed templates for the disclosure of information so that interested persons can assess information that is provided in a consistent manner over time and across different Airports.

²¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 44.

²² Commerce Act 1986, s 53C(2)(g).

²³ See Commerce Act 1986, s 53ZG.

2.6 Implementation Considerations

- 2.36 The Commission identified a number of principles intended to guide the Commission's decision making in implementing an effective information disclosure regime. The Commission has previously noted that such principles can help provide further understanding of the Commission's proposed approach to regulation under Part 4.
- 2.37 The Commission has had regard to the following considerations in formulating the 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.
- 2.38 The Commission received submissions suggesting a "materiality" principle,²⁴ and that the Commission adopt some kind of explicit cost-benefit test as an implementation principle.²⁵ 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

- 2.39 The Commission acknowledges that to be effective, information disclosure requirements may need to take account of any specific circumstances that apply to the sector being regulated. Accordingly, the Commission has sought to identify sector-specific factors that it may have regard to in determining information disclosure requirements.
- 2.40 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

²⁴ 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.

²⁵ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 91.

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 to their substantial customers information relevant to the calculation of prices for airport activities and costs of major investments.

2.41 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.

2.42 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 a cost effective information disclosure regime would look for synergies between the two processes.²⁶ 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 purpose of information disclosure regulation under Part 4. 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 under Part 4.

2.43 In addition to considering the AAA, NZAA submitted that, in practice, investment in Airport assets takes account of the following factors:²⁷

- 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.²⁷

²⁶ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraphs 94–95.

²⁷ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraphs 178–189.

2.44 The Commission has considered these factors in determining the ID Determination.

2.8 Summary and Analysis

2.45 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.

2.46 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 interested persons.

2.47 In addition to undertaking their own analysis, interested persons may find the Commission's summary and analysis 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 s 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".²⁸

2.9 Ministerial Report

2.48 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 s 52A of the Act in respect of specified airport services.²⁹ NZAA submitted that the information disclosure regime for suppliers of specified airport services should not focus on the Ministerial report.³⁰ In making its ID Determination, the Commission's primary focus has been on the purpose of information disclosure, rather than the upcoming Ministerial report. The Commission has sought to ensure that interested persons have sufficient information to assess whether the purpose of Part 4 is being met.

²⁸ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 9.

²⁹ 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.

³⁰ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 5.

CHAPTER 3: HISTORICAL FINANCIAL INFORMATION DISCLOSURES

3.1 Introduction

- 3.1 This chapter sets out the Commission's reasons for setting the disclosure of historical financial information and the return on investment (ROI) calculation. Specifically, the chapter discusses:
- the purpose and approach to historical financial information disclosure;³¹
 - the approach to and calculation of the return on investment profitability indicator;
 - the calculation of regulatory profit which includes discussion of the key income and expense items;
 - the approach to the initial regulatory asset base (RAB); and
 - the approach to other historical financial disclosure including capital investment, reporting by business activity (segmented reporting), consolidation statements and transitional provisions.

3.2 Purpose

- 3.2 The disclosure of historical financial information assists interested persons to assess whether the performance of the Airports is consistent with outcomes produced 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 S 53C(2) 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.³²
- 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

³¹ Historical financial information disclosure requires Airports to report financial information for the past disclosure year. This information will cover the same period as each Airport's most recent statutory financial statements.

³² Commerce Act 1986, s 53C(2).

‘financial capital’ (in real terms). Such an outcome is often referred to as financial capital maintenance (FCM).³³

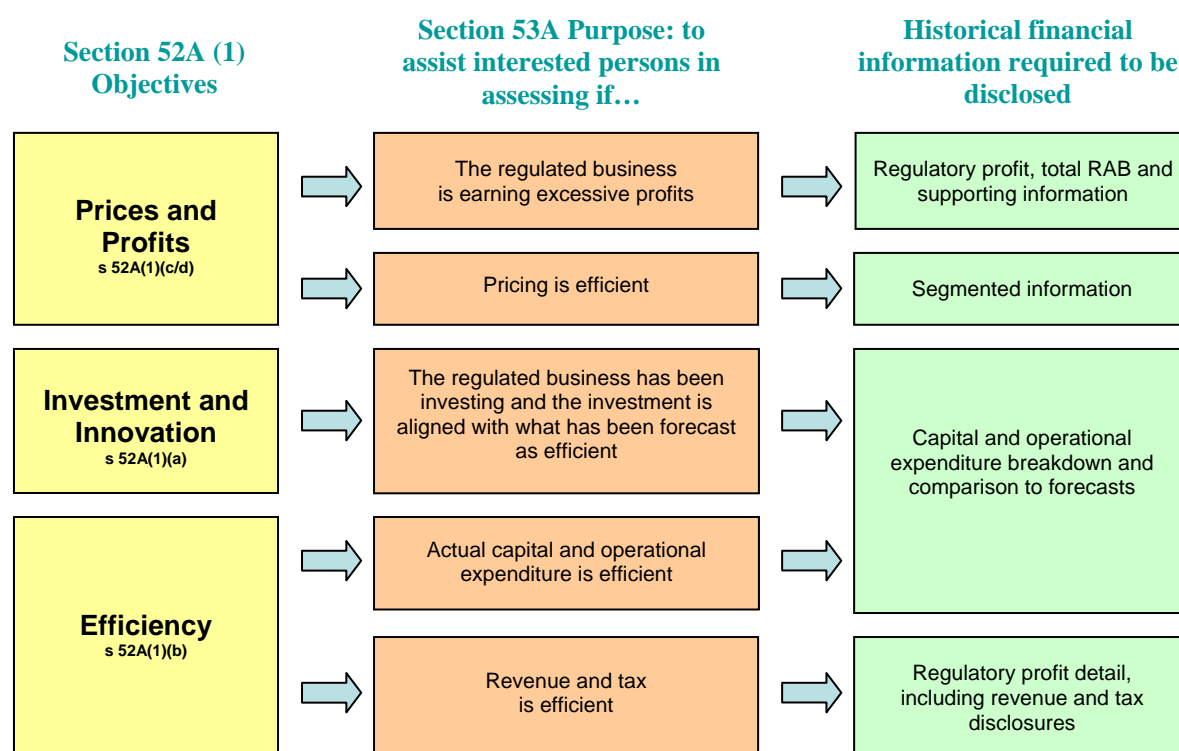
3.5 The concept of FCM provides useful guidance in setting information disclosure requirements in respect of historical financial information, as disclosures which are consistent with the concept of FCM enable interested persons to assess the extent to which regulated supplier’s profitability levels are consistent with outcomes produced in a workably competitive market.³⁴

3.6 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 produced in a workably competitive market.

3.3 Approach

3.7 Figure 3.1 outlines the Commission’s approach to the disclosure of historical financial information.

Figure 3.1 Approach to historical financial information disclosure



³³ Financial capital maintenance (constant purchasing power) is the concept that profit is earned only if the value of the net assets (financial capital) in real terms at the end of the period exceeds its value at the beginning of the period, after excluding any distributions to, and contributions from, owners.

³⁴ 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.

- 3.8 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.
- 3.9 The approach to the preparation of financial information is dependent on its 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 Practice’ (GAAP), a term that is defined in the Financial Reporting Act 1993.
- 3.10 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 rules 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.
- 3.11 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, for the purposes of regulatory reporting GAAP should be the starting point. Submitters generally agreed with applying GAAP as the starting point but modifying it where necessary in order to promote the purposes of information disclosure.³⁵ Appendix B summarises the key departures from GAAP.
- 3.12 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 view that equity, working capital and cashflow information are not required for regulatory reporting purposes.³⁶ Airline submitters, however, considered that financing information should be disclosed.^{37, 38} Section 3.5 provides further discussion regarding the disclosure of financing information.

³⁵ 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.

³⁶ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009.

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

³⁸ While the Airports did not seek detailed disclosure of financing information, they did submit that the additional cost of longer term debts (term credit spread differences) should be disclosed. Refer to NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Uniservices, Comments on the Commerce Commission’s Approach to estimate the Cost of Capital in its Input Methodologies Draft Reasons Paper—Report for NZAA, page 28.

3.4 Input Methodologies

- 3.13 As discussed above, the purpose of statutory financial reporting (which is prepared in accordance with GAAP) and regulatory reporting are not necessarily aligned. In this context, the Act requires that the Commission determine, and that Airports apply, input methodologies.³⁹
- 3.14 The Input Methodologies required under the Act that apply to historical financial information disclosures are:
- valuation of assets, including depreciation and treatment of revaluations;
 - allocation of common costs; and
 - treatment of taxation.⁴⁰
- 3.15 Suppliers that are subject only to information disclosure regulation do not have to apply pricing methodologies or methodologies for evaluating or determining the cost of capital.⁴¹ However, while they are not required to be applied by the Airports, the Commission may use such input methodologies to monitor and analyse information.⁴²

3.5 Return on Investment

Overview

- 3.16 The return on investment (ROI) is a profitability indicator which can assist interested persons to assess whether a regulated supplier may be earning excess returns over time. The ROI measure assesses returns against asset values which are measured by the regulatory investment value (RIV).
- 3.17 The remainder of this section addresses:
- the ID Determination's requirements for calculating the ROI;
 - the purpose of and approach to ROI;
 - how the ROI rate is compared to a WACC that is determined by the cost of capital IM;
 - the approach to defining the RIV used in calculating the ROI; and
 - the treatment of revaluations, depreciation, and gains and losses on sale in calculating the ROI.

³⁹ Commerce Act 1986, s 52P(3)(c).

⁴⁰ Commerce Act 1986, s 52T(1).

⁴¹ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 5.

⁴² Commerce Act 1986, s 53F.

Determination of Return on Investment

3.18 The ID Determination requires that each Airport must disclose its ROI in accordance with two specified formulas. The regulatory investment value used in these formulas must reflect the opening RAB value as determined by the asset valuation IM 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 regulatory investment value.

3.19 The ROI is to be disclosed on a basis that is comparable to both a nominal post-tax and vanilla WACC and reported alongside the two WACC rates. The two WACC rates will be determined by the Commission on an annual basis in accordance with the cost of capital IM.⁴³

3.20 The formula for calculating the ROI that is comparable to the post-tax WACC is:⁴⁴

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

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

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

3.22 The components of the formulae are:

Regulatory Profit = Regulatory Income less operational expenses less allocated depreciation less allowance for long term credit spread less tax plus allocated revaluations

Interest Tax Shield = 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)

$$RIV = RAB_0 + \sum_{i=1}^n (p_i \times A_i)$$

⁴³ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 5.

⁴⁴ A negative sign is in front of the Interest Tax Shield. The Interest Tax Shield is discussed later in this section in paragraph 3.32.

| | | |
|---------|---|--|
| 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 |
| n | = | the number of assets added or disposed of during the year. |

Purpose of and approach to the ROI

- 3.23 The ROI is an annual profitability indicator which measures returns against asset values and can assist interested persons assess whether a regulated supplier may be earning excess returns over time. In making this assessment, 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. However, an ROI in excess of the cost of capital is, on its own, not indicative of excessive profits. Costs can vary from year to year, while short-term profits above the WACC may simply reflect superior efficiency or innovation.
- 3.24 The ROI can also assist in making assessments as to whether: efficiency gains are being shared, regulated suppliers have incentives to invest, and regulated prices involve cross subsidisation of unregulated services.
- 3.25 More fundamentally, the ROI is only an approximation of the economic returns of an investment. Meaningful economic assessment should include longer term assessments of ROI (e.g. trends in ROI or average ROI over several years). For example, an analysis of whether excessive profits are being limited or whether financial capital is being maintained would compare trends in ROI with trends in cost efficiency. By comparison, the ROI for a single year may be influenced by short term factors.
- 3.26 The Commission considered several other measures of profitability, including Return on Equity. Other measures are more limited than ROI, because they focus on the returns to particular stakeholders, such as financiers and shareholders.
- 3.27 Air NZ, however, raised a concern that when a regulated supplier can access finance at a lower rate than assumed in the cost of capital, then the supplier could be overcompensated for the cost of borrowing.⁴⁵ BARNZ submitted that the actual cost of

⁴⁵ Air NZ, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, 11 September 2009, page 11.

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.⁴⁶

- 3.28 In response to submitters' concerns, the Commission notes that the cost of capital IM enables the Commission to determine a WACC benchmark against which the Airports' profitability can be assessed.⁴⁷ This estimation is updated annually and is therefore an appropriate reflection of Airports' cost of capital. There may be instances, when Airports' cost of finance is lower or higher than is assumed in the cost of capital. This can be caused by a number of factors, some of which are not related to the provision of the regulated service.⁴⁸ These factors should not be reflected in the WACC used for regulatory purposes. In addition, 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.
- 3.29 BARNZ considered that the allocation of actual debt between regulated and unregulated activities could be done on the basis of pragmatic allocation rules.⁴⁹ 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.
- 3.30 As outlined in the IM Reasons Paper, financing information is required to determine the deductible interest in the tax calculation. 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.⁵⁰

Comparison to Cost of Capital

- 3.31 The cost of capital may be prepared on either a post-tax or a vanilla basis. Interested persons in New Zealand are more likely to be familiar with a post-tax WACC, but the Commission understands that regulators in a number of overseas jurisdictions use a vanilla WACC. Therefore, the Commission's decision, as outlined in the IM Reasons Paper, is that the Commission will determine both a post-tax and vanilla WACC.⁵¹ Accordingly, the ID Determination requires Airports to disclose ROI rates which are comparable to the Commission's post-tax WACC as well as ROI rates which are comparable to vanilla WACC.

⁴⁶ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, pages 17–18.

⁴⁷ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 6.

⁴⁸ For example the extent to which the business relies on debt compared to equity financing can affect the risk exposure of the overall business (which includes unregulated activities).

⁴⁹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 18.

⁵⁰ Further discussion on how finance costs are determined for regulatory tax is provided in Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 5.

⁵¹ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 6.

- 3.32 The difference between the two ROIs 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 is used so the deduction is comparable to the inherent adjustment within the post-tax WACC.
- 3.33 The WACC may be prepared on either a nominal or real basis. A nominal WACC, is 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 and hence will be compared to a nominal WACC.

Calculation of the Regulatory Investment Value

- 3.34 The RIV measures the capital investment which is used as the denominator in the ROI calculation. The timing of changes to the RAB, and in particular the timing of asset additions, can have a material impact on the level of capital invested in the Airport in a disclosure year. The Commission has established an RIV measure which captures the timing effect of additions to and disposal from the RAB.
- 3.35 In determining the appropriate basis for assessing the ROI, consideration must be given to the appropriate asset value on which returns are assessed. The Asset Valuation IM outlines the basis by which the RAB is rolled forward. However, consideration still needs to be given to the appropriate investment value that should be determined for the purpose of assessing returns. This is important because returns are earned over a period of time while assets values are generally specified at a point in time.
- 3.36 The airport sector consists of large and lumpy asset additions. Hence it is appropriate that key capital projects commissioned in the current year are only included in the regulatory investment value on a proportionate basis, consistent with the proportion of the year for which returns have been earned from the investment. This allows comparability of returns earned with the assets employed to earn those returns.
- 3.37 In some instances, it is not practical to make a proportional allocation of all asset additions and disposals. Therefore minor additions must be included at half of their value based on the assumption that minor assets are added equally throughout the year. A minor addition is deemed as an addition that does not meet the \$5 million threshold used for disclosing the expenditure as a commissioned project.
- 3.38 In determining the treatment of non-cash items the Commission considered the comparability of the ROI to WACC. 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 ROI denominator. To include them would be inconsistent with assessing annual returns in a manner consistent with FCM (and with NPV=0).⁵² The value of the RAB at the end of each year is a proxy for the discounted value of the future cash flows at that date (i.e. discounted using the WACC). The

⁵² For example, refer CRA, *Review of the Commerce Commission’s Intention to Declare Control of Unison*, 28 October 2005, page 112.

change in the value of the RAB from year to year is due to cash 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. This approach also ensures consistency between depreciation and asset values used in the ROI calculation.⁵³

Treatment of Revaluations and Depreciation

- 3.39 The IM Reasons Paper outlines how revaluations and depreciation are determined for the roll-forward of the RAB.⁵⁴ This subsection outlines how revaluations and depreciation are to be treated in the calculation of the ROI.
- 3.40 The ID Determination requires that revaluations and depreciation, as calculated in accordance with the asset valuation IM⁵⁵ are to be included in the disclosure of the regulatory profit in accordance with the cost allocation IM.⁵⁶
- 3.41 NZAA submitted that the treatment of revaluations when rolling forward the RAB will depend on the asset valuation IM.⁵⁷ If the roll-forward was based on indexed revaluations, it would be appropriate for revaluation gains to be included in regulatory profit. 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 are excluded from regulatory profit it would present a misleading picture of performance.⁵⁸
- 3.42 The Commission agrees that if revaluations, which are included in the RAB are excluded from regulatory profit, this would give a misleading view of performance over time as the full economic return of the Airport would not be recognised. This would be inconsistent with the concept of FCM, and therefore be of limited usefulness in assessing an Airport's profitability.⁵⁹ Revaluations and depreciation should only be included in the regulatory profit to the extent that the revaluation and depreciation relate to the regulated activity. Hence the revaluation and depreciation relating to an

⁵³ NZAA proposed an alternative approach of calculating depreciation from the day the asset was commissioned. This approach would lead to inconsistencies between depreciation and asset values used in the ROI calculation. NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 60

⁵⁴ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 4.

⁵⁵ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

⁵⁶ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 2.

⁵⁷ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 58.

⁵⁸ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 12.

⁵⁹ Commerce Commission, *Input Methodologies Discussion Paper*, 19 June 2009, pages 192–193.

asset in the unallocated RAB must be apportioned to the regulatory profit in the same ratio that was used to allocate its value to the opening RAB.

- 3.43 If and when the asset valuation IM 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 a change in asset value signals an expectation of higher (or lower) future returns. Whether such returns eventuate depends on the extent to which the change in asset value flows through into revenues.⁶⁰ Separate disclosure of any revaluation gain (or loss) allows interested persons to factor the effect of any material fluctuations into their assessments of financial performance.
- 3.44 As outlined in the IM Reasons Paper, assets will be rolled forward on an indexed historical cost basis except for land which can be periodically revalued and in the intervening years rolled forward on an indexed historical basis.⁶¹ The periodic revaluation of land establishes a potential for material fluctuations in the ROI. A practical approach to dealing with fluctuations is to address them in the Commission's annual summary and analysis.

Gains and Losses on Sale

- 3.45 The ID Determination requires that gains and losses on the sale of an asset are to be recognised and disclosed as income in the calculation of the ROI, except where an asset is sold to another regulated supplier or a related party when no gain or loss is to be recognised. For all asset disposals the cost of sale is the asset's regulatory carrying value.
- 3.46 Given that the sale of an asset used to provide specified airport services will typically occur at a price other than its regulatory carrying value and hence result in a regulatory gain or loss on sale, 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 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. Any impact on the ROI from charging a full (rather than partial) year's depreciation (in the RAB roll-forward) will be directly offset by a corresponding increase or decrease in the gain or loss on sale. The recognition of gains and losses on sale will not distort the ROI.
- 3.47 For land disposals, the Commission considered requiring Airports to reduce their RAB values by the proceeds of any such disposal, but considered this approach to problematic as is explained further in the IM Reasons Paper.⁶²

⁶⁰ 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.

⁶¹ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 4.

⁶² Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Appendix C8.

- 3.48 However, where a regulatory asset is sold to another regulated supplier⁶³, the asset base from which a return can be earned must not be affected by the price. As such, if the value of the asset is not recognised in 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. As the sale of assets between regulated suppliers is infrequent, this is unlikely to be a significant issue.
- 3.49 BARNZ raised concerns about the value of assets that are transferred between regulated and unregulated business units, which are not done on an arm's length basis.⁶⁴
- 3.50 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 at 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 address this concern the ID Determination requires that such assets are deemed to have been disposed of at their regulatory carrying value, which results in there being no gain or loss on disposal.
- 3.51 In the case of disposals of assets which were shared by the regulated and unregulated businesses the calculation of the gain or loss on sale which is attributed to the regulated business must be calculated using the allocation ratio used in allocating the opening RAB. This approach provides consistency with the ratios used to determine that disclosure year's depreciation charge on the asset, is more likely to be representative of long term usage trends, and avoids problems from using a figure based on 'final' usage ratios which may be subject to manipulation or be unrepresentative of long term usage (e.g. if an asset is partially decommissioned in advance of its being sold).
- 3.52 If an asset, which was shared, is no longer used by the Airport business, it must be reported as an asset disposal regardless of whether it is still used for unregulated activities. This approach provides consistency in the treatment of disposals regardless of the future ownership and/or use of the asset.

3.6 Regulatory Profit

- 3.53 Regulatory profit is a key component of the ROI, which is a measure of the returns earned from the supply of regulated services. For the purpose of calculating the ROI, these are assessed against the asset value. Therefore, disclosure of regulatory profit assists interested persons in the assessment of whether excess returns are being earned.
- 3.54 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. This section discusses those revenues and costs where the Commission

⁶³ Sales to other regulated suppliers includes sales to other regulated Airports as well as sales to providers of electricity line and gas pipe line services.

⁶⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 16.

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

- 3.55 The ID Determination requires Airports to report operating revenue such that revenue from leases, rentals and concessions is separately disclosed and other operating revenue earned in relation to airport activities is reported using categories that correspond to the Airport's specific charges.
- 3.56 Regulatory income comes 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 considered the characteristics of revenue and other income streams that Airports receive.
- 3.57 The Commission decided not to establish predefined generic revenue categories. This could have created reporting difficulties for Airports if the predefined categories did not correspond with the Airports' pricing structures, and for interested persons may have implied a higher level of comparability than would have been warranted. Further, the submissions from both NZAA⁶⁵ and BARNZ^{66, 67} identified problems with the predefined categories proposed in the draft Decision.⁶⁸
- 3.58 A more effective approach is to present disaggregated revenue disclosure using each Airport's own charging categories. This will avoid problems arising from having common pre-defined categories and will allow interested persons to compare the revenues which Airports received to known price lists. This approach will also be more robust should Airports introduce new charges which do not correspond to current categories.
- 3.59 In addition, this approach facilitates reconciliation to the pricing methodology disclosure, which distinguishes between revenue collected through standard pricing and individually negotiated agreements such as rental income. Further, the determination of pricing statistics as outlined in Chapter 6 is also aligned to prices.
- 3.60 BARNZ⁶⁹ and NZAA⁷⁰ specifically differed over the need for separate disclosure of income related to safety and security. As explained later in this section (paragraph

⁶⁵ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraphs 52-54.

⁶⁶ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 17.

⁶⁷ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 11.

⁶⁸ For example NZAA argues that terminal services income as per the proposed definition was too small to warrant separate disclosure, while BARNZ noted that the term had an alternative meaning for Auckland airport.

⁶⁹ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 11.

3.130–3.132) problems exist around defining the scope of safety and security for Airports, which would result in information reporting which is either of limited value and/or expensive to prepare.

- 3.61 Revenue from leases, rentals and concessions has a generally understood meaning in financial reporting and is relevant to all Airport businesses. Having this revenue disclosed in its own predefined category will aid comparability.
- 3.62 To simplify compliance, it is reasonable for Airports to combine the smaller line items under ‘Other operating revenue’. To ensure that ‘other operating revenue’ does not include larger income items it must not exceed 10% of net operating revenue. Accordingly the ID Determination allows Airports to combine the smaller line items under ‘Other operating revenue’ provided that they do not exceed 10% of net operating revenue.

Regulatory Depreciation Disclosure

- 3.63 The ID Determination requires that each Airport, in its report on the initial RAB value, must disclose the asset lives for each significant non-land asset.
- 3.64 The ID Determination also requires that in accordance with the asset valuation IM,⁷¹ Airports must prepare an annual non-standard depreciation disclosure schedule. This schedule must contain the following information in relation to assets where an Airport applies non-standard depreciation:
- the methodology that the charge is based on. This must include the new asset life, where applicable;
 - the depreciation charge for the period;
 - the year that the change to use the non-standard depreciation method was made;
 - 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.
- 3.65 The IM Determination specifies that a straight line depreciation method must be applied as the standard depreciation profile, but provides for flexibility under certain circumstances by allowing Airports to use non-standard depreciation profiles.⁷²
- 3.66 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

⁷⁰ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraphs 52–54.

⁷¹ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

⁷² Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

- methods, provided they disclose a range of information to enable interested persons to understand the approach being applied, and its impact on the RAB.⁷³
- 3.67 The IM Reasons Paper outlines how Airports may use a non-standard depreciation method.⁷⁴ Airports may also change asset lives to reflect factors such as assets becoming (or expected to become) stranded due to unforeseen technological obsolescence or changes in Airport operations making the asset redundant. The IM Determination makes provision for requiring Airports to disclose information about such changes via non-standard depreciation disclosure reports.⁷⁵
- 3.68 Regulatory depreciation is a significant component of regulatory profit and therefore a key consideration in assessing profitability. Changes in the way Airports depreciate their assets can affect the ROI measure (depending on the materiality of the asset involved). Accordingly, interested persons need to know both where standard depreciation is applied and also have information to understand the implications of applying non-standard depreciation. This will allow interested persons to make their own assessments regarding the changes adopted by the Airport. Without sufficient information for interested persons to understand the impact of non-standard, the reported ROI could become misleading.
- 3.69 To assist interested persons in interpreting each year's regulatory disclosures, the above information must be disclosed annually.

Changes Regarding Non-standard Depreciation

- 3.70 The ID Determination requires Airports to disclose the following information about changes regarding non-standard depreciation, in the disclosure year in which the change is made:
- justification for the change in depreciation approach and why it better promotes the objectives in s 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.
- 3.71 Decisions to implement non-standard depreciation must be based on empirical data. 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, 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 s 52A(1)(a)–(d).
- 3.72 The justification must be based on empirical data, such as the demand forecasts on which the depreciation charge will be based, if applicable, and must set out key assumptions underpinning the depreciation method (e.g. by expressing an asset remaining asset life in term of units of output or months to decommissioning). These

⁷³ NZAA and BARNZ, *Joint Submission on Flexible Depreciation*, 14 May 2010.

⁷⁴ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Appendices C11 and C12.

⁷⁵ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

- assumptions may be supported by reports from independent experts. 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.
- 3.73 Should an Airport subsequently change the non-standard depreciation method, it must again disclose the information described in the previous paragraph. If an Airport changes any key assumptions underpinning the non-standard depreciation method, it must disclose the amended assumptions.
- 3.74 Finally, in order for interested persons to be able to locate the above information in future periods, Airports must disclose the year in which the depreciation approach was changed, in each subsequent disclosure year's non-standard depreciation disclosure schedule.
- 3.75 The Commission's decision in relation to stranded assets as outlined in the IM 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.⁷⁶
- 3.76 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.⁷⁷
- 3.77 In the draft ID Determination, the Commission proposed that Airports should disclose information about assets that are expected to (or have) become stranded in a separate statement.⁷⁸ As any write downs for stranded assets will already be covered by the schedule disclosing changes for non-standard depreciation; there is no need for a separate statement for stranded assets. Hence the ID Determination does not include a separate statement for stranded assets. This change will simplify compliance for Airports.

Cost Allocation Disclosures

- 3.78 The IM Reasons Paper outlines how costs and asset values are to be allocated between regulated and unregulated activities.⁷⁹ The allocation of costs can have a significant impact on the reported performance of an Airport. Accordingly, an understanding of the degree to which common costs have been allocated and where that allocation has changed is required for interested persons to assess an Airport's profitability.

⁷⁶ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Appendix 12.

⁷⁷ Commerce Act 1986, s 52A(1)(a).

⁷⁸ Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination*, draft, 31 May 2010, Schedule 5b(iii).

⁷⁹ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 3.

- 3.79 For interested persons to understand how costs have been allocated, Airports must disclose each cost and asset allocator used to allocate operating costs and asset values within operating cost asset categories. This must 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.
- 3.80 The ID Determination requires that when cost or asset allocation methodologies or cost or asset value allocator metrics change, additional disclosure of operating cost line items and assets must be made in the year of change. This must 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 must also include the reasons for the change.
- 3.81 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

- 3.82 Airports can offer customers financial incentives to encourage increased uptake of Airports' services. Such incentives may be either:
- pricing incentives which are reductions in prices through discounts rebates or credits, or
 - other financial incentives which are any other arrangements where an Airport Company agrees with a customer to provide goods or services, whether to the customer or a third party, in consideration for an uptake of services.
- 3.83 The ID Determination requires Airports to disclose the value of total financial incentives incurred with separate disclosure of the value of pricing incentives.
- 3.84 NZAA submitted that the Airports should not be required to split the total value of financial incentives between pricing incentives and other financial incentives. NZAA considers that such disclosure would create problems in maintaining confidentiality which NZAA submitted was something airlines wished 'reassurance' of and for which the absence of such reassurance would 'discourage the entering into of such agreements'. Further NZAA considered that such agreements were consistent with workably competitive markets. NZAA submitted that if such information was to be disclosed that it should be only at the most aggregate level. NZAA suggested that if the

- information was to be split to two levels that it should be provided to the Commission on a confidential basis so as to maintain the airlines' confidentiality.⁸⁰
- 3.85 BARNZ disagreed with NZAA and considered that due to the differences in how pricing and non-pricing incentives worked that they should be separately disclosed. BARNZ specifically noted that pricing incentives reduces Airport's current revenue without increasing costs, while other financial incentives increased operating costs without reducing revenue.⁸¹
- 3.86 The Commission considers the concerns about confidentiality can be managed. The cross-submission from BARNZ, supported the Commission's intention to publicly disclose the information and specifically noted that the information was sufficiently aggregated that it 'amply protects commercial sensitivity'. Having the information split at a high level is likely to protect the confidentiality of the specifics of any individual contract.⁸²
- 3.87 As outlined further in Chapter 6, disclosure of pricing incentives is required to allow interested persons to reconcile forecasted revenue with actual profitability. Given the importance of disclosing financial incentives, the Commission considers that the benefits of disclosure are likely to outweigh the need to protect commercially sensitive information. However the Commission notes that it has the power to exempt disclosure of commercially sensitive information, upon application by Airports.
- 3.88 NZAA argued that it is the Airports' prerogative to reduce or cap their returns from new services by offering consumers pricing incentives.⁸³ 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.

Merger and Acquisition Expenses

- 3.89 Merger and acquisition expenses tend to be irregular, but may be substantial when they occur. The ID Determination requires that Airports disclose merger and acquisition expenses, including disclosure explaining the extent to which merger and acquisition expenses are allocated to the regulated parts of an Airport's business.
- 3.90 In reaching this position, the Commission considered the following issues:

⁸⁰ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, paragraph 44–46. Also NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 48.

⁸¹ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, pages 11-12.

⁸² For example airport timetables indicate that all regulated Airports have regular scheduled flights from at least three major airline groups (Qantas group (Jetstar and Qantas), Virgin Blue group (Pacific Blue/Polynesian Blue) and Air New Zealand), plus smaller operators (e.g. Sounds Air at Wellington). Christchurch and Auckland also have several other long haul airlines such as Emirates and Singapore Airlines. Airport websites cited 15 December 2010.

⁸³ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 48.

- 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.
- 3.91 NZAA submitted that merger and acquisition expenses should be included in the regulatory profit.⁸⁴ BARNZ, however, noted that there has been no merger and acquisition activity to date, and also considered that costs associated with takeover activities on the stock exchange should not be included in the regulatory accounts as it considered these costs to be an ownership issue.⁸⁵ Air NZ agreed there should be separate disclosure but questioned whether these expenses should be included in the regulatory accounts when they are ownership expenses.⁸⁶
- 3.92 Completed merger and acquisition expenses incurred by the regulated business must 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.

Credit Spread Differential

- 3.93 A firm with a longer term debt may pay a credit premium over what it would if the term of the debt premium had matched the term of the risk-free rate. The additional cost of the higher interest is known as the long term credit spread differential.⁸⁷
- 3.94 The ID Determination allows an Airport to recognise an allowance for the long term credit spread differential, if the Airport's debt portfolio has a weighted average original tenor greater than five years.
- 3.95 This approach recognises the costs that an Airport may occur in prudently managing its financing including matching the term of debt to the life of assets. Airports submitted that prudent firms in a working competitive market will match their debt maturities to the life of the assets.⁸⁸

⁸⁴ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 64.

⁸⁵ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 17.

⁸⁶ Air NZ, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, 11 September 2009, page 11.

⁸⁷ This term is defined within the Airports ID Determination, rather than within the IM Determination (as it is for electricity lines and gas pipeline services). This is because for Airports it affects the disclosure requirements, while for electricity lines and gas pipeline services the ID Determinations have not been updated to take account of the input methodologies.

⁸⁸ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Uniservices, Comments on the Commerce Commission's Approach to estimate the Cost of Capital in its Input Methodologies Draft Reasons Paper—Report for NZAA, page 28.

Insurance Expenses

- 3.96 The ID Determination does not require that Airports separately disclose insurance expenses.
- 3.97 Airports' insurance expenses are often reflected by the premiums paid to a third party insurer which is an ongoing operational expenditure. However, where an Airport chooses to self-insure, either partially or fully, when an insurance event occurs the Airport will incur operational expenses (e.g. to repair an asset or settle a legal claim). The extent to which different Airports choose to self-insure could lead to a lack of comparability between regulatory accounts if insurance expenses were separately disclosed.
- 3.98 Submitters did not consider this to be an issue, as none of the Airports currently self-insure to a significant extent. NZAA submitted that it considered that insurance expenses should be included in the operational expenses but it is not necessary for the expenses to be separately disclosed.⁸⁹
- 3.99 The Commission agrees that insurance is not sufficiently significant relative to total Airport operational expenditure and accordingly separate disclosure of either insurance premiums or the costs incurred from self-insurance in the operational expenses of the Regulatory Profit Statement is not required.

Levies and Rates

- 3.100 The ID Determination requires that Airports separately disclose the cost of levies and rates. Disclosure of these costs will inform interested persons about a category of costs which are outside the control of the Airports but are incurred by the Airports in providing specified services.

Categories of Operational Expenditure

- 3.101 The ID Determination requires that Airports must disclose operational expenditure using the following categories:
- corporate overheads;
 - asset maintenance; and
 - asset management and airport operations.
- 3.102 Transparency regarding the breakdown of regulatory operational expenses assists interested persons to understand the reason for movements in profitability and the ROI. This information is more useful if it is prepared in a format which is readily understood by both the Airports and other interested persons, and which allows interested persons to make comparisons of expenses across time and between Airports.

⁸⁹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 64.

- 3.103 Accordingly the Commission requires disclosure of the major operational expenditure categories in the Regulatory Profit Statement. The use of standard categories will facilitate comparisons between Airports and over time. The number of categories should be sufficient to provide interested parties with a disaggregated view, but should not be so high as to unduly increase compliance costs or the potential for misunderstanding on where costs are reported. The reporting categories should be both reasonably clearly defined and relevant to interested persons.
- 3.104 The remainder of this subsection discusses the choice of the above standard categories. The standard categories have been selected in light of submissions.⁹⁰
- 3.105 Given the asset intensive nature of the Airports and the correlation between the age of assets, capital expenditure, and asset maintenance, asset maintenance should be in a separate category.
- 3.106 The separate disclosure of corporate overheads is valuable to interested persons in their assessment of direct and indirect expenses. Corporate overheads must only reflect the indirect costs of managing the Airport, as all overhead costs that are directly associated with another expense category must be charged directly to that line item. This position is in line with an NZAA submission 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.⁹¹
- 3.107 All other operating expenses (i.e. those that are not required to be disclosed separately) should be disclosed in aggregate as asset management and airport operations.
- 3.108 NZAA considered there should be separate disclosure of regulatory compliance costs and property management.⁹² The ID Determination does not require separate disclosure of regulatory costs as these costs are not sufficiently material relative to the total Airport operational expenditure. The ID Determination does not require separate disclosure of property expenses, as Commission considers that this would not add any additional value in regard to informing movements in operational expenditure. However the Airports may choose to separately disclose regulatory costs and/or property expenses in the commentary box supporting the Report on the Regulatory Profit.
- 3.109 The Draft ID Reasons Paper presented the view that there should be a separate category for safety, security and environmental costs.⁹³ NZAA proposed removing the separate disclosure as it would be difficult to implement. NZAA was concerned that a broad

⁹⁰ For example NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 52–54.

⁹¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 89.

⁹² NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 89.

⁹³ Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination*, draft, 31 May 2010, paragraph 3.112.

- approach to airport security, safety and environmental expenditure might be adopted.⁹⁴
⁹⁵ BARNZ did not support NZAA's proposal and submitted that safety is an important service provided by Airports and therefore should be disclosed. BARNZ suggested that a narrower approach could be used to define this expenditure.⁹⁶
- 3.110 Due to the integral nature of safety and security to Airports there is considerable scope in how safety, security and environment could be defined. Adopting a narrow definition would have limited benefit as many of the tasks most often associated with airport security and safety (e.g. passenger screening and perimeter security) are performed by Aviation Security Service (AVSEC). AVSEC recovers its costs by fees levied on airlines on a per passenger basis and already publicly discloses its charges.⁹⁷
- 3.111 The use of a broader definition which included expenditure with a safety, security or environmental component would be problematic as it could extend to a high percentage of the Airports' activities (e.g. the RESA⁹⁸ component of an airfield, or runway lighting), and cost allocations would be arbitrary and difficult.
- 3.112 Given both approaches to safety, security or environmental expenditure have limitations and neither is likely to be both cost-effective and provide sufficient benefit to justify separate disclosure, the ID Determination does not require separate disclosure of safety, security or environmental expenditure.

Regulatory Tax Allowance

- 3.113 The ID Determination requires that Airports prepare and disclose a reconciliation of regulatory profit to the regulatory tax allowance, which is calculated in accordance with the Treatment of Tax provisions of the IM Determination.⁹⁹
- 3.114 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.

⁹⁴ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 52–54.

⁹⁵ Commerce Commission, *Information Disclosure for Specified Airport Services Technical Working Session—Session Notes*, 13 September 2010, item 3.1.

⁹⁶ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 10.

⁹⁷ AVSEC, *Information for the Consultation on the Review of the Domestic and International Passenger Security Charges 2009*, 5 November 2009, Para 2.3 to 2.9. Link cited 15 December 2010.
<http://www.avsec.govt.nz/PageFiles/760/20091105%20Avsec%20Consultation%20Document.pdf>

⁹⁸ RESA is short for Runway End Safety Area which is a surface surrounding the runway prepared or suitable for reducing the risk of damage to airplanes in the event of an undershoot, overshoot, or excursion from the runway.

⁹⁹ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 4.

- 3.115 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.
- 3.116 The IM Reasons Paper outlines the Commission's methodology and reasons for disclosing information regarding the regulatory tax allowance in greater detail.¹⁰⁰

3.7 Regulatory Asset Base

- 3.117 This section covers the disclosure of the RAB which is the set of assets used to provide the specified airport services. Some of the assets in the RAB are dedicated to providing specified airport services, while other are used to provide both specified airport services and unregulated activities. The proportion of these assets that is used to provide specified airport services represents the RAB and is a key input into the ROI measure.
- 3.118 The IM Determination outlines how the initial RAB value is to be determined, and how it will be rolled forward.¹⁰¹ The IM Determination also outlines how assets which are shared between the regulated and unregulated parts of the business are disclosed. This section outlines the Commission's 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. For interested persons to have confidence in how the ID Determination was implemented and hence to have confidence in the value assigned to the RAB, the Airports must disclose details about how the methodologies relating to the RAB were applied including providing transparency of significant components of movements in the RAB.
- 3.120 The Commission's decisions and reasons for the disclosure of depreciation and revaluation information are outlined in paragraphs 3.63–3.77 above, while the rest of this section outlines the decisions and reasons regarding the following:
- regulatory asset base roll-forward;
 - asset classes;
 - information on the use of assets;
 - land valuation reports;
 - future development land;¹⁰²
 - works under construction;

¹⁰⁰ Commerce Commission, *Input Methodologies (Airport Services) Reasons Paper*, 22 December 2010, Chapter 5.

¹⁰¹ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

¹⁰² In this paper, "future development land" refers to land held by airports that was acquired or held to provide specified airport services.

- vested assets and capital contributions; and
- lost and found assets.

Regulatory Asset Base Roll-Forward

- 3.121 The ID Determination requires that the components of the RAB roll-forward must be disclosed with each component calculated in accordance with the asset valuation provisions of the IM Determination.¹⁰³ Disclosure is required for both the RAB and also the unallocated value of the assets in the RAB.¹⁰⁴
- 3.122 As outlined in the IM Reasons Paper the value of the RAB in any given year is determined by rolling forward the unallocated value of the assets in the RAB from previous years and allocating the relevant values to the RAB.¹⁰⁵ The RAB roll-forward includes an adjusting item which accounts for changes over time in the proportion of shared assets which is used for providing specified services.¹⁰⁶
- 3.123 The RAB is a key component in the assessments which interested persons will make to determine whether the purpose of Part 4 is being met. Hence, it is important that interested persons have sufficient information to allow them to understand how the RAB was rolled forward (e.g. the ability to reconcile opening and closing values) and to have confidence in how the asset valuation IM and cost allocation IM were applied. This will require Airports to disclose the results of the key steps in the calculation including each of the key movements in the unallocated RAB which result from the application of the asset valuation IM (e.g. revaluation of the unallocated opening RAB).
- 3.124 BARNZ supported the additional transparency provided by disclosing the unallocated values in the roll-forwards.¹⁰⁷ NZAA noted that the Airports could prepare the information required, but submitted that the additional disclosure involved a ‘more detailed process’ due to the need to undertake allocation decisions for each movement in the unallocated assets, rather performing the allocation on more aggregate values at the end of the disclosure period.¹⁰⁸ It is reasonable to expect that Airports, as large infrastructure operators, will have financial systems capable of preparing a range of financial reports and that these systems could draw on many common elements when preparing allocated and/or unallocated values for the RAB roll-forward.
- 3.125 Notwithstanding the costs which Airports may incur in preparing the RAB roll-forward, the Commission considers that there is a net benefit in having disclosure of both the allocated and unallocated components of the roll-forward.

¹⁰³ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

¹⁰⁴ The unallocated value of the assets in the RAB uses the same list of assets as the RAB (which is allocated) but unlike the later includes the proportion of the value of shared which is used for non-specified purposes. It does not include land held for future use nor works under construction.

¹⁰⁵ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 4.

¹⁰⁶ Line entry ‘adjustment resulting from cost allocation’ on Schedules 4 and 23 of the ID Determination.

¹⁰⁷ BARNZ, *Technical Drafting Feedback*, 2 December 2010, page 1.

¹⁰⁸ NZAA, *NZ Airports Association Response to Commission Request for Technical Comment Dated 26 November 2010*, 2 December 2010, pages 2–3.

Asset Classes

- 3.126 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.
- 3.127 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.
- 3.128 Accordingly, the ID Determination requires that a summarised RAB roll-forward must be disclosed for the following asset classes:
- land;
 - sealed surfaces;
 - infrastructure and buildings; and
 - vehicles, plant and equipment.

Information on the Use of Assets

- 3.129 Under the IM Determination the RAB includes assets which are used for supplying the specified services regardless of how useful the assets may be.¹⁰⁹ The matter of whether an asset is both used and useful is appropriately left for interested persons to assess based on disclosed information.¹¹⁰ To allow interested persons to make such assessments, Airports must disclose information about how the assets in the RAB are used. According the ID Determination requires disclosure of asset use by reported asset for all land and other significant assets in the initial unallocated RAB.
- 3.130 BARNZ considered that if the RAB was to contain assets regardless of their usefulness, then interested persons should be provided with sufficient information to make their own assessments of the asset's usefulness.¹¹¹
- 3.131 NZAA opposed the Commission's September 2010 proposal to disclose additional information relating to the usefulness of assets. NZAA questioned the appropriateness of allowing interested persons to assess from the disclosed information if the purpose of Part 4 is being met.¹¹²
- 3.132 The Commission considers that given the RAB includes all used assets, regardless of their usefulness, Airports must disclose sufficient information about the use of assets

¹⁰⁹ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

¹¹⁰ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 4.

¹¹¹ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, pages 2 and 24.

¹¹² NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, paragraphs 88–96.

such that interested persons can make their own assessments as to whether assets are 'useful'.

- 3.133 As many of these assets will contribute to future operations and reported costs (e.g. depreciation), providing information about these assets allows interested persons to form assessments of future profitability and efficiency.
- 3.134 The Commission also considers that the compliance costs of preparing this information should be reasonable given it only relates to land and significant assets and that the Airports can present it in a summarised form and have flexibility in how the information is aggregated. It is reasonable to expect that the Airports would maintain information on significant assets. Airports are not required to provide descriptions of how insignificant non-land assets are used. The threshold for significant assets is set at \$5 million dollars. This threshold is consistent with that used in disclosing forecasts for key capital projects and will ensure a consistent dollar value threshold is applied across all Airports. A fixed dollar threshold also provides more certainty as to what will be considered a significant asset. The alternative approach of using a threshold expressed as a percentage of the RAB had the limitation that a percentage rate which is appropriate for one Airport may fail to capture significant assets at a second Airport while capturing insignificant assets at a third Airport.

Land Valuation Reports

- 3.135 The ID Determination requires Airports to disclose recent valuation reports when the reports relates to land which is used in full or part in the provision of specified airport services. Such disclosures are to be in accordance with the IM Determination.¹¹³
- 3.136 The public disclosure of the most recent land valuation report will inform interested persons about the RAB which affects Airport's disclosed capital costs and in doing so reduce information asymmetry. Given this disclosure does not require the Airports to prepare any additional land valuation reports, the compliance costs should be minimal.
- 3.137 BARNZ proposed that the Airports should publicly disclose valuation reports.¹¹⁴
- 3.138 NZAA's response to BARNZ was that it agreed 'that valuation reports may be provided when valuations of regulated assets are undertaken'.¹¹⁵ NZAA considered that the BARNZ proposal was beyond the 'point of sufficiency' and that a high level summary should be sufficient.

¹¹³ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3 and Schedule A.

¹¹⁴ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 10, BARNZ, *Proposed Changes to Schedule 28*, letter to Commerce Commission, 16 September 2010.

¹¹⁵ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 19.

Future Development Land (“Assets Held for Future Use”)

- 3.139 The ID Determination requires that in disclosure periods prior to the earlier of the land’s commissioning or the commencement of the associated works under construction, 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.¹¹⁶
- 3.140 The Commission’s decisions and reasons on the treatment of future development land are outlined in the IM Reasons Paper.¹¹⁷ In summary, Airports must exclude future development land held from the RAB, until the construction of the associated development commences on the land. 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.
- 3.141 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.¹¹⁸

Works under Construction

- 3.142 The ID Determination requires Airports to disclose details on the roll forward of works under construction. This disclosure must show the value of capital expenditure and assets commissioned in accordance with the relevant asset valuation IM.¹¹⁹
- 3.143 GAAP requires the disclosure of works under construction which is the value of assets being constructed or assets which have been constructed but not yet commissioned. Changes in the value of works under construction, therefore, arise from 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.
- 3.144 As noted above the asset valuation IM specifically identifies when land held for future use is transferred to works under construction. The IM determination also specifies

¹¹⁶ The ID Determination requires Airports to disclose both land and non-land assets held for future use. As such assets are typically land, the discussion in this section focuses on land.

¹¹⁷ Commerce Commission, *Input Methodologies Reasons Paper for Airports*, 22 December 2010, Chapter 4 and Appendix C3.

¹¹⁸ Commerce Act 1986, s 52A(1)(a).

¹¹⁹ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

that works under construction should be transferred to the unallocated RAB when the asset is commissioned.¹²⁰

- 3.145 Consistent with GAAP, the IM Determination allows Airports to capitalise financing costs attributable to the construction of an asset.¹²¹ This will enable interested persons to assess whether Airports have incentives to improve efficiency in relation to financing costs by comparing the Airports' financing costs to estimates calculated using the regulatory WACC (as established under the cost of capital IM).
- 3.146 To ensure comparability to the forecasts of key capital projects and the RAB, both of which are allocated, as well as to the unallocated value of the assets in the RAB disclosed in the RAB roll-forward, the ID Determination requires that both unallocated and allocated values are disclosed for works under construction. For reasons of simplicity and consistency, this allocation must be calculated in a manner consistent with either the principles of the Cost Allocation IM or the assumptions used in formulating the key capital expenditure forecasts.

Vested Assets and Capital Contributions

- 3.147 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 which then takes ownership and responsibility for those assets. These may be transferred for no consideration or for partial consideration.
- 3.148 The ID Determination requires that vested assets are not to be treated as income, but rather are to be disclosed in accordance with the vested asset provisions of the asset valuation IM.¹²² A capital contribution is to be recognised such that the net amount of capital expenditure in respect of which the capital contribution is made (i.e. cost minus the capital contribution) is added to the RAB and depreciated in accordance with the capital contribution provisions of the asset valuation IM.¹²³
- 3.149 The Commission is mindful that capital contributions and the vesting of assets are not typical of transactions that are associated with Airports. However, given that the value of such transactions can be significant, it is considered appropriate to specify the approach to recognising them in the historical financial information disclosure so interested persons and Airports have certainty on how such transactions will be treated.
- 3.150 The Commission's approach to capital contributions is consistent with the treatment of vested assets and avoids the potential year on year volatility which may occur if capital

¹²⁰ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

¹²¹ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

¹²² Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Schedule A.

¹²³ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Schedule A.

contributions are treated as income. The 'net approach' will spread the impact of the capital contribution over the remaining life of the asset and is intended to be NPV equivalent to the 'income approach'.

- 3.151 In response to the Commission's draft view¹²⁴ that capital contributions payable to an Airport should be disclosed as regulatory income, NZAA¹²⁵ and BARNZ¹²⁶ suggested an amendment to the scope of what consideration should be considered as income to include a reference to situations involving the issue of equity. For the avoidance of doubt, the scope of capital contributions does not extend to financing activities, such as the issue of long term debt or equity in the Airport on commercial or arms length terms, which are undertaken on the understanding that the funds raised will be used to develop Airport assets.

Lost and Found Assets

- 3.152 Lost and found assets are deletions or additions 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 ID Determination requires that lost and found assets are reflected in the RAB, without a corresponding gain or loss being recognised in the regulatory profit in accordance with the lost and found provisions of the asset valuation IM.¹²⁷
- 3.153 The treatment of the value of lost and found assets in the 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.
- 3.154 The Commission considers that lost assets must be deemed to never 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.
- 3.155 To avoid problems which could arise from retrospective increases in the initial RAB, the IM Determination allows Airports to correct for errors in the RAB value during the 2011 disclosure year, but places a limit on corrections for lost and found assets after this correction period has passed. Corrections are allowed for lost assets which are included in the RAB after the disclosure year 2009 and for found assets commissioned after the disclosure year 2009.

¹²⁴ Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination*, draft, 31 May 2010, paragraphs 3.36–3.42.

¹²⁵ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, mark up to definition of capital contribution.

¹²⁶ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, pages 9 and 11.

¹²⁷ Commerce Commission, *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, 22 December 2010, Part 3.

3.8 Efficiency and Investment

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

3.157 The Commission considered the issue of using key performance indicators (KPIs) to report on Airports' operational expenditure efficiency. The Commission decided not to require disclosure of such ratios and considers that interested persons will have access to sufficient publicly available information to be able to perform their own KPI analysis.¹²⁸

Capital Expenditure and Analysis of Actual to Forecast Expenditure

3.158 Capital planning is built into the approach to setting the revenue requirement. This is discussed in Chapter 5.

3.159 The ID Determination requires that Airports must disclose capital expenditure for the purpose of tracking actual expenditure against forecast, as:

- capacity growth; and
- asset replacement and renewal.

3.160 Disclosure of actual capital expenditure will enable interested persons to make comparisons against the forecast capital expenditure which is built into the revenue requirement. Separating capital expenditure on new assets from capital expenditure on existing assets will help inform interested persons when making this assessment. This allocation reflects that Airports' capital expenditure consists of expenditure on new assets which is driven by capacity growth, and capital expenditure on existing assets which is a combination of replacement and renewal.

3.161 Due to the lumpy and irregular nature of Airports' capital expenditure, it can be difficult to meaningfully assess performance based on indicators from a single year, and therefore any assessment should span several years.

3.162 The Commission had previously proposed having separate disclosure of capital expenditure on security, safety and environment considerations. NZAA¹²⁹ and BARNZ¹³⁰ differed on this issue. As noted above in paragraphs 3.109 to 3.112, due to the integral nature of security, safety and environment to Airport infrastructure it is

¹²⁸ For example, the information contained in the Airports' ID disclosures and statutory financial reports.

¹²⁹ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraphs 52–54.

¹³⁰ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 13.

problematic to separate this expenditure out. Hence the ID Determination does not require this item to be separately disclosed.

- 3.163 To assist interested persons in comparing actual to forecast expenditure and to reconcile their assessment of planned efficiency with actual outcomes, there should be disclosure of the variance between actual and forecast operational and capital expenditure.

Segmentation of Financial Information

- 3.164 Segmented reporting provides information on a diversified business by activity segment. This information will be useful where there are customers who only purchase services in one segment. Segmented reporting assists interested persons understanding historical financial performance at a business segment level, and to make more informed judgements about the regulated business as a whole. Segmented reporting has been a requirement under the AAA.
- 3.165 The ID Determination requires that Airports prepare segmented reports which disclose information using activity segments which align with the specified airport activities.
- 3.166 NZAA submitted that the segmented reporting under the AAA had not been particularly useful for the assessment of performance.¹³¹ 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 some airlines prefer to have airfield and terminal services bundled into a single passenger charge.
- 3.167 BARNZ, on the other hand, submitted that separate disclosure of the segments is integral for interested persons to meaningfully assess Airports’ performance providing specified airport services, and whether the purpose of Part 4 is being met.¹³² BARNZ disagreed with NZAA that segmented reporting has not been particularly useful, and submitted that all information should be provided separately for each segment.¹³³
- 3.168 Following the Airports workshop on 17 and 18 February 2010, NZAA submitted that it had given further consideration to the appropriate level of cost allocation, and considered it reasonable for information disclosure to show the costs of each specified service.¹³⁴ NZAA did question how disclosure at the level of activities will assist in meeting the purpose of information disclosure. NZAA submitted 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

¹³¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 95.

¹³² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 65.

¹³³ BARNZ, *Cross Submission by BARNZ on NZ Airports Submission with respect to the Commission’s Information Disclosure Discussion Document*, 2 November 2009, page 4.

¹³⁴ NZAA, *Airports Input Methodologies Post-Workshop Submission*, 8 March 2010, page 45.

specified airport services would often be misleading.¹³⁵ 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.¹³⁶

- 3.169 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. As outlined in Chapter 6, segmented disclosures allow 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.
- 3.170 The Commission considered the issue of including an ‘eliminations/transfers’ column in the Report on Segmented Regulatory Profit.¹³⁷ However, the correct implementation of the cost allocation IM and the reporting of revenue in accordance with the ID Determination will eliminate the need for this column.¹³⁸
- 3.171 BARNZ also proposed that the RAB roll forward should be disaggregated to the segment level. BARNZ considered that this would give transparency of asset transfers between segments and capital expenditure by segment.¹³⁹ Requiring separate reporting of transfers at a segmental level would result in ‘transactions’ occurring at the segmental level when there is no transaction reported in the unallocated RAB used for the roll forward. This would create additional compliance costs and problems with reconciliation of the segmental reporting to the regulated business reports.

3.9 Other Disclosures

- 3.172 This section covers additional information disclosures which will support the historical financial disclosures by providing transparency between regulatory disclosures and the whole entity. This includes disclosure of a consolidation statement, and also related party transactions.

¹³⁵ NZAA, *Airports Input Methodologies Post-Workshop Submission*, 8 March 2010, page 48.

¹³⁶ BARNZ, *Post Workshop Submission on Commerce Commission Input Methodologies (Airport Services) Emerging Views Paper*, 8 March 2010.

¹³⁷ The eliminations/transfer column is often used when consolidating entities to remove inter-company transactions. This is done in contexts, which do not have a methodology such as the Cost Allocation IM to address such transactions.

¹³⁸ This is because for any line item the sum of the values for segmented businesses should by definition equal the value of the regulated airport business.

¹³⁹ BARNZ, *Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 3, topic 3.

Consolidation Statement

- 3.173 The ID Determination requires that Airports prepare a consolidation statement that must be publicly disclosed on an annual basis. In order to provide sufficient information for interested persons, the ID Determination requires that the consolidation statement includes:
- 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.
- 3.174 Under s 53D of the Act where a regulated supplier provides goods or services that are not subject to regulation under Part 4, the Commission may 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 s 53C) may be required to be disclosed in accordance with the provisions in s 53D(3).
- 3.175 Submissions from NZAA and BARNZ differed on the need for consolidation statements as proposed by the Commission.
- 3.176 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.¹⁴⁰ NZAA considered that audit certification verifying that regulated financial information has been properly extracted should be sufficient. NZAA noted that the full Airport financial results which are made available in the annual reports are audited.
- 3.177 NZAA also submitted that the Commission has not established that the reconciliation between regulated and non-regulated activities is required for the purpose allowed under the Act. NZAA noted that s 53D of the Act states that a determination may require the disclosure of consolidation information only to the extent necessary to monitor compliance with information disclosure regulation; and submitted that a consolidation statement would not provide additional help to monitor compliance given the extensive existence of certifications, declarations and auditing requirements.¹⁴¹
- 3.178 In questioning the cost-benefit of consolidation statements, NZAA placed emphasis on ‘the extent of the additional records that will be required to maintain regulatory and

¹⁴⁰ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraphs 47–51.

¹⁴¹ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraphs 47–51.

- GAAP records for the specified airport services'.¹⁴² NZAA also submitted that consolidation statements would confuse non-expert interested persons.¹⁴³
- 3.179 BARNZ and Air NZ agreed that reconciliation between regulatory and statutory reporting should be publicly disclosed. BARNZ supported retaining the consolidated statement submitting that this helped interested persons understand the differences between the regulatory and statutory accounts, and monitor compliance with the disclosure requirements.¹⁴⁴
- 3.180 The Commission acknowledges that certificates, declarations and audit reports can provide some assurance to interested persons that disclosures are compliant, but considers that analysis of the consolidation statement can provide additional assurance. This additional analysis enables interested persons to compare the regulatory accounts to the statutory accounts and to use the findings of this analysis to form their own assessments of the reliability of the accounts. In particular, the statement can make transparent how much of the difference between the regulatory and statutory accounts is due to differences between NZ GAAP and the regulatory accounting practices, and how much is attributable to the non-regulated activities included in the statutory accounts. An understanding of how these differences are accounted for will help interested persons form an assessment of whether the regulatory accounts are meaningful and comply with the ID Determination's requirements. Consolidation statements can also demonstrate the reliability of regulatory accounts and their suitability for monitoring purposes by allowing interested persons to undertake a meaningful assessment of the regulated part of the business relative to the whole business.
- 3.181 In response to NZAA's submission that consolidation statements would confuse non-expert interested persons, the Commission notes that interested persons will often employ staff who are familiar with financial statements and able to use the consolidation statement for the purpose of monitoring compliance with information disclosure regulation (e.g. as identified in paragraph 3.180 above) which fulfils the purpose of s 53D of the Act. Further, as discussed in Chapter 2, Part 4 is concerned with ensuring that sufficient information is readily available.
- 3.182 Airports already prepare statutory consolidated accounts and that the regulatory Consolidation Statement only requires information at an aggregated level. This and the fact that the ID Determination allows the Airports discretion in how they explain the Regulatory/GAAP adjustments should simplify the preparation of the consolidation statement. The Airports are not required to explain the variances between GAAP and regulatory approaches at the level of detail implied by NZAA.¹⁴⁵

¹⁴² NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, paragraph 42.

¹⁴³ NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, paragraph 48.

¹⁴⁴ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, pages 6 and 13.

¹⁴⁵ For example in NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, paragraph 41 NZAA refers to the complexity of reconciling depreciation

- 3.183 It is reasonable to expect that the Airports will have auditable procedures to justify the exclusion of items from the regulatory accounts. To ensure that the regulatory accounts are accurate it is reasonable to assume that the Airports' directors and regulatory auditors would both want reassurance that the regulatory accounts can be reconciled to the statutory accounts. These internal procedures should help reduce the incremental costs of preparing the regulatory consolidation statement.
- 3.184 The Commission considers that the benefits of having transparency from disclosing the regulatory consolidation statements outweigh the cost of preparing these statements.

Related Party Transactions

- 3.185 The ID Determination requires that related party transactions including transactions with the Airport and transactions between the regulated and unregulated business units of the Airport must be disclosed.
- 3.186 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. The ID Determination's approach addresses the concern as to the potential to shift profits between the regulated and unregulated aspects of an Airport's business.
- 3.187 NZAA submitted that it agreed with disclosing related party transactions in accordance with GAAP.¹⁴⁶ 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.¹⁴⁷ 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.¹⁴⁸
- 3.188 Airports undertake a mixture of regulated and unregulated activities which may be carried out by the same entity. Under GAAP,¹⁴⁹ 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 transparency regarding the potential for the shifting of value between the regulated and unregulated parts of the same business entity.

and revaluation profiles 'for thousands of assets'. Schedule 8 allows for the reconciliation to be presented in aggregate at the airport business and airport company level.

¹⁴⁶ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 65.

¹⁴⁷ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 66.

¹⁴⁸ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 65.

¹⁴⁹ New Zealand Institute of Chartered Accountants, NZIAS 24 Related Parties, clause 9.

- 3.189 Related party transactions do not include movements in the allocation of shared costs and shared assets between regulated and unregulated activities as the treatment of these matters is to be disclosed in accordance with the cost allocation IM and related disclosures.
- 3.190 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.¹⁵⁰
- 3.191 Given the importance of disclosing related party transactions, the Commission considers that the benefits of disclosure are likely to outweigh the need to protect commercially sensitive information. However the Commission notes that it has the power to exempt disclosure of commercially sensitive information, upon application by Airports.

3.10 Transitional Provisions

- 3.192 As discussed in Chapter 7, the ID 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 for 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.

Adjustments to Initial RAB

- 3.193 In implementing the ID Determination and applying the asset valuation and cost allocations IMs, valuation adjustments have to be made to Airports' existing asset registers to establish the initial RAB. The question then arises as to how much information should be provided about these adjustments. The ID Determination requires the Airports to complete the report on asset allocations for the disclosure years ended 2009 and 2010.
- 3.194 BARNZ proposed that detailed disclosures should be required "on adjustments to the 2009 disclosed asset base when setting the initial RAB".¹⁵¹ NZAA did not support this level of disclosure.¹⁵²

¹⁵⁰ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 19.

¹⁵¹ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, pages 1, 24 and 25.

¹⁵² NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, paragraph 8.

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- 3.195 Providing interested persons with some transparency as to the adjustments to the initial RAB will provide interested persons with information on the size of these adjustments. This information will provide insight into the impact of implementing each of the major components of these adjustments to the initial RAB. Schedule 24a has been constructed to provide disclosure of adjustments to the initial RAB at this level of detail (e.g. separate disclosure of excluded intangible assets). To provide a more granular level of disaggregation is likely to increase the Airports' compliance costs significantly and would in many cases involve providing information on assets which are outside of the RAB.
- 3.196 More detailed information on some aspects of the initial adjustments is provided under other provisions of the ID Determination:
- adjustments for assets held for future use and works under construction are rolled forwards under the reporting regime; and
 - Airports must disclose the valuation reports for their MVAU land valuations under other parts of the Requirements.
- 3.197 As movements in asset allocations can significantly affect assessments of economic efficiency and performance it is appropriate for there to be disclosure of those asset allocation adjustments which affect the initial RAB and/or the ROI for the initial disclosure year. Such information will assist interested persons understand the initial RABs.
- 3.198 Accordingly the ID Determination requires the Airports to complete the report on asset allocations (Schedule 10a) for the disclosure years ended 2009 and 2010. This transitional requirement is in addition to the ongoing requirement to complete this report for each disclosure year.

CHAPTER 4: QUALITY AND STATISTICS

4.1 Introduction

4.1 This chapter sets out the reasons for the Commission's 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 approach taken to developing disclosure requirements for quality;
- the reasons for prescribing the specific quality indicators of passenger satisfaction in Schedule 14, capacity and utilisation in Schedules 12 and 13, reliability in Schedule 12, and operational improvement processes in Schedule 15 of the ID Determination; and
- the reasons for prescribing the statistics requirements in Schedule 16 of the ID Determination.

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.¹⁵³

4.3 Underlying any assessment of quality is the consideration of trade-offs that exist 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 given the cost and price.

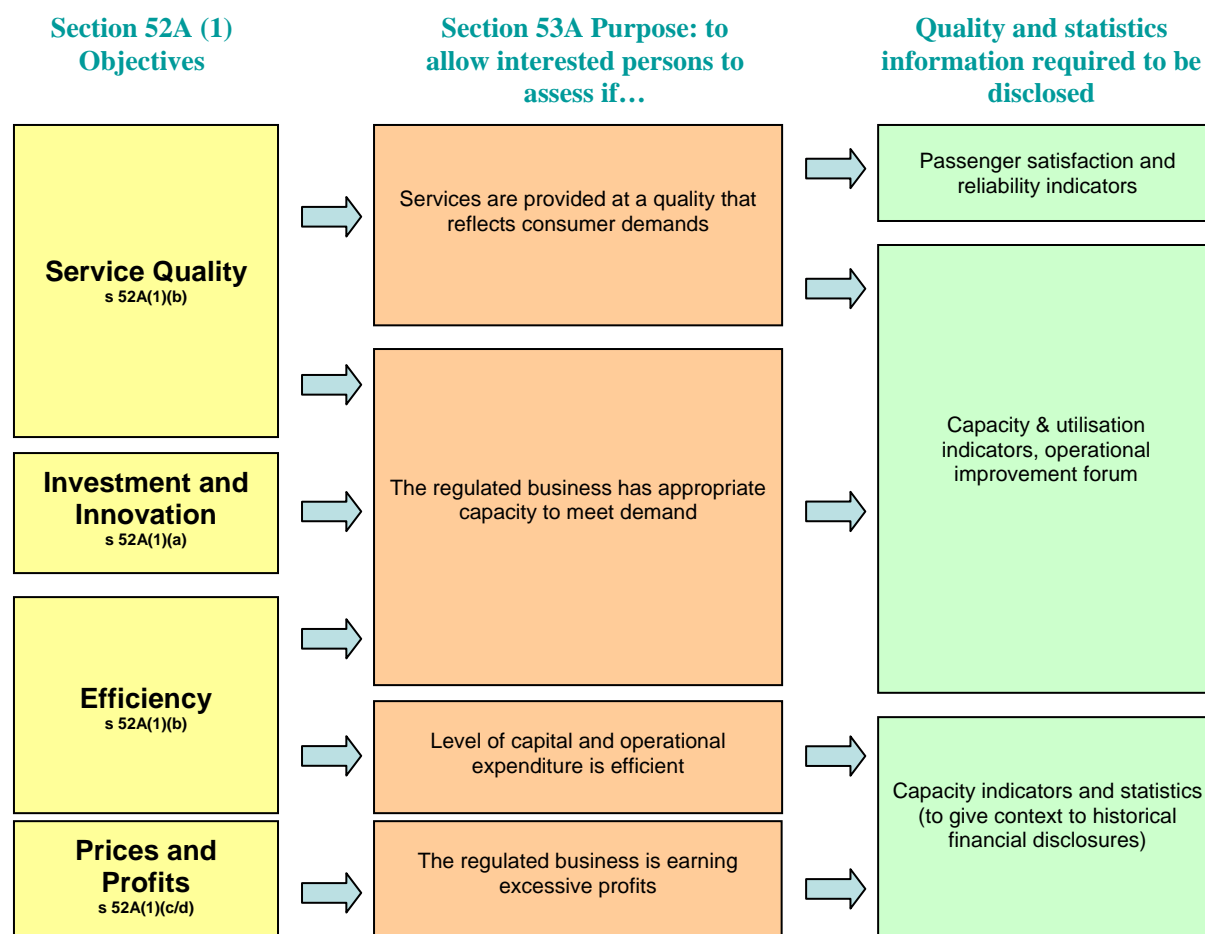
4.3 Approach

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.¹⁵⁴ Figure 4.1 is a diagrammatic overview of the relationship between the indicators described in this chapter and the four objectives.

¹⁵³ Commerce Act 1986, s 53C(2)(i).

¹⁵⁴ 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 4.1 Information and purpose — quality and statistics disclosures



4.5 The quality information disclosure requirements focus on those aspects of the 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 an approximation to the overall quality of the service or services to which it relates. Considerations when assessing indicators included:

- 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 are 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 Five categories of quality disclosure apply to Airports. These categories are:
- passenger satisfaction;
 - reliability;
 - capacity and utilisation;
 - operational improvement processes; and
 - statistics.
- 4.9 The categories follow recommendations contained in:
- the quality disclosure proposals in the Joint Working Document (JWD)¹⁵⁵ submitted by the airline and Airport representative organisations NZAA and BARNZ;¹⁵⁶
 - the Airbiz report, commissioned by NZAA and endorsed by AIAL, CIAL, WIAL and BARNZ, which further developed the capacity and utilisation section of the JWD and derived, from 2008/9 data, test results for each Airport for each proposed capacity and utilisation indicator;¹⁵⁷ and
 - the report prepared by the consultancy company NAS which was commissioned by the Commerce Commission to recommend a list of service quality measures for specified airport services in NZ.¹⁵⁸
- 4.10 Passenger satisfaction and reliability are indicators of the recently delivered quality of a service. The operational improvement forum disclosure provides information on remedial action taken by an Airport 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 that

¹⁵⁵ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009.

¹⁵⁶ 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 Information Disclosure Discussion Paper*, 11 September 2009, Appendix 1.

¹⁵⁷ Joint Working Group (Auckland, Wellington, Christchurch Airports and BARNZ), *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010.

¹⁵⁸ Network Advisory Services, *Regulation of Specified Airport Service: Information Disclosure—Quality Measures*, September 2009.

- contribute to assessments of whether an Airport is earning excessive profits and whether the level of capital and operational expenditure is efficient.
- 4.11 Safety is a dimension of service quality. Submitters agreed with the observation in the ID Discussion Paper that safety issues are already monitored by other industry-specific organisations.¹⁵⁹ To avoid unnecessary duplication and expense, safety has not been included in the requirements as a category of quality indicator.
- 4.12 Specified airport services relate to three activities.¹⁶⁰ Reliability indicators, capacity and utilisation indicators and the operational improvement processes all relate to airfield and specified passenger terminal activities. The passenger satisfaction indicators relate solely to specified passenger terminal activities. Statistics disclosures relate to all three activities.¹⁶¹
- 4.13 Submissions agreed with the proposal that quality be disclosed by passenger satisfaction, reliability, and capacity and utilisation indicators.¹⁶² These three categories were originally proposed in the JWD and have been supported in subsequent submissions made by NZAA, BARNZ and Air NZ.¹⁶³
- 4.14 The disclosure requirements enable commentary information to be disclosed alongside the indicators. Text boxes provided in the relevant Schedules allow Airports to provide contextual disclosures that help interested persons interpret the quantitative data. The inclusion of commentary information in part responds to the concern expressed in submissions by NZAA and AIAL that interested persons must be able to understand the context of the information when interpreting quality indicators.¹⁶⁴
- 4.15 A number of interpretations of the term ‘passenger’ are used by Airports and the aviation industry. NZAA has proposed that disclosures should consider ‘passenger’ to

¹⁵⁹ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraph 791, BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, pages 29–30 and 53; Air NZ, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, 11 September 2009, p. 25.

¹⁶⁰ The three activities are airfield activities, aircraft and freight activities and specified passenger terminal activities. These are defined in Airport Authorities Act 1966, s 2(1) as ‘identified airport activities’.

¹⁶¹ 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, *Auckland Airport Cross Submission to the Commerce Commission Information Disclosure*, 2 November 2009, pages 35 and 46; WIAL, *Disclosure Financial Statements year ended 31 March 2009*, pages 25 and 31.

¹⁶² 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, paragraph 14.3.6.

¹⁶³ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 91; BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 53; Air NZ, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, 11 September 2009, page 25.

¹⁶⁴ 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.

mean persons transported by an operator of regular air passenger transport services, where ‘regular air passenger transport services’ would be defined as:¹⁶⁵

services offered by an operator consisting of four or more air transport operations for the carriage of passengers between two or more aerodromes within any consecutive 28 day period, excluding charter, non scheduled and general aviation operations.

- 4.16 BARNZ disagreed with this proposal, commenting that by limiting passengers to those carried on regular air transport passenger services the definition would not capture all passengers using terminal facilities. BARNZ submitted that it strongly considered the definition of passenger needs to capture all travellers who use the aeronautical facilities in the airport terminal and proposed that ‘passenger’ should instead be defined as:¹⁶⁶

any person carried on an aircraft, excluding:

- (a) persons that do not use the specified passenger terminal activity facilities provided at that Airport; and
- (b) crew operating the service.

- 4.17 The Part 4 purpose statement is concerned with benefits enjoyed by any consumer of Airport services, and the Commission considers that BARNZ’s proposed interpretation better reflects this purpose by capturing all travellers that use the functional components of the terminal, irrespective of the charges levied on (or on behalf of) them by Airports and airlines, and irrespective of whether the flight on which they travel is a scheduled flight.

- 4.18 Accordingly, the Determination defines ‘passenger’ as a person transported by an operator of an air passenger service, including airline staff on duty travel and passengering crew, excluding crew operating the service and excluding persons that do not pass through the passenger terminal while disembarking or embarking. To assist interested persons assess the quality of service provided to passenger-carrying flights, particularly concerning the provision of aircraft parking stands with terminal access, ‘air passenger service’ is defined to mean an air operation operated by an air operator for the carriage of passengers.

- 4.19 The ID Discussion Paper proposed that Airports disclose a target for each quality indicator. This was intended to provide interested persons with information concerning the Airport’s assessment of consumer preferences and assist in determining whether the Airport is demonstrating an appropriate approach to investment planning. Airports would set their indicator targets to be consistent with consumer requirements. The ID Discussion Paper proposed that consumer requirements, which are not necessarily expressed in terms of regulatory indicators, would be identified in a separate regulatory asset management plan as “requisite quality”.¹⁶⁷ In its submissions NZAA identified a number of potential difficulties in preparing quality targets for specified airport

¹⁶⁵ NZAA, *Review of Information Disclosure Draft Determination Definitions*, 16 September 2010.

¹⁶⁶ BARNZ, *Additional mark ups to Amendments Provided with NZ Airports Cross Submission on the Information Draft Reasons Paper 3 August 2010*, 27 September 2010, definition of passenger.

¹⁶⁷ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraphs 365–366 and table 8.

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”.¹⁶⁸ 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 targets.¹⁶⁹ 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.¹⁷⁰ In cross submission, BARNZ stated that it did not support requisite quality disclosures.¹⁷¹

- 4.20 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 disclosure of information. For this reason, the Commission has excluded from the 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.
- 4.21 The reasons for prescribing the indicators in each of the five categories of disclosure are described below.

4.4 Passenger Satisfaction

- 4.22 Passenger satisfaction is a category of quality disclosure that applies to Airports. 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 services.¹⁷² By revealing the extent to which the quality of service meets the expectations of passengers, passenger satisfaction surveys provide direct evidence on whether the regulated services are being delivered at a quality reflective of consumer demands.
- 4.23 The Determination requires that the results of quarterly surveys of departing international and domestic passengers, undertaken to identify passenger satisfaction in respect of service quality, be disclosed as set out in Schedule 14. Separate surveys of passengers departing on international flights and passengers departing on domestic flights are to be conducted in each calendar quarter.

¹⁶⁸ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, pages 44–45.

¹⁶⁹ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, paragraph 61(a).

¹⁷⁰ 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.

¹⁷¹ BARNZ, *Cross Submission by BARNZ on NZ Airports Submission with respect to the Commission’s Information Disclosure Discussion Document*, 2 November 2009, page 11.

¹⁷² 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*, page 42.

- 4.24 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.¹⁷³
- 4.25 BARNZ submitted that other surveys should be prescribed to canvas the views of other consumers.¹⁷⁴ However, 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. 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.
- 4.26 In their perceptions of quality, passengers might not distinguish 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 contain overlap. 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

- 4.27 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.¹⁷⁵ 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.¹⁷⁶ AIAL, CIAL and WIAL each subscribe to the programme, regarding it as an effective management tool for assessing shifts in service quality.¹⁷⁷ The survey is used for regulatory purposes in overseas jurisdictions. The Commission considers that the ACI ASQ survey will

¹⁷³ 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.

¹⁷⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 59.

¹⁷⁵ Airports Council International, *Annual Report 2009*, page 2.

¹⁷⁶ Airports Council International, *Annual Report 2009*, page 10.

¹⁷⁷ 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.¹⁷⁸

4.28 All submissions proposed that the following survey topics from the quarterly ACI ASQ survey be used as indicators of passenger satisfaction:¹⁷⁹

- 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.

4.29 Most of these survey topics are concerned with outcomes that result unambiguously from the provision of regulated services. The exceptions are terminal ambience and ease of making connections; these perceptions may be affected not only by some of the unregulated services provided by the Airport but also by the many service providers occupying the terminal. However, the integration of retail offerings with terminal operations is an important part of Airport operations. The responses to the proposed survey topics provide effective indicators of passenger satisfaction with specified airport services.

4.30 Other topics included 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.

¹⁷⁸ 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 Australian Competition & Consumer Commission, *Airport Quality of Service Monitoring Guideline—Statement of Reasons*, October 2008, page 10.

¹⁷⁹ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 2.

- 4.31 The provision of facilities and services for the operation of security and police services is defined as a specified passenger terminal activity.¹⁸⁰ All services supplied by the Airports in markets directly related to this activity therefore come under the meaning of specified airport services. The quality of these facilities and services, to the extent that they affect passengers inside the terminal, will be reflected in feelings of safety and security.¹⁸¹ To assist interested persons make an appropriate assessment of the price-quality trade-off regarding terminal security, the ‘feeling of being safe and secure’ has been included as a survey topic.
- 4.32 In response to the proposal that Airports disclose survey results to questions concerning waiting times at the passport, security and check-in facilities, NZAA submitted that these requirements should not be included in the Determination as waiting times are normally outside the control of the airport and they reflect the policies of the airline or agency that provides the service. Specifically, NZAA noted that security operations depend on the provision of facilities and the rostering of staff by Avsec and may vary with regulatory changes; passport control depends on Customs providing facilities/rostering staff and vary for inbound passengers by flight and passenger origin; and check-in waiting times depend on airlines and handling agents providing facilities/rostering staff and vary according to the business model that an airline adopts.¹⁸² In cross submission, BARNZ considered that survey results to these questions should be disclosed and suggested that the Schedule 14 template contain a note concerning the Airport’s control over these measures.¹⁸³
- 4.33 It is indeed likely that responses to these survey questions will reflect the outcome of services that are not fully within the control of the Airport. However, passengers are concerned with queuing times and these are not the only specified airport services for which the outcome will depend both on the actions of the Airport and on external influences. Such external influences may include the weather as well as the actions of air traffic control, airlines, border service and other 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.¹⁸⁴ The consumer’s reported experience of a joint service outcome can inform an interested person’s consideration of the price-quality trade-off and the extent to which the service provider can usefully affect the trade-off. Disclosure of survey responses to these three questions has therefore been included in the Determination. The Airport may provide comment in the commentary box on the extent to which the passenger rating of waiting times at passport, security and check-in are outside the Airport’s control.

¹⁸⁰ Airport Authorities Act 1966, item (a)(v) in definition of specified passenger terminal activities.

¹⁸¹ The focus here is on the quality of services related to terminal security. As noted in paragraph 4.11 the regulations are not intended to extend to the safety dimension of service quality.

¹⁸² NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 68; also NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), Schedule 15.

¹⁸³ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, pages 16.

¹⁸⁴ 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.

- 4.34 Airports are proposing to implement processes that will support the disclosure of the reliability indicators and passenger service indicators that involve joint outcomes. A programme of root cause analysis will evaluate reliability information and describe the primary cause of the interruption and the agency primarily responsible.¹⁸⁵ Airlines and Airports will 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.¹⁸⁶
- 4.35 Airport services include passenger flow design and management, facilities management and the provision of floor space.¹⁸⁷ One major outcome of these services that matters to passengers, is the time that they spend in queues. Accordingly, the waiting times at passport and visa inspection, security inspection and check-in sites are included in the list of passenger survey results to be disclosed.
- 4.36 Waiting times will 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, since 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.
- 4.37 Air NZ, BARNZ, and NZAA have each submitted that mandated use of the ACI ASQ survey may create difficulties if that service ceases to be relevant or cost effective. The Commission agrees, and passenger satisfaction disclosures may report the results of any survey programme that meets the disclosure specifications.
- 4.38 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 should be able to elect whether or not it reports separate survey results for the international and domestic terminals. The Commission considers that the services received by international and domestic passengers are sufficiently independent to require all Airports to report separate survey results for the international and domestic terminals.¹⁸⁸
- 4.39 The JWD proposed that the average score of the survey results for each question be disclosed. This score is a figure between 1 and 5, to be calculated as described in the

¹⁸⁵ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 4.

¹⁸⁶ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 4.

¹⁸⁷ 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, page 5; WIAL, *2030 The Master Plan*, January 2010, page 26; and CIAL, *Airport Master Plan—2006*, 30 July 2006, page 70.

¹⁸⁸ 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.

- requirements.¹⁸⁹ Survey results can be cut in different ways. However the average score provides 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. Disclosing the average score will provide interested persons with sufficient information to consider the trade-offs that exist between price and quality.
- 4.40 Concerning the requirement that Airports disclose the survey results for each quarter, NZAA submitted that it considered annual data to be sufficient and noted that the Determination requires annual data for all other quality and non-quality time series disclosures. NZAA also expressed concern that disclosure of quarterly results would make it necessary for Airports to qualify seasonality versus trend effects and noted that they may not have the knowledge to meaningfully do so, as in some cases the surveys have been implemented only recently.¹⁹⁰ BARNZ submitted that annual results would be too high level as they would not reveal movements that occur within the year or indicate sensitivity or reaction to improvements and disruptions. BARNZ considered that disclosing quarterly results would create no additional cost and that a presumption of transparency should apply.¹⁹¹
- 4.41 By allowing service level shifts during the year to be identified, disclosure of quarterly rather than annual results will contribute to interested persons' ability to assess the effectiveness of Airport incentives to provide services at a quality that reflects consumer demands. Surveys are inherently statistical in nature, and quarterly results will provide interested persons with additional information to assist in assessing the consistency of the responses to the questionnaires. The Commission agrees with BARNZ that the additional cost of disclosing quarterly results is likely to be insignificant. The Determination therefore requires annual disclosure of quarterly survey results.
- 4.42 The Commission will accept for disclosure results from the ACI ASQ survey, subject to the survey meeting the specifications listed in clauses 8.2–8.5 of the Determination.
- 4.43 Clause 8.5 of the Determination requires the fieldwork documentation to be publicly available at the same time as the survey results are publicly disclosed. In submissions, NZAA suggested that Schedule 14 contain an entry field for disclosing the date on which the survey fieldwork documentation was made public.¹⁹² The Commission does not consider it necessary for the date of publication to be disclosed, but notes that to be 'publicly available' the document will need to be "available for inspection, free of charge, on an Internet site that is publicly accessible at all reasonable times".¹⁹³ The

¹⁸⁹ Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination 2010*, 22 December 2010, clause 2.4(3).

¹⁹⁰ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 67; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), Schedule 15.

¹⁹¹ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 16.

¹⁹² NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), Schedule 15.

¹⁹³ Commerce Act 1986, s 52C.

Determination requires that the internet address of the site containing this documentation must be noted in the survey comments box.

4.5 Reliability

- 4.44 Reliability is a category of quality disclosure that applies to Airports. Reliability of service indicators provide information on continuity of supply. Reliability is of particular concern when passengers miss connections or airlines, passengers, and other consumers are affected by a series of consequential 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.¹⁹⁴ AIAL submitted that both airlines and passengers view airport supply interruptions very seriously.¹⁹⁵
- 4.45 If there are effective service level agreements (SLAs) in place between Airports and airlines (or between Airports and passengers), the disclosure regulation of service reliability becomes less important as price-quality trade-offs become explicit through the amount of compensation paid. BARNZ has suggested that Airports be required to disclose the number of SLAs for regulated services, the percentage of the regulated service users that these SLAs relate to, and the services that are covered by the SLAs. BARNZ considers that requiring disclosure of the existence and extent (but not the precise terms) of SLAs would “materially improve the ability of interested persons to assess whether regulated suppliers are providing services at a quality which reflects consumer demands and the extent to which Part 4 is (over time) providing incentives for regulated suppliers to provide services at a quality that reflects consumer demands.”¹⁹⁶ NZAA considers that such a requirement would go beyond the Act’s intention to ensure ‘sufficient information’ is available.¹⁹⁷
- 4.46 BARNZ notes that there are no SLAs in existence in relation to common services and assets at the Airports that apply to all airport users. The purpose of the Act in this regard is, in the Commission’s view, to ensure that Airports have incentives to provide a level of service reliability to airlines that is reflective of airline demands.
- 4.47 There is a risk that imposing a requirement to directly disclose matters concerning individual non-standard service contracts may have unintended effects on the achievement of such outcomes and possibly inhibit the development of SLAs. The suggested requirements have not been incorporated in the Determination, but further

¹⁹⁴ 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, pages 6–7.

¹⁹⁵ AIAL, *Auckland Airport Cross Submission to the Commerce Commission Information Disclosure*, 2 November 2009, paragraph 34.

¹⁹⁶ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 6.

¹⁹⁷ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 16; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), Schedule 12.

consideration will be given to this matter if future disclosures indicate that the level of service reliability is not generally reflective of airline demands.

4.48 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

4.49 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.¹⁹⁸ 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;¹⁹⁹
- 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;²⁰⁰
- the material services, which are services that can materially impact the inbound and outbound operation of aircraft and therefore passengers and freight, should be:²⁰¹
 - runway;
 - taxiway;
 - contact stand and airbridge;
 - remote stand and means of embarking or disembarking the aircraft;
 - baggage sortation system (outbound); and
 - baggage reclaim.

¹⁹⁸ Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, SR 1999/242, schedule, sections 8(1)(g) and 8(1)(h).

¹⁹⁹ 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.

²⁰⁰ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 5.

²⁰¹ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 4.

- 4.50 The interruptions disclosed under the AAA relate only to the runway, stand positions, airbridge, and outbound baggage handling services. The loss of material service indicators remain roughly consistent with previous disclosures made by Airports and contribute to a long-term data series that allows interested persons to compare results with historic performance.
- 4.51 The flow chart in Appendix C1 depicts decisions implicit in the requirements for determining which withdrawals of service are included in these disclosures.
- 4.52 NZAA has proposed that, due to the difficulty of collecting information, the scope of disclosures related to airbridges under Schedule 11's 'remote stands and means of embarkment/disembarkment' be limited to airbridges owned by the airport.²⁰² BARNZ proposed in cross submission that an explanatory note be added to Schedule 11 stating "Disclosure of interruptions should not include interruptions to any assets owned and managed by a third party, and which are not being provided on behalf of, or under contract with, the Airport".²⁰³ The Commission notes that the Act limits 'specified airport services' to services supplied by AIAL, CIAL or WIAL.²⁰⁴ The Commission considers services operated and managed by a third party that are not provided on behalf of or under contract with the Airport do not constitute specified airport services and the definition of 'interruption' in the ID Determination explicitly excludes the withdrawal of such services.
- 4.53 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.²⁰⁵ These indicators are:
- number and duration of planned interruptions to outbound baggage sortation system during the disclosure year;
 - number and duration of planned interruptions to baggage reclaim belts during the disclosure year;
 - number of hours the outbound baggage sortation system is in use during the disclosure year; and
 - number of hours the baggage reclaim belts are in use during the disclosure year.
- 4.54 As mentioned above, BARNZ has made clear in its submissions that airlines are not as concerned with planned maintenance as they are with unplanned maintenance. Planned maintenance (so long as it is not excessive) can usually either be accommodated between scheduled services or contingency plans can be implemented by the Airport and airlines such that the planned interruptions have a relatively small effect on

²⁰² NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), Schedule 12.

²⁰³ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 14.

²⁰⁴ Commerce Act 1986, s 56A.

²⁰⁵ 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'.

- passengers.²⁰⁶ This being the case, indicators concerning the number and duration of planned interruptions to the inbound and outbound baggage systems do not need to be disclosed. 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. Indicators concerning the number of hours of operation of the inbound and outbound baggage systems are therefore not required for disclosure.
- 4.55 The NAS report identified two capacity and utilisation measures used overseas concerning the number of inbound and outbound passengers on international flights that use airbridges during the year.²⁰⁷ This information is not required for disclosure. Information concerning aircraft access to and consequent use of apron stands will inform an interested person's assessment of Airport service quality. Knowledge of the total number of passengers that in consequence use an airbridge is judged to be of relatively little value to interested persons as this additional information can be masked by airline allocation processes and price-quality trade-offs made by passengers in respect of airline services.
- 4.56 A proposal was made at the Airports quality working session that the total number of aircraft movements for which an airbridge was requested but was not available be disclosed. In view of technical concerns expressed by NZAA²⁰⁸ and the other disclosures that provide information concerning airbridges this requirement is not included in the ID Determination.
- 4.57 The Commission considers that, following overseas trends, the provision of fixed electrical ground power (FEGP) units is likely to become increasingly important to airlines and other interested persons in New Zealand.²⁰⁹ NZAA submitted that this requirement be removed since FEGP is an elective service and is not available at all airports. NZAA considered FEGP to not be sufficiently important to warrant additional disclosure.²¹⁰ In cross submission, BARNZ stated that CIAL is currently discussing with airlines whether to install ground power units as part of the current terminal project and suggested that the use of ground power units is likely to become more common given the environmental benefits of reducing aviation fuel usage through auxiliary power units.²¹¹ The ID Determination requires that the availability of FEGP

²⁰⁶ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 58; BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, pages 6–7.

²⁰⁷ Network Advisory Services, *Regulation of Specified Airport Service: Information Disclosure—Quality Measures*, September 2009, table 10: List of recommended measures for specified passenger services.

²⁰⁸ NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, pages 37–38.

²⁰⁹ For example, the UK Civil Aviation Authority includes FEGP availability in the service quality regimes it applies to Heathrow and Gatwick Airports and Stansted Airport. See CAA, *Economic Regulation of Heathrow and Gatwick Airports 2008–2013*, CAA decision, 11 March 2008, page 159; CAA, *Airport Regulation: Economic Regulation of Stansted Airport 2009–2014*, CAA Decision, 13 March 2009, page 131.

²¹⁰ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 62.

²¹¹ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, pages 14–15.

be disclosed. The supply of FEGP services is expected to differ between airports and change over time. To improve the comparability of disclosures, FEGP availability is not disclosed in terms of duration but instead as the percentage of time FEGP is unavailable due to interruptions.

On-time departure delay indicator

4.58 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 a scheduled service, otherwise operating on-time, 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.

4.59 The introduction of an on-time departure delay indicator ensures that losses of services that affect airlines and passengers are recorded without Airports having to necessarily monitor the availability of a prohibitively large range of services.²¹²

4.60 For this indicator to be compiled and disclosed, airlines will need to ensure flight and departure delay information is made available to the Airports. NZAA stated in cross submissions that:²¹³

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.

4.61 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:²¹⁴

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.

4.62 At the 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 Airports and the airlines will need to establish and maintain the necessary information flows to support these disclosures.

4.63 BARNZ has submitted that delays be categorised by duration, suggesting that four time bands be applied: 30 mins or less, between 30 mins and 60 mins, between one hour and

²¹² This point has been made by NZAA and BARNZ. Refer BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 58.

²¹³ NZAA, *Cross Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 62.

²¹⁴ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 6.

- two hours and greater than two hours.²¹⁵ In cross submission, NZAA commented that this proposal was not raised in the industry forum, and noted that the same logic could be applied to any interruption.²¹⁶ The ID Determination does not require disclosure of delays by duration. Disclosure of both the number of on-time departure delays and the total duration of such delays should provide interested persons with sufficient information to make a first-order assessment of the cost of departure delays and does not require that on-time departure delays be categorised by duration.
- 4.64 Submitting parties have noted that departure times can be expressed in two main ways, the terminal departure time and the lift-off time. Variation between these two times arises mainly as a result of taxiway and runway congestion. BARNZ has proposed that departure times be defined in respect of terminal departure times and has noted that this would be in accordance with a reference it provided to an overseas definition of on-time delays.²¹⁷
- 4.65 Although it may do so in the future, runway and taxiway congestion do not contribute significantly to flight delays at present. The processes to be developed by airports for establishing which party is responsible for each on-time delay will require involvement of both airports and airlines, and defining departure delays in terms of terminal departure times may expedite the development of these processes by providing consistency with current reporting practices. For this reason, and also to assist interested persons make international comparisons, the Determination defines on-time departure delay in terms of the terminal departure time. Attendees at the Technical Working Session considered that information would be available from airlines to assist with the preparation of these disclosures.
- 4.66 The reliability indicators proposed in the JWD are designed to quantify the reliability of specified airport services from the perspective of aircraft operations.²¹⁸ 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 will contribute to the integrity of the results. BARNZ has stated that planned interruptions to material services have had only a limited impact on airlines. If airlines are indeed affected in a minor way by planned interruptions then this is likely to be true for passengers as well, and planned withdrawals of a specified airport service should not be considered to constitute an interruption.

²¹⁵ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 19.

²¹⁶ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 34.

²¹⁷ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, pages 12 and 14; BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, Attachment: draft determination (Microsoft Word mark-ups); NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, definitions of arrival time and departure time; NZAA, *Review of Information Disclosure Draft Determination Definitions*, 16 September 2010.

²¹⁸ Material services relate to facilities whose unavailability can materially impact the inbound and outbound operation of aircraft. Departure delays relate to scheduled aircraft operations.

- 4.67 The JWD described root cause analysis processes that would be developed to analyse the cause of all interruptions to material services and all interruptions to specified airport services that have resulted in an on-time departure delay.²¹⁹ The processes would describe, where possible, the primary cause of the loss of service and who was responsible.²²⁰ In cross submission, 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.²²¹
- 4.68 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. Accordingly unplanned losses of material services and on-time departure delays are to be disclosed according to the party primarily responsible:
- the Airport;
 - airlines or other parties; or
 - undetermined reasons.
- 4.69 NZAA highlighted concerns of consistency in the way the supply quality of joint outcomes are treated in the ID Determination:²²²
- disclosures concerning interruptions, whereby services operated and managed by a third party that are not provided on behalf of or under contract with the airport do not constitute specified airport services and so are not disclosed, and
 - the reliability indicators, where disclosure of passenger survey results for which consumer satisfaction with the quality of a joint outcome (waiting times) must be disclosed.
- 4.70 The Commission does not consider these approaches to be inconsistent. As in the AAA, specified material services are given special importance in the ID Determination, and the withdrawal of these services under specified conditions is classed as an interruption. The total number and duration of interruptions is disclosed, categorised by party primarily responsible. The categorisation into party responsible is effectively an assessment of joint contributory outcomes. A service that is diminished by its withdrawal is more clearly defined than a queue waiting time perceived by a passenger.

²¹⁹ Not all specified services are material services.

²²⁰ 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, pages 55–56; NZAA, *Submission by NZ Airports Association on the 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.

²²¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 56.

²²² NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 16.

The withdrawal of a service that is not supplied by AIAL, CIAL or WIAL but is otherwise identical to a specified material service is not disclosed by the loss of material service indicators, irrespective of the party primarily responsible.

4.71 Following the JWD proposal, the Determination requires the disclosure of reliability indicators in respect of:

- on-time departure delays that are primarily due to a specified airport service being unavailable; and
- any interruption to material services;

in the form set out in Schedule 12 of the ID Determination.

4.72 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 processes the Airport has put in place for undertaking any operational improvement in respect of reliability.

4.73 The flow chart in Appendix C1 depicts decisions implicit in the requirements for determining which withdrawals of service are included in these disclosures.

4.6 Capacity and Utilisation

4.74 Capacity and utilisation is a category of quality disclosure that applies to Airports. 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.

4.75 NZAA and BARNZ proposed in the JWD, that indicators of the capacity and utilisation of various functional components of the Airport be disclosed.²²³ In its submissions, BARNZ described the purpose of capacity and utilisation indicators as follows:

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

²²³ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, pages 7–12.

relevant to whether services are being provided at a quality that reflects consumer demands (s52A(1)(b)).²²⁴

- 4.76 The Airbiz report considered the capacity and utilisation indicators proposal contained in the JWD in greater detail, and made particular reference to the following:²²⁵
- 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.
- 4.77 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.²²⁶

Functional Components

- 4.78 The JWD proposed that capacity and utilisation indicators be disclosed for 15 “functional components” of the Airport operations with an additional, composite component of the passenger terminal also proposed. The Airbiz report subsequently recommended subdividing one of the functional components and omitting another, with the total number remaining at 15. The Airbiz report contains no recommendations concerning utilisation indicators for the composite passenger terminal.
- 4.79 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.
- 4.80 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 passenger survey disclosures can be reasonably expected to identify these constraints.
- 4.81 The functional components, as proposed in the Airbiz report are:²²⁷

²²⁴ 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.

²²⁵ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010.

²²⁶ NZAA and BARNZ, Covering letter to Commerce Commission, 18 May 2010.

²²⁷ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Airbiz letter, 9 July 2010, schedule 1(5)–(6).

- airfield;
- apron; and
- the following 13 functional components within the terminal:
 - landside circulation outbound;
 - check-in;
 - passport control outbound;
 - security screening;
 - airside circulation outbound;
 - departure lounges;
 - airside circulation inbound;
 - landside circulation inbound;²²⁸
 - passport control inbound;
 - baggage reclaim;
 - biosecurity screening & inspection & Customs secondary inspection;
 - arrivals concourse; and
 - baggage outbound, including the (non-public) baggage makeup area.

Busy hour and busy day

4.82 Capacity constraints can become a problem when demand consistently approaches maximum capacity. It can be appropriate for a service to be briefly constrained during times of peak demand. If the cost of occasional congestion 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.

4.83 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.²²⁹

4.84 Clearly, 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

²²⁸ Following a subsequent proposal that landside circulation inbound be removed from the list of functional components, Airbiz confirmed at the Technical Working Session that there exists an identifiable landside circulation area at Wellington airport providing landside passageway for both inbound and outbound passengers and recommended that 50% of this passageway floor space constitute 'landside circulation inbound'

²²⁹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 47.

capacity and utilisation. For example, as was stated by BARNZ, the duration of periods of high demand can also be important:

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.²³⁰

- 4.85 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.²³¹ Airbiz also considered it important that the selected hour be consistently ranked within the top 100 busiest hours in the year.²³²
- 4.86 At the 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. 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 the ID Determination has adopted as busy hour and busy day definitions the derivation methodologies recommended in the Airbiz report.
- 4.87 Following the end of each disclosure year, the Airports should identify the busy hours and (if applicable) busy days relevant to each functional component.²³³ The utilisation indicator reflects the use of the facility during this busy period. Passenger busy hours apply to the functional components of the passenger terminal and runway busy hours apply to the other two functional components.
- 4.88 At the technical workshop Airbiz noted and NZAA agreed that due to the significant number of passengers bypassing domestic security screening, including passengers on domestic turboprop flights, a passenger busy hour that is assessed in respect of passengers on outbound domestic aircraft should not be applied to the domestic security screening functional component.²³⁴ The Determination requires passenger busy hours to be determined in respect of the following passenger categories:
- passengers on outbound international aircraft;
 - passengers on inbound international aircraft;

²³⁰ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 62 footnote 57.

²³¹ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, page 6.

²³² Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, pages 15, 38 and 51.

²³³ Busy days apply only to the disclosure of 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.

²³⁴ NZAA, *Review of Information Disclosure Draft Determination Definitions*, 16 September 2010.

- passengers on outbound domestic aircraft;
 - passengers on outbound domestic aircraft that require security screening of passengers;
 - passengers on inbound domestic aircraft;
 - passengers on outbound aircraft;²³⁵ and
 - passengers on inbound aircraft.²³⁵
- 4.89 The Determination defines passenger busy hours in terms of the terminal arrival time or terminal departure time of the flight, as the case may be. Runway busy hours are defined in terms of the runway arrival and departure times.

Capacity Indicators

- 4.90 The Airbiz report identified the functional components available at each Airport and reviewed the capacity indicator metrics proposed in the JWD.
- 4.91 Under the proposal, the capacities of the airfield are reported in the following way.²³⁶
- 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).²³⁷
- 4.92 The relevant runway and taxiway indicators 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 apron capacity is described in terms of the total number of parking stands provided for each category of air passenger service flight.²³⁸ Parties have proposed that the stand types be labelled 'contact stand-airbridge', 'contact stand-walking' and 'remote

²³⁵ The last two passenger categories, 'passengers on outbound aircraft' and 'passengers on inbound aircraft', apply only to airports that have one or more functional components that are used as a combined facility by passengers on international and domestic inbound aircraft.

²³⁶ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, pages 18, 41 and 54 (airfield description tables).

²³⁷ 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.

²³⁸ The feasibility of identifying the aircraft stands used by specific categories of air passenger service aircraft was demonstrated in Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, pages 19, 42 and 55 (apron stands summary tables). Also see NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Airbiz letter, 9 July 2010, schedule 13(1).

- stand-bus'.²³⁹ The ID Determination has adopted these terms as they reflect standard industry usage.
- 4.93 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 and outbound passport control, baggage reclaim, and Customs & Ministry of Agriculture and Forestry screening of inbound 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.
- 4.94 Parties have subsequently proposed that baggage reclaim and baggage outbound capacity be expressed only in bags per hour rather than passengers per hour.²⁴⁰ Bags per hour is the more accurate and consistent indicator of baggage processing capacity. For comparability, the utilisation indicator should also be expressed in the same units. The passengers per busy hour and the bags per busy hour disclosures will provide interested persons with sufficient information to convert the disclosed capacity into passenger per hour terms if needed.
- 4.95 The list of capacity indicators proposed in the Airbiz report is reflected in the requirements set out in Schedule 13 of the ID Determination.

Utilisation

- 4.96 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 disclosure year, and that the utilisation indicators for the apron should relate to the number of aircraft movements on the runway during the busy day.²⁴¹ The reporting of busy day runway movements enables the stand utilisation

²³⁹ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), Schedule 13; also see BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, pages 19–20, 21; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 35.

²⁴⁰ NZAA, *Review of Information Disclosure Draft Determination Definitions*, 16 September 2010; BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 14; BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, Attachment: draft determination (Microsoft Word mark-ups).

²⁴¹ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, pages 32, 47 and 58 (runway and apron utilisation tables).

- (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.
- 4.97 BARNZ has proposed that in addition to disclosing busy day utilisation indicators for the apron, busy hour utilisation indicators also be disclosed, as this would indicate the degree to which capacity during the busy hour is being consumed by different aircraft types.²⁴² In cross submission, NZAA stated that “Airbiz has advised that whilst it is confident that the breakdown of aircraft categories appearing in the busy day will be representative and consistent year on year, it does not believe that the breakdown of aircraft categories appearing in the 30th busy hour will be representative or consistent year on year. This is because the 30th busy hour will not necessarily be at the same time of the day year on year.”²⁴³
- 4.98 Volatility in apron usage patterns during hourly periods of high use would significantly limit the value of requiring disclosure of the categories of aircraft using the apron during a single identified hour. The ID Determination therefore does not require disclosure of busy hour utilisation indicators for the apron. Other measures could be developed to provide a more consistent indicator and these may be considered this at a later time.
- 4.99 NZAA indicated in cross submission that disclosure of stand use for each category may be impractical as aircraft movement data from Airways Corporation does not record the stand allocated to each flight, and proposed that instead total runway movements and an average ‘per stand’ figure be disclosed.²⁴⁴ At the technical workshop attendees agreed that contributing information can be sourced from airport/airlines allocation records, but noted that the stand allocation processes from which this information is derived will not pick up all stand usage (including parking spaces leased or reserved for military flights).
- 4.100 Disclosure of busy day stand access is important as it will contribute to an understanding of future investment requirements and the extent to which airports are able to meet the needs of passengers and air operators during periods of high demand. Schedule 12 contains four aircraft categories for the disclosure of busy day aircraft movements. Of these, three categories relate to air passenger service flights with the fourth category consisting of all other flights using airport apron stands. Passenger flights that take place within New Zealand and which do not land at any other airport (e.g., scenic flights) do not constitute domestic flights under the definition of ‘domestic’ and so would be included, along with non-passenger flights, in the ‘Other’ category. Also included in the ‘Other’ category are flights which do not carry passengers, such as general aviation flights, airline repositioning flights and flights

²⁴² BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 20.

²⁴³ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 36.

²⁴⁴ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions).

- undertaken for maintenance purposes. Because complete stand usage information for aircraft movements in the 'Other' category cannot be extracted from the airport/airlines allocation records and since these movements do not require stands with passenger terminal access, these movements are not disclosed by stand type.
- 4.101 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 requires the identification of four separate busy hours.²⁴⁵ For CIAL and WIAL, where some of the functional areas are shared by international and domestic passengers, six busy hours must be identified.²⁴⁶ The number of busy hour passengers in each functional area of the terminal is able to be approximated by the number of international and/or domestic passengers arriving at or departing from the Airport during the busy hour of the functional area.
- 4.102 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:
- domestic transfer and transit passengers who do not use the baggage reclaim facilities and do not pass through check-in; and
 - international transit and transfer passengers who, when inbound, pass only through the inbound airside circulation facilities and, when outbound, by-pass passport control outbound, passing only through the outbound airside circulation facilities, the departure lounges, and the security screening facilities reserved for transfer and transit passengers.
- 4.103 Following the Airbiz proposal endorsed by all submitting parties, there is limited benefit in distinguishing between inbound and outbound transit and transfer passengers and between busy hours for transit and transfer passengers and for other passengers. Airbiz noted and other parties acknowledged that the transit and transfer passenger numbers used by airports for their busy hour capacity utilisation calculations may be estimates and proposed that these be labelled as such.²⁴⁷
- 4.104 The Commission considered whether the total number of passengers in passenger terminal functional areas during a total terminal busy hour would provide an indication to interested persons of the adequacy with which the terminal building is able to cope with passenger traffic congestion. Airbiz noted that volumes of inbound and outbound passengers each move through the terminal as a wave, and although the separate flows can be used effectively to assess utilisation of individual functional areas, Airbiz considered that the aggregate flow cannot be applied to the whole terminal. The Commission accepts this view, and Schedule 13 disclosure requirements in respect of the total passenger functional areas providing facilities and service directly for

²⁴⁵ 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.

²⁴⁶ 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.

²⁴⁷ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Airbiz letter, 9 July 2010, schedule 1 (3).

passengers are limited to disclosure of total floor space and the number of working baggage trolleys.

- 4.105 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 2009.²⁴⁸ 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. Because the definition of passenger in the Determination is concerned with travellers using the terminal, irrespective of whether they pay a fare, Airways provides an alternative source of domestic information (Airways records the number of people on board rather than paying passengers).²⁴⁹ 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.
- 4.106 Parties proposed in submissions that, for each functional component of the passenger terminal, the throughput of passengers during the busy hour be disclosed as a ratio (passengers per 100m²) rather than as a headcount.²⁵⁰ Separately disclosing the numerator and denominator of the capacity utilisation ratios, however, improves clarity and assists interested persons to identify trends. On the other hand, disclosing the derived capacity utilisation ratios can make the information more readily available and may make it easier for airports to provide commentary. The Schedule 13 disclosures require disclosure of passenger throughput by headcount in respect of each functional component, and cells for displaying the calculated capacity utilisation ratios have also been included.
- 4.107 The NAS report considered measures of service quality used for regulatory purposes 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

- 4.108 Passenger seating areas are specifically listed in statute as a specified passenger terminal activity.²⁵¹ The provision of seating is important for passenger comfort. NZAA has submitted that disclosing the number of departure lounge seats is no longer meaningful as a 'call to gate policy' will encourage passengers to remain in the centralised food, beverage and retail areas, with seating provided in the food and beverage areas rather than in departure lounges. NZAA considered that the passenger

²⁴⁸ Airbiz Aviation Strategies, *Capacity and Utilisation Measures Study, Final Report*, 14 May 2010, page 12.

²⁴⁹ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 17.

²⁵⁰ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Airbiz letter, 9 July 2010, schedule 14(2); NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), schedule 14; BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 15.

²⁵¹ Airport Authorities Act 1966, definition of 'specified passenger terminal activities', sub clause item (a)(i).

survey provides a better indicator of whether passengers' seating needs are being met.²⁵² BARNZ disagreed, commenting that the number of available seats is one of the most tangible measures for many passengers.²⁵³

- 4.109 Passenger choice is important, and disclosing the number of seats available to passengers in the departure lounges will allow interested persons to assess seat availability in the busy hour when demand may be at its highest. Disclosure of seat numbers 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 ID Determination requires that number of seats available for passenger use in the departure lounges be disclosed.

Baggage trolleys

- 4.110 BARNZ's submissions reflected the recommendation in the NAS report that the number of baggage carts and trolleys for passenger use be disclosed, and BARNZ commented that the availability of baggage trolleys is another tangible measure for many passengers.²⁵⁴ NZAA submitted that the number of baggage cards and passengers is not meaningful, and considered that the passenger survey provides a better indicator of whether passengers' trolley needs are being met.²⁵⁵
- 4.111 The availability of trolleys is important to passengers, and, although there is no requirement to determine and disclose the number of passengers in the total passenger terminal during a corresponding total passenger terminal busy hour, disclosure would allow the number of trolleys per passenger per year to be assessed and any change in the number of trolleys available to be identified. While an imperfect indicator (particularly since trolleys may not be where they are needed), this disclosure provides a cost-effective way to supplement the general results of the passenger satisfaction survey question on trolley availability. Because the survey questionnaires are given only to outbound passengers, the survey is relatively weak on the perceived availability of trolleys for inbound passengers. The cost of disclosing the number of baggage carts and trolleys is likely to be relatively low and disclosed figures will allow interested persons to make comparison with service provision at overseas airports.²⁵⁶ Accordingly, the ID Determination requires that the number of baggage carts and trolleys available for passenger use be disclosed.

²⁵² NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 66.

²⁵³ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 15.

²⁵⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 54; BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 16.

²⁵⁵ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 66; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), Schedule 14.

²⁵⁶ For example, the ACCC monitors and publishes the number of working accessible baggage trolleys as at 30 June at Adelaide, Brisbane, Melbourne, Perth and Sydney airports. See Australian Competition & Consumer Commission, *Airport monitoring report 2008–09: Price, financial performance and quality of service monitoring*, March 2010, table A2.2.3.

Flight information display screens and information points

- 4.112 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.²⁵⁷
- 4.113 However, the quality of flight information display screens and information points is already 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. The ID Determination does not require display screen and information point numbers to be disclosed.

Other Indicators

- 4.114 In submissions BARNZ proposed the following capacity and utilisation indicators to supplement the passenger satisfaction indicators on washrooms:²⁵⁸
- the number of toilets; and
 - the range of bacteria counts in random samples of surfaces within the washroom.
- 4.115 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.
- 4.116 The Determination requires indicators of capacity and utilisation to be disclosed for each functional component of the Airport in the form set out in Schedule 13.

4.7 Associated Statistics

- 4.117 Airports are required to provide statistics disclosures as these disclosures provide interested persons with information on non-financial inputs and outputs for the disclosure year. This information 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, and provides context and scale to the performance indicators to assist meaningful comparisons to be made between suppliers.

²⁵⁷ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 54.

²⁵⁸ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 54.

Aircraft Statistics

- 4.118 Statistical information contained in the AAA disclosures previously made by the Airports included the number of landings at the Airport each year for each type of aircraft. These were set out in tables grouped according to the type of flight, viz. whether the aircraft was on a scheduled international flight, a scheduled domestic flight of three tonnes or more, a scheduled domestic flight of less than three tonnes or on another flight.²⁵⁹
- 4.119 BARNZ proposed that a similar approach be taken to the Part 4 disclosures, but suggested that these be extended to include disclosure of the weight (expressed as the maximum certificated take-off weight, MCTOW) of the aircraft,²⁶⁰ with landings of aircraft of less than 3 tonnes MCTOW reported in aggregate rather than by aircraft model.²⁶¹ Since the number of flights and the weight of the larger (greater than 3 tonne) aircraft using the airport are among the fundamental drivers of airfield costs and revenues, disclosure of this information is relevant to interested persons wishing to assess whether the purpose of Part 4 is met.
- 4.120 NZAA accepted BARNZ's suggestion and proposed that the least frequent 20% of aircraft in each weight category should be reported in aggregate.²⁶² BARNZ, in cross submission, pointed out that in practice this might result in as few as two or three aircraft types being disclosed and noted even with a threshold of less than 20%, aircraft types such as the A380 that are responsible for significant airport investment might become bundled into an others category.²⁶³ Attendees at the Technical Working Session considered that that the information requirements could be disclosed to within the specific model of aircraft type e.g., 777-300, but not to sub-type level e.g., 777-300 ER without resulting in excessively long disclosure lists.
- 4.121 To enable interested persons to distinguish the service requirements of general aviation operations (less than 3 tonnes MCTOW), domestic turboprop aircraft (3 tonnes or more but less than 30 tonnes MCTOW), and domestic jet aircraft (30 tonnes MCTOW or more), BARNZ proposed that the aircraft statistics disclosures be split into three weight categories.²⁶⁴ In cross-submission NZAA agreed with this proposal and the suggested

²⁵⁹ Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, SR 1999/242, schedule, clause 8(1)(c)–(f). WIAL further subdivided the number of scheduled landings of domestic flights into aircraft between 3 and 30 tonnes MCTOW (propeller aircraft) and aircraft greater than 30 tonnes MCTOW (jets).

²⁶⁰ 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 Discussion Document*, 2 November 2009, page 11.

²⁶¹ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, pages 20–21.

²⁶² NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 69; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 36; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), schedule 15.

²⁶³ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, pages 16–17, Appendix 1.

²⁶⁴ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 11 and 20.

breakpoints, commenting that with a MCTOW of 2.994 tonnes the Britten Norman Islander is the only sub three tonne aircraft that is normally considered to be a commercial turboprop aircraft.²⁶⁵ The Commission considers that splitting the domestic aircraft statistics into separate tables at the 30 tonnes MCTOW breakpoint will improve the readability of large tables and provide subtotals which reflect the number of domestic turboprop and the number of domestic jet aircraft using the airport.

- 4.122 As noted in paragraph 4.18, the term ‘air passenger service flights’ is used in the ID Determination to describe flights that involve the use of the passenger terminal facilities. To assist interested persons assess aircraft statistics in respect of passenger terminal activities, the aircraft statistics requirements in the ID Determination categorise flights according to whether they are air passenger service flights or not.
- 4.123 Despite the changes to better reflect the purpose of Part 4, the aircraft statistics disclosure requirements under the ID Determination remain sufficiently similar to the AAA disclosure requirements for specified airport companies to provide continuity and assist interested persons to identify longer term trends.

Terminal Access

- 4.124 Disclosure of annual stand usage, categorised by whether the stand serves international or domestic flights and the form of the passenger access way between the terminal and the stand (airbridge, walking, and bussing), will contribute to interested persons’ ability to identify the extent to which services are being provided at a quality that is reflective of consumer demands and to assess capital investment requirements.
- 4.125 NZAA proposed that the Determination not include this requirement and submitted that disclosure may be impractical:²⁶⁶
- “Aircraft movement data comes from Airways Corporation and does not record the stand allocated. Stand allocation is highly tactical on an operational basis and is not recorded electronically on a continuous basis. Further the domestic stand allocation is sometimes managed by the airlines rather than the airports. For example at Auckland all Air New Zealand domestic operations are self managed by Air New Zealand. At Wellington Air New Zealand manages gate allocation for international and domestic services. NZ Airports would expect that new systems and processes would be required to collect this data and do not believe it is sufficiently insightful to warrant disclosure.”
- 4.126 In cross submission, BARNZ agreed that a range of allocation processes occur but stated that it understood some airports already collect information on means of accessing the terminal for international aircraft and that Auckland Airport records this information as part of its Terminal Service Charge Agreement. BARNZ noted that during the 2009 financial year at Auckland airport, of the 19,723 ‘actual international landings’, 106 were ‘bussed landings’. BARNZ considered this type of information to

²⁶⁵ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, pages 22 and 36; NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), schedule 15.

²⁶⁶ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 37; NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 7.

be relevant to interested persons' ability to assess airport quality and investment requirements, and stated that:²⁶⁷

“The means of accessing the terminal is an important statistic for measuring whether services are being provided at a quality that reflects consumer demands. The number and frequency of likely bus operations once A380 aircraft commenced operations at Auckland Airport was the primary reason the international airlines requested that AIAL construct Pier B, which would have two A380 capable gates, and therefore significantly reduce the number of bussing operations at the international terminal.”

- 4.127 BARNZ indicated that international operations and domestic jet operations are the main users of airbridges when available,²⁶⁸ and consumers of international and domestic jet operations are the more markedly impacted by remote operations.²⁶⁹ BARNZ also indicated that turboprop operations in New Zealand very rarely use airbridges²⁷⁰ and virtually always use walking contact stands.²⁷¹
- 4.128 Data collection feasibility was subsequently raised at the technical workshop and, while noting that use of the services may be a result of an airline decision rather than airport capacity, attendees considered that disclosure of stand allocation for all air passenger service flights during the disclosure year should be feasible.
- 4.129 NZAA has subsequently expressed the view that the total number of movements by stand type is not a meaningful statistic, it provides no useful information, and relevant capacity information is disclosed in the Schedule 12 busy day disclosures. NZAA recommended that to eliminate unnecessary and to some extent duplicate information, this information should not be disclosed.²⁷² BARNZ has proposed that, to reduce the cost of data collection, that annual stand usage disclosures be limited to usage by international aircraft and domestic jet aircraft.²⁷³
- 4.130 In addition to stand availability and the stand allocation processes that have been implemented, use of each type of stand will depend on the mix of air passenger service aircraft at the airport and the price/quality tradeoffs made by individual airlines. For the following reasons, the Commission has implemented BARNZ's proposal to limit annual domestic stand use disclosure to jet aircraft:
- annual usage disclosures can contribute to interested persons' assessment of the consumer benefits of a service;

²⁶⁷ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, pages 17–18.

²⁶⁸ BARNZ, *Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 7.

²⁶⁹ BARNZ, *Cross Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 17–18.

²⁷⁰ BARNZ, *Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 7

²⁷¹ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 21.

²⁷² NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 17.

²⁷³ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 21; BARNZ, *Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 7.

- NZAA's expressed concerns regarding the costs of implementing disclosure of the total number of movements by stand type;
 - segregation of domestic jet flight movement from turboprop movement data will assist interested persons interpret the terminal access disclosures since contact-airbridge stands are not realistically available to turboprop aircraft; and
 - the greater concern expressed by BARNZ in regard to the impact of stand assignments on domestic jet flights compared to turboprop flights.
- 4.131 Accordingly, Schedule 16b of the ID Determination requires that the number of domestic jet and the number of international air passenger service aircraft movements during the disclosure year be categorised by the main form of passenger access to and from the terminal, being contact stand-airbridge; contact stand-walking; and remote stand-bus.

Passenger Statistics

- 4.132 Total passenger volumes are a main driver of airport costs and revenues and are of relevance to interested persons. The number of passengers arriving and departing provides contextual information concerning service requirements in different areas of the passenger terminal. To avoid double counting, the number of transit and transfer passengers can also be important, as these passengers are counted as both inbound and outbound passengers, yet use the terminal facilities only once.
- 4.133 Submitting parties noted that there is no readily available source of reliable data on the number of domestic transfer and transit passengers that pass annually through each airport.²⁷⁴ An estimated number of domestic transfer and transit passengers is used in the passenger terminal capacity and utilisation disclosures to assess the congestion of some functional components during the busy hour, however parties agree that an estimated annual figure would not provide a meaningful statistic.
- 4.134 At the technical workshop submitting parties agreed that international transit and transfer figures are available for Airports that contain a security area for international transit and transfer passengers (although it is possible this figure may, in part, be estimated).²⁷⁵ At present, Auckland is the only Airport that has such facilities in place.
- 4.135 Accordingly, the ID Determination requires that the annual numbers of inbound and outbound domestic and international passengers be disclosed, along with the number of international transit and transfer figures at those Airports that contain a security area for such passengers. This disclosure requirement for inbound and outbound passenger numbers is similar to the reporting conventions that were used by the Airports to disclose passenger numbers under the AAA regulations except for AIAL which in its

²⁷⁴ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Airbiz letter, 9 July 2010, schedule 16 (1); BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 21; BARNZ, *Cross-Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 18; NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 37.

²⁷⁵ Following Airbiz comment in NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, Attachment: Airbiz letter, 9 July 2010, schedule 1(3).

past disclosures reported the number of ‘international arrivals’ and ‘international departures’ net of transit and transfer passengers.²⁷⁶

Airline Statistics

4.136 Some Airports actively pursue new airline consumers. This activity is reflected in regulated operating costs and can provide a valuable service to passengers if, by increasing competition between airlines, it lowers air fares. To allow interested persons to make a price-quality assessment of this activity, the ID Determination requires Airports to disclose the names of the commercial carriers that made (substantial) use of the Airport during the disclosure year.

Human Resource Statistics

4.137 BARNZ proposed that the following statistics relating to the supply of services be disclosed and disaggregated by segmented activity:²⁷⁷

- total human resource costs; and
- number of full time equivalent employees (FTEs).

4.138 Under the AAA regulations, specified airport companies are required to disclose both FTE employee numbers and remuneration payable to employees by segmented activity.²⁷⁸ BARNZ commented that it has found tracking FTEs per passenger separately within airfield activities and specified passenger terminal activities over the past ten years to be a useful litmus test of efficiency improvements and that these disclosures provided a transparent indicator of the degree of change in allocation methodologies.²⁷⁹ In cross submission NZAA noted that some FTEs are common to all three activities and observed that allocators will be available from the Schedule 10 disclosures.²⁸⁰ BARNZ, in its cross submission, considered that very little additional work would be involved for airports to prepare cost disclosures by segmented activity as the allocations will have been undertaken to prepare the Schedule 5 and 10 disclosures.²⁸¹

4.139 Both the human resource costs and the average number of full time equivalent employees throughout the disclosure year should be disclosed as they will assist in

²⁷⁶ For example see AIAL, Identified Airport Activities Disclosure Financial Statements for the year ended 30 June 2010, page 50.

²⁷⁷ 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 Discussion Document*, 2 November 2009, page 11.

²⁷⁸ Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, SR 1999/242, schedule, s 6(1)(a) and s 8(1)(i).

²⁷⁹ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 21.

²⁸⁰ NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 37; NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), schedule 16.

²⁸¹ BARNZ, *Cross-Submission on Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 18.

assessing efficiency and provide continuity of data to assist interested persons compare average remuneration costs with comparable jobs in a workably competitive market. Disclosure of the FTEs for each segmented activity will assist interested persons to assess the efficiency improvements for each activity. Accordingly, Schedule 16(f) requires disclosure of FTEs by segmented activity. There is no requirement for other components of the operating costs to be reported by segmented activity and it is unlikely that disclosure both of human resource costs and FTE by segmented activity would significantly enhance the ability of interested persons to assess the efficiency improvements for each activity.

Freight Statistics

4.140 Freight volumes contribute to airport performance and are a potential driver of Airport growth.

4.141 BARNZ and NZAA have both expressed concern regarding the availability of domestic freight information for disclosure.²⁸² 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.²⁸³

4.142 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.²⁸⁴

4.143 NZAA has also advised that airports would require new information feeds from airlines to verify international freight volumes.²⁸⁵ The Commission notes however that

²⁸² NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 93.

²⁸³ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 64.

²⁸⁴ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 93; NZAA, *Cross-Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 2 November 2009, page 63.

interested persons can source annual figures on export and import volumes at each airport from the Statistics Department.²⁸⁶

4.144 On balance, the Commission considers that information concerning the annual volumes of domestic freight will not assist interested persons sufficiently to necessitate the cost of collecting the domestic data.²⁸⁷ 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.

Other Statistics

4.145 BARNZ proposed that the following statistics relating to the supply of services be disclosed:²⁸⁸

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).

4.146 Annual throughput of items such as seats, bags and fuel are not considered sufficiently material to the purpose of Part 4 to warrant a requirement for disclosure by the airports that levy a charge on these volumes.²⁸⁹ The revenue disclosure requirements for each disclosure year do not extend to this level of detail. Most Airport revenues from volume charges are levied directly or indirectly on aircraft type and/or weight and the number of passengers. These are annual quantities that the ID Determination requires be disclosed by each Airport.

4.147 The Determination requires that associated statistics concerning aircraft statistics, terminal access, passenger statistics, airline statistics and human resource statistics be disclosed for the disclosure year in the form set out in Schedule 16 of the ID Determination.

4.8 Operational Improvement Processes

4.148 Operational improvement processes is a category of quality disclosure that applies to Airports. In the JWD, BARNZ and NZAA proposed that Airports institute processes whereby airlines and Airports would meet regularly to:

²⁸⁵ NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, Attachment: draft templates (Microsoft Excel revisions), schedule 16.

²⁸⁶ Statistics New Zealand, Group: Overseas Cargo Statistics—OSC, Table: Total Exports by New Zealand Port (Annual-Jun), Table: Total Imports by New Zealand Port (Annual-Jun); gross weight in tonnes.

²⁸⁷ For example, airport freight projections are discussed in AIAL, *Masterplan: 2005 to 2025*, January 2006, pages 38, 53–56; and CIAL, *Airport Master Plan—2006*, 30 July 2006, pages 32–38.

²⁸⁸ 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 Discussion Document*, 2 November 2009, page 11.

²⁸⁹ For example, in the 2010 financial year AIAL's fuel line charge would have contributed less than 1½ of total regulated revenue (assuming \$0.0022 per litre and 1 billion or so litres of fuel).

- 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.²⁹⁰
- 4.149 The JWD proposed that Airports annually disclose the process that the Airport has put in place for undertaking such ‘operational improvement forums’.²⁹¹
- 4.150 Annual disclosure of the processes that the Airport has in place for undertaking operational improvement forums will provide interested persons with direct information concerning incentives to improve efficiency and provide services at a quality that reflects consumer demands. Accordingly, the Determination requires that the processes put in place by the Airport for it to meet regularly with airlines to improve the reliability and passenger satisfaction performance as reflected in the indicators, be disclosed as set out in Schedule 15.

4.9 Breaches in Respect of Quality and Statistics Disclosures

- 4.151 NZAA has submitted concerning breaches of the Determination that could occur should airlines or third parties not provide information that is needed in the preparation of Airport disclosures, particularly the quality and statistics disclosures. Specifically, NZAA has:²⁹²
- sought assurance from the Commission that the Airports will not be considered in breach of the Determination in the event information that is necessary for the Airports to comply with the Determination is not provided to the Airports;
 - proposed that a specific clause be added to the ID Determination containing a representative list of instances where Airports are deemed not to be in breach; and
 - suggested the disclosures contain details of requests that were made for the information where such information has not been provided.
- 4.152 The Commission does not anticipate that the potential for breaches will arise frequently since Airports are able to put in place processes, including contractual arrangements, which will help to ensure that they have access to requisite information for disclosure. Clause 14 of the ID Determination contains adequate provision for the Commission to provide exemption from disclosure.

²⁹⁰ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 4.

²⁹¹ NZAA and BARNZ, *Quality Service Monitoring for Specified Airport Companies (JWD)*, 24 June 2009, page 5.

²⁹² NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, pages 6–7 paragraphs 34–35, page 34 item 3.

4.10 Transitional Provisions

- 4.153 In consideration of the time that Airports will require to set up data collection and reporting processes, the following provisions are included in the Determination:
- Airports are required to disclose passenger satisfaction indicators for quarters of the disclosure year ending 2011 during which they have undertaken ACI ASQ customer satisfaction surveys. Details of less than full compliance must be noted in the comments box;
 - Airports are not required to disclose on-time departure delay indicators and the fixed electrical ground power indicator in respect of the disclosure year ending 2011; and
 - Airports are not required to identify disclosed interruptions by party responsible for the disclosure year ending 2011, but instead disclose them as occurring for undetermined reasons.
- 4.154 The Commission notes that although Airports were required to collect loss of material service data under the AAA disclosure requirements, they were not required to categorise this information by party responsible.
- 4.155 Airports have demonstrated that capacity and utilisation indicators can be successfully derived from ex post data. The Commission therefore considers that no transition provisions should be necessary in respect of capacity and utilisation indicators for the disclosure year ended 2011.

CHAPTER 5: FORECAST TOTAL REVENUE AND SUPPORTING INFORMATION

5.1 Introduction

- 5.1 This chapter provides the Commission's reasons for requirements to disclose forecast information in respect of the supply of specified airport services.
- 5.2 This chapter covers the processes which occur prior to the setting of prices, i.e. Airports' calculation of their total revenue requirements. It sets out the requirements to disclose forecast total revenue information, and additional supporting information required in planning future investments, including forecasts of capital and operational expenditure, and demand. This chapter sets out:
- the purpose of forecast information;
 - the approach to the disclosure of forecast total revenue and supporting information for specified airport services;
 - the reasons that inform these disclosures, including reasons for the requirements to disclose forecast total revenue and supporting capital and operating expenditure in Schedule 18, and supporting forecast demand information in Schedule 19;
 - how actual outcomes are to be reconciled to forecasts;
 - other issues raised in consultation and the Commission's responses; and
 - disclosure process arrangements, including the timing of forecast information disclosure and transitional provisions.

5.2 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.²⁹³
- 5.4 Disclosure of forecast information assists interested persons to assess a regulated supplier's expected and historical performance. Forecast disclosures inform assessments of whether future profits are excessive, and whether investment decisions are consistent with decisions expected to be made in workably competitive markets — for example, if suppliers are planning to meet forecast demand and quality expectations of consumers in their investment decisions.
- 5.5 The ability to assess future profitability is particularly important in the context of specified airport services as prices are typically set for periods of up to five years.²⁹⁴

²⁹³ Commerce Act 1986, s 53C(2)(g).

The revenue and expenditure requirements underlying these prices have important implications for expected profitability. Assessments by interested persons of an Airport's profitability require assessments of decisions made in the price-setting process, such as the Airport's calculation of its total revenue requirement for the pricing period and beyond.

- 5.6 Assessments of Airports' investment efficiency and quality of service delivery requires sufficient information to link proposed expenditure to investment triggers. This requires disclosures of forecast capital expenditure, operational expenditure and demand information, the rationale for these decisions in light of demand forecasts, and the way an Airport identifies and seeks to meet consumers' expectations.
- 5.7 The assessment of Airports' historical performance (see Chapter 3) is enhanced 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
 - Airports have incentives to innovate and improve efficiency in terms of investment behaviour and pricing, so as to meet price-quality trade-offs demanded by consumers.
- 5.8 This reconciliation forms part of the ID Determination for Airports information disclosure and is discussed further in paragraphs 5.40 to 5.42, below.

5.3 Approach

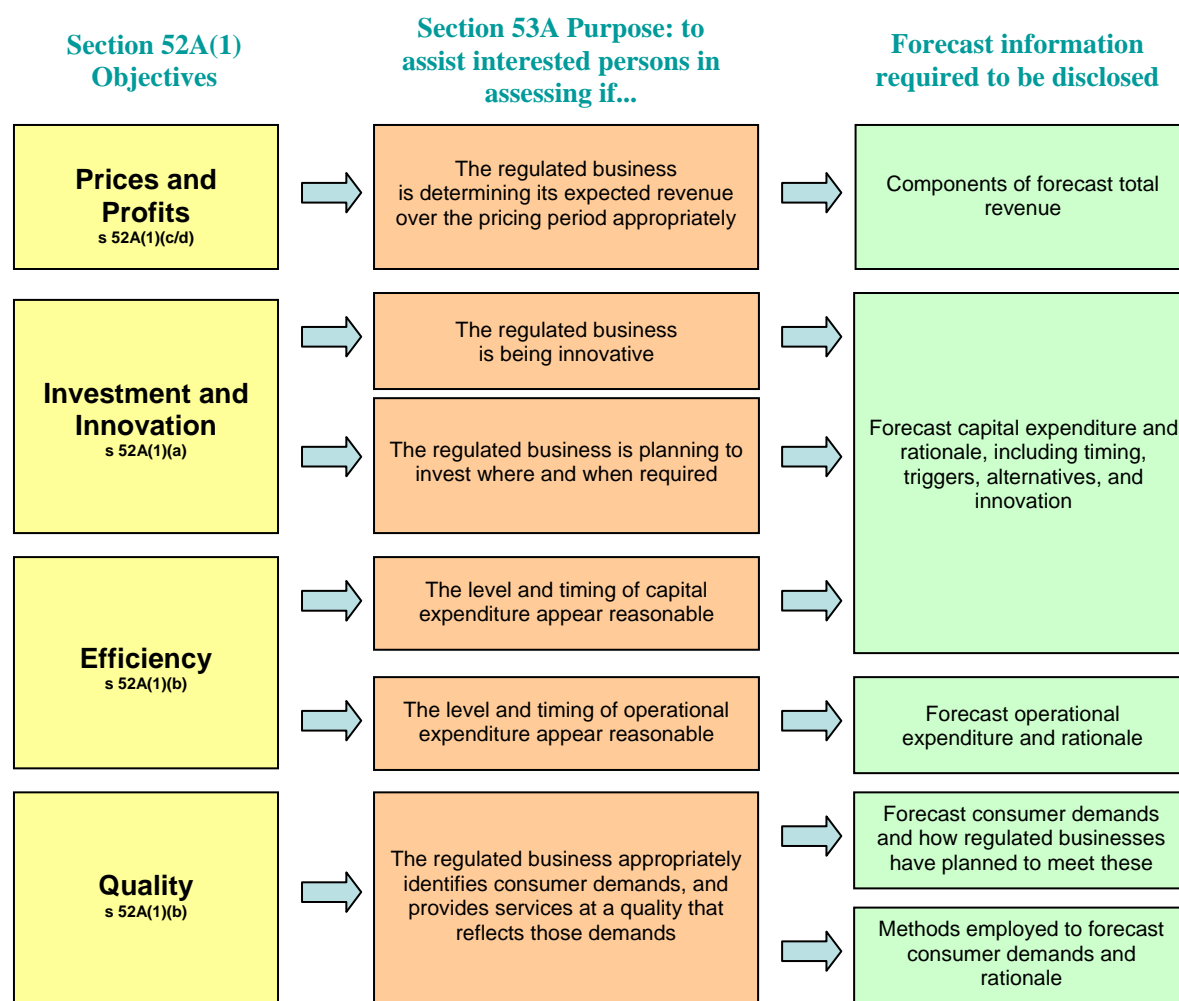
- 5.9 The ID Determination requires that Airports disclose forecast total revenue and supporting information for specified airport services. This section outlines the Commission's framework and reasons upon which the forecast information disclosure requirements are based.

Forecast information disclosure framework for Airports

- 5.10 The Determination is based on the purpose of information disclosure under s 53A. Figure 5.1 below displays the overall framework for the disclosure of forecast information for specified airport services.

²⁹⁴ Airport Authorities Act 1966, s 4B(1)(b) and s 4B(2)(b). This contrasts with consumer-owned EDBs that, like Airports, are only subject to information disclosure regulation, but unlike Airports, typically reset prices annually.

Figure 5.1 Forecast information disclosure framework for Airports



5.11 This framework links the provision of sufficient information to interested persons to the objectives of the Part 4 Purpose. Specifically, this approach is designed to assist interested persons to make *ex ante* assessments of:

- the extent to which forecast profitability is excessive (through the comparison of forecast costs to forecast revenue);
- the appropriateness of the scope and timing of capital expenditure in light of demand forecasts, consumers' willingness to pay and the quality expectations of consumers; and
- Airports' intentions to improve efficiency and to share those gains with consumers (through lower prices and/or improved quality).

5.12 Over time, this approach will assist interested persons to assess whether pricing and investment decisions are efficient.

5.13 The ID Determination balances the level of prescription with the need to allow Airports the flexibility to disclose information in a manner that mirrors their current business practice, subject to being consistent with the purpose of information disclosure. The ID

Determination requires, where possible, disclosure of information already prepared for disclosure under the AAA and made available to Airlines through the AAA price-setting consultation process. This approach should mean fewer additional costs for Airports.

5.4 Forecast Information Disclosure Requirements for Airports

5.14 This section outlines and gives the Commission's reasons for the forecast information disclosure requirements under the ID Determination.

Information required for an initial five-year forecast period: total revenue requirement

5.15 The ID Determination requires that Airports publicly disclose, for an initial five-year forecast period, the core elements used by the regulated supplier for determining the forecast total revenue requirement outlined in Table 5.1 below.

Table 5.1 Forecast total revenue requirement information

| Disclosure Category | Description |
|---|--|
| Revenue Methodology | Overview of the methodology used to determine the forecast total revenue requirement. |
| Forecast Asset Base and Forecast Value of Assets Employed | Forecast asset base that is rolled forward, and the forecast value of assets employed, how it is determined, and the extent to which it is 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 to determine 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. |
| Taxation | Forecast tax payable, including permanent and temporary differences, 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 forecast revaluations 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. |

| Disclosure Category | Description |
|---------------------|---|
| Other factors | Value(s) of any other factors considered in determining the forecast total revenue requirement, including the way in which they are factored into the forecast total revenue requirement. |

5.16 The disclosures in Table 5.1 reflect the way the Airports have previously determined their total revenue requirements, or confirmed their appropriateness in consultation under the AAA regime. While the ID Determination requires 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.

5.17 The forecast value of assets employed (which is derived from the forecast asset base),²⁹⁵ is included in the clause 2.5(1)(c) list of forecast total revenue components in the ID Determination.²⁹⁶ The forecast asset base is typically a critical component of the total revenue requirement for specified airport services. The Commission further considers that it is important that interested persons are made aware of:

- the value of the asset base from which forecast total revenue is derived;
- the proportion of total revenue the forecast asset base represents relative to other total revenue components; and
- any differences between the forecast asset base and the RAB used for historical disclosure purposes.

Comparability of total revenue information to historical disclosures

5.18 The ID Determination requires that revenue information 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 differ from the previous year’s actual disclosures of equivalent categories of information. 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.

²⁹⁵ In historical financial reporting, the RIV is equivalent to the forecast value of assets employed. Because Airports set prices as they see fit, the RIV has not been specified for the total revenue requirement disclosures for Airports.

²⁹⁶ BARNZ noted that the forecast asset base had been omitted, and should be included. See BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, pages 2 and 10. NZAA initially proposed that the requirement in Schedule 19 to disclose roll-forward calculations for the Forecast Asset base and Works Under Construction be removed, but amended this view in its cross-submission. See NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 87 and NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 19.

- 5.19 Where the information used in pricing consultation is prepared on a different basis to input methodologies, this explanation will ensure that the forecast total revenue information disclosed is comparable to historical revenue information disclosed in the regulatory profit statement outlined in Chapter 3. This will assist interested persons to make meaningful assessments of the appropriateness of prices in light of Airports' revenue forecasts.
- 5.20 The ID Determination also requires that where forecast total revenue is based on an asset value different to that used in the most recently disclosed RAB, a valuation report should be disclosed to support that different value. This provides further information with which interested persons can assess the reasonableness of the asset value upon which prices are based. The disclosure of a valuation report was supported by both Airports and Airlines.²⁹⁷

Supporting Information Used in Preparing Total Revenue Forecasts

- 5.21 The ID Determination requires the disclosure of forecast roll-forward of the starting RAB and works under construction, capital expenditure, operational expenditure, and demand forecasts for an initial five-year period following a price setting event; and forecast capital expenditure and demand forecasts for an additional five-year period.
- 5.22 Table 5.2 below sets out the ID Determination regarding the disclosure of information supporting the forecast total revenue requirement.

Table 5.2 Supporting information used in preparing revenue forecasts

| Disclosure Category | Initial five years – Requirements | Following five 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 | Forecast capital expenditure by category, including: <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 | Forecast capital expenditure by category, including: <ul style="list-style-type: none"> ▪ Overview of key capital expenditure projects, including an overview of the overall capital programme and the value of key capital projects; ▪ Overall description including objectives of proposed investments; |

²⁹⁷ In its submission following the Draft Reasons Paper, BARNZ considered that “where the asset base used for pricing differs from the RAB, the Airport should be required to disclose any valuation report which exists”. See BARNZ, *Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 10. NZAA agreed that valuation reports may be provided at the time valuations of regulated assets are undertaken (typically at least every five years). See NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 19.

| Disclosure Category | Initial five years – Requirements | Following five years – Requirements |
|-------------------------|--|--|
| | <p>projects, including:</p> <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 a description of how consumer demands were assessed and how project parameters were identified; - Overview of the process by which proposed capital expenditure was developed, including alternative options considered, and the rationale for not adopting those alternatives; and - Details of any constraints that would influence completion. | <p>and</p> <ul style="list-style-type: none"> ▪ Descriptions of how consumer demands have been assessed and incorporated into the planning of each project. |
| Operational Expenditure | Assumptions and justifications to support forecast operational expenditure disclosed as part of the revenue methodology. | Not required. |
| Demand | Demand forecasts used in the calculation of the total revenue requirement. ²⁹⁸ This includes at least annual and busy hour forecasts of international and domestic passenger arrivals and departures, international transit and transfer passengers (as applicable), 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. |

5.23 The disclosure requirements in Table 5.2 above are designed to assist interested persons to assess the relationship between Airports’ medium- and longer-term demand and expenditure forecasts, and both current and forecast pricing arrangements, in order to assess whether the objectives of the Part 4 Purpose are being met.

²⁹⁸ This information may also be used by interested persons to assess the reasonableness of average prices as disclosed in accordance with the pricing methodology disclosure.

Forecast disclosure period

- 5.24 The ID Determination specifies a total forecast period of ten years following a price setting event. In the case of Airports, the ID Determination requires detailed disclosure for the five-year forecast period immediately following the setting of prices for specified airport services, with a lesser level of detail required for the second five-year period. This is consistent with the view that longer-term forecasts are likely to be less certain than shorter-term forecasts.²⁹⁹
- 5.25 Airports submitted that ten-year forecasts should not be required as consultation on pricing does not extend over this period,³⁰⁰ and argued that the Commission should match disclosure requirements to Airports' respective pricing periods.³⁰¹
- 5.26 Forecasts need to cover a period sufficient for interested persons to make meaningful assessments of pricing and investment behaviour, balanced with possible limitations on Airports' ability to forecast accurately and at reasonable cost. The initial five-year disclosure period reflects the extended period for which prices are typically set for specified airport services. The requirement to disclose a further five years of forecast information is designed to capture the medium-term horizon required for planning Airport developments, and to assist assessments by interested persons of medium-term issues including:
- project timing and the recovery of costs from consumers;³⁰²
 - whether pricing arrangements that extend beyond five years reflect costs;
 - the magnitude of price movements from one period to the next, and whether potential price shocks could have been reasonably foreseen; and
 - whether planned expenditure adequately reflects consumer demands.
- 5.27 A five-year initial disclosure period that is universal across all regulated Airports is likely to be more cost-effective than matching disclosures to Airports' respective pricing periods, as it would be simpler to administer and would provide greater disclosure certainty and predictability for both Airports and interested persons.
- 5.28 Airports have confirmed that forecast information (including key building block input methodologies and outputs) for at least a five-year pricing period was prepared as part of the AAA pricing consultation process.³⁰³

²⁹⁹ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, paragraph 426.

³⁰⁰ NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, paragraph 67.

³⁰¹ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraph 82; and CIAL, *Submission on Input Methodologies and Information Disclosure Draft Determination and Reasons Papers for Airport Services*, 12 July 2010, paragraph 190.6.

³⁰² i.e. when consumers of services have paid, through prices set for the forecast period, for capital expenditure programmes or projects that are realised following that period. 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 by BARNZ on NZ Airports Submission with respect to the Commission's Information Disclosure Discussion Document*, 2 November 2009, page 7.

RAB forecast disclosure

5.29 The RAB is a key input into calculations of the Required Return on Capital, Depreciation on Assets and Revaluation Gains/Losses outlined in Table 5.1. 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.

Key capital expenditure project forecast disclosure

5.30 The ID Determination requires the disclosure of forecast capital expenditure and associated information by key capital expenditure project, for a ten year forecast period.

5.31 For the purposes of forecast information disclosure the ID Determination requires that key capital expenditure projects have 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 ten year forecast period; and
- the total capital expenditure of the project is equal to or greater than \$5 million.

5.32 Disclosure of key capital expenditure projects recognises the importance of large-scale projects in an Airport's total forecast capital expenditure. It is included in the information disclosure requirements to assist interested persons to make clear links between the indicative costs of proposed projects and:

- prices set 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.

5.33 An absolute threshold using a defined level of forecast expenditure is the most cost-effective approach to the definition of key capital expenditure projects.³⁰⁴ A \$5 million threshold is likely to capture projects that would be expected to have a material impact on the revenue requirement (and pricing) for the forecast period, and assists interested

³⁰³ Commerce Commission, *Input Methodologies Airports Workshop, workshop transcript day two*, 18 February 2010, pages 64–65.

³⁰⁴ Both BARNZ and NZAA suggested an alternative requirement would be to disclose the five largest projects. The Commission considers, however, that this approach is susceptible to gaming by project splitting. See BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 8; and NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 41.

persons in making meaningful assessments of investment.³⁰⁵ Airports and Airlines agreed that a threshold of \$5 million was appropriate.³⁰⁶

Key capital expenditure projects—disclosure provisions

5.34 The ID Determination related to key capital expenditure projects requires that Airports:

- explain the basis for allocation of costs between regulated and unregulated assets for the estimated project expenditure, including the differences (if applicable) between the disclosures and the cost-allocation input methodology;
 - Interested persons would need to take account of the full costs of each project, including expected financing costs, in their assessments of the reasonableness of forecast capital expenditure;
- exclude unregulated assets;
 - This is consistent with the Part 4 Purpose to distinguish between assets providing regulated and unregulated airport services, within information disclosure,³⁰⁷ and
- include outcomes of consultations with users, and indicate the degree to which users agree with project scope, timing and cost.³⁰⁸
 - This information will enable interested persons to better understand how investment planning reflects consumer requirements, and provide further information for interested persons to assess prices set for the forecast period.

5.35 The Commission considers that a regular review of the threshold is prudent to ensure that disclosures remain meaningful for interested persons over time.³⁰⁹ This approach is consistent with the Commission's undertaking to work with Airports to resolve any implementation issues that may arise.

³⁰⁵ 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, *Input Methodologies Airports Workshop, workshop transcript day two*, 18 February 2010, page 82 lines 23–33.

³⁰⁶ Commerce Commission, *Information Disclosure for Specified Airport Services Technical Working Session—Session Notes*, 13 September 2010, item 5.2.

³⁰⁷ NZAA considered that costs associated with unregulated activities should not be disclosed in project forecasts, as they are outside the scope of the Act. See NZAA, *Cross-Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 26.

³⁰⁸ BARNZ proposed that the outcome of consultation with consumers should be included in information supporting key capital expenditure projects disclosure. See BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 4. NZAA also considered that a description of how consumer demands have been assessed by regulated Airports in relation to forecast key capital expenditure projects should be included. See NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 13.

³⁰⁹ NZAA considered that annual indexation of the threshold by CPI was appropriate. The Commission considers however that a regular review of the threshold is likely to be more cost effective than formal indexation. See NZAA, *Airports Input Methodologies Post-Workshop Submission*, 8 March 2010, page 16.

Demand forecasts

- 5.36 The ID Determination requires the disclosure of demand forecasts including capacity information, and aircraft movements divided into certain weight categories. Disclosure of demand forecasts enables interested persons to better understand Airports' decisions to invest, and the appropriateness of investment timing in relation to prices set for the forecast period.
- 5.37 The ID Determination has, where appropriate, defined terms using accepted industry terminology or the actual capacity calculations undertaken by Airports, and has adopted requirements that are relevant to actual capacity and capital expenditure decisions undertaken by Airports. Schedule 19 includes a commentary box for explanations of the basis for, and assumptions behind, forecast information that is disclosed. This provides interested persons with further information to understand the relationship between forecast demand, capital expenditure and prices.
- 5.38 NZAA considered that a requirement to disclose forecasts of aircraft under 3 tonnes MCTOW is not necessary, as the weight of small aircraft does not determine facilities required, and the effort to produce this data is not warranted.³¹⁰ The Commission however considers that that information is useful to interested persons, in order to track changes in the total number of landings over time.

Disclosure of international transit and transfer passengers

- 5.39 The ID Determination requires that forecasts of international transit and transfer passengers be disclosed, as the information would be useful to interested persons to track expenditure associated with changes in transit and transfer passenger numbers over time. The ID Determination allows a nil disclosure if this requirement is not relevant to an Airport's situation.³¹¹

Annual Reconciliation of Forecasts to Actual Outcomes

- 5.40 The ID Determination requires the annual disclosure of actual expenditure to be reconciled with forecast expenditure. This requirement is additional to other forecast information disclosures required following a price setting event, as described in Tables 5.1 and 5.2 above.
- 5.41 The Commission considers that annual reconciliations of actual outcomes against forecasts provide interested persons with a greater understanding of:
- whether Airports innovate and improve efficiency of investments;

³¹⁰ NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, 2nd reference to Schedule 20 in table: Summary of Recommended Changes to Information Disclosure Schedules.

³¹¹ Both Airports and Airlines noted that international transit and transfer passengers currently only form a significant portion of passenger volumes at Auckland Airport. See BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 23; and NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, pages 41–42.

- the reasonableness of Airports' forecasts; and
- the appropriateness of pricing, investment timing and the extent to which projects are being pre-financed.³¹²

5.42 The ID Determination provides for Airports to explain why actual expenditure has varied from forecast. It may be appropriate for actual expenditure to vary from forecast, for example where assumptions employed in the forecasts change or where new information becomes available.

5.5 Issues Raised in Consultation

5.43 This section includes the Commission's responses to particular issues raised by submitters in relation to the forecast information disclosure requirements.

NZX listing rules and associated compliance costs

5.44 Airports expressed concern that requirements to disclose forecast financial information would oblige listed Airport companies to update the markets whenever forecasts change, adding significantly to compliance costs, and that forecast information disclosure should remain confidential to the Commission.³¹³

5.45 The Commission considers that suggestions that forecast information disclosure remains confidential are inconsistent with the principle of public disclosure that is central to the purpose and effect of an information disclosure regime. This principle is discussed in Chapter 2. Public disclosure of forecast information is necessary to allow interested persons to assess whether the purpose of Part 4 is being met in relation to Airports' future profitability and investment efficiency, as discussed in paragraphs 5.4 to 5.6 above.

5.46 The Commission acknowledges that listed Airports may be required to update the market as a result of the ID Determination. However, the focus of the information disclosure regime must be on ensuring that sufficient information is readily available to interested persons, including forecast information (which is specified in s 53C (2)(g) of the Act). The Commission considers that the benefits of disclosing the information under Part 4 outweigh any costs associated with obligations to update the markets.

5.47 In principle, company ownership structure should not affect the types of information that must be disclosed under an information disclosure regime.³¹⁴ Moreover, the existence of disclosure obligations under other regimes upon regulated suppliers is not directly relevant to the ID Determination — in principle, the prospect of disclosures

³¹² 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 by BARNZ on NZ Airports Submission with respect to the Commission's Information Disclosure Discussion Document*, 2 November 2009, page 7.

³¹³ See NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraphs 83–86. See also Commerce Commission, *Input Methodologies Airports Workshop, workshop transcript day two*, 18 February 2010, page 66; and AIAL, *Submission to the Commerce Commission Input Methodologies and Information Disclosure*, 8 March 2010, paragraphs 40(e) and 41.

³¹⁴ This view was supported in BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 10.

under one regime should not prevent disclosures under another. Dr Layton commented at the February working session that interested persons should not remain uninformed (under a regulatory disclosure regime) simply because of suppliers' obligations to inform the capital markets.³¹⁵

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

5.48 NZAA asserted that the disclosure of forecast information may unduly influence the price-setting process for specified airport services.³¹⁶ BARNZ disagreed with the Airports' arguments, noting that there is no legitimate basis for this assertion as the Airports retain the ability to set prices as they see fit.³¹⁷

5.49 As noted in Chapter 2, the Commission in no way intends to directly influence the price-setting process or interfere with Airports' ability to set terms or prices as they see fit under the AAA, in the design or application of forecast information disclosure requirements. The Commission's primary focus is to design an information disclosure regime that is effective in meeting the s 53A purpose. The proposed disclosure requirements are clearly provided for in the Act.

5.6 Process Considerations

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

Timing and frequency of disclosures

5.51 The ID Determination requires that disclosure of forecast total revenue and supporting information (including a valuation report if applicable) should be made within 20 working days of a decision to set prices as part of a price setting event for specified airport services.

5.52 NZAA considered that pricing information is more appropriately released at the same time as the first set of annual disclosures following a price setting event, so it can be managed more efficiently with airport financial reporting and the release of financial information for Part 4 regulatory purposes.³¹⁸

5.53 The Commission's primary concern regarding disclosure timing is to maximise the value of disclosed information to interested persons. This is consistent with ensuring that sufficient information is readily available to interested persons. The disclosure of forecast information (including any valuation report) following a price setting event

³¹⁵ See Commerce Commission, *Input Methodologies Airports Workshop, workshop transcript day two*, 18 February 2010, page 66.

³¹⁶ NZAA, *Airports Input Methodologies Post-Workshop Submission*, 8 March 2010, paragraphs 34–36; and NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, paragraphs 10–12.

³¹⁷ BARNZ, *Submission on Commerce Commission Amended Preliminary View on Asset Planning and Forecast Information Disclosure for Airports*, 10 March 2010, page 13.

³¹⁸ NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, paragraphs 12–13.

increases the utility of the forecast information to interested persons by putting it in its appropriate context. This allows interested persons to more easily make direct comparisons between prices set and the disclosed information to assess whether the purpose of Part 4 is being met.

Pricing period starting year

5.54 The ID Determination requires that the pricing period should start from the beginning of the disclosure year in which a price change is to occur. The starting year of a pricing period may not be consecutive to the year to which a historical disclosure was most recently made. Accordingly, to assist interested persons to understand the make up of the forecast asset base, Schedule 18 of the ID Determination specifies that supporting forecast asset base information relating to any years between the latest disclosure year and the pricing period starting year, as well as the five years of the pricing period, must be disclosed.

Definition of price setting event

5.55 The Commission has defined a price setting event within the ID Determination as the fixing or altering of price as a result of pricing consultation under the AAA for a specified airport service.³¹⁹ The definition excludes the following:

- prices reset or adjusted annually (including those adjusted through a pre-determined mechanism such as indexation, or as a result of a wash-up), without further consultation;
- prices subject to separate negotiation for inclusion in the terms of a lease or licence; and
- prices for services not required to be consulted on under the AAA.

5.56 The ID Determination also requires that disclosures under clause 2.5 must occur within five consecutive years of the previous price setting event. This is in accordance with the provisions of the AAA that require Airports to consult on prices at least once every five years, and was agreed to by attendees at the technical working session.³²⁰ A price setting event is deemed to occur on the date that a new price for a specified airport service comes into effect. This is to align the pricing period with the period for which forecast total revenue and supporting information applies, so that interested persons can effectively compare prices set for the pricing period with the related forecast total revenue and supporting information.

5.57 The inclusion of charges for certain services that are reset on an annual basis (such as terminal services charges and jet fuel pipeline charges) may trigger disclosures that are not useful in promoting the purpose of information disclosure, and are not cost-

³¹⁹ See Airport Authorities Act 1966, s 4B.

³²⁰ Commerce Commission, *Information Disclosure for Specified Airport Services Technical Working Session—Session Notes*, 13 September 2010, item 6.1. See also BARNZ, *Additional mark ups to Amendments Provided with NZ Airports Cross Submission on the Information Draft Reasons Paper 3 August 2010*, 27 September 2010, definition of price setting event.

effective to produce.³²¹ Moreover, the inclusion of annually-reset charges would risk triggering disclosure of prices for items that fall outside the definition of specified airport services. Inclusion of these charges may unduly influence Airports' annual price resetting processes.³²²

Transitional provisions

- 5.58 The ID Determination 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 most recent price-setting process undertaken prior to the Commencement Date. Subsequent disclosures will follow successive price settings as outlined above.
- 5.59 NZAA opposed the Commission's proposed requirement for forecast information disclosure for the price setting event prior to the commencement of regulation. NZAA considered this to be a retrospective approach, and inappropriate under the purpose of information disclosure regulation. NZAA considered that the Airports may not be able to provide the information required, and that any such requirements should be limited to the disclosure of aggregate revenue, cost and capital information.³²³ BARNZ submitted that no retrospectivity exists with a requirement to disclose the basis for current charges, as charges are still valid and current after Commencement Date, and interested persons need to know the basis of those prices.³²⁴
- 5.60 The Commission disagrees that requiring Airports to disclose total revenue and supporting information for the price setting event immediately prior to 1 January 2011 is a retrospective approach. Interested persons need to be able to understand the basis for current prices, and how these prices relate to forecast demand and expenditure. This information must be easily comparable to subsequent disclosures under the ID Determination; the disclosure of aggregate information as suggested by NZAA would not be suitable for this purpose.
- 5.61 The Commission expects that Airports would have the information available for the price setting event prior to the Commencement Date, as Airports should retain asset registers in order to prepare auditable accounts. Such asset registers should contain details of costs associated with the assets involved in the provision of specified airport services.

³²¹ BARNZ further noted that this is preferred by Airlines as they value the transparency the annual forecasting and wash-up processes provide, as well as the opportunities these processes provide for Airlines to engage with the Airport. See BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 10.

³²² BARNZ stated that AIAL may seek to move away from the annual resetting process if the Commission requires Airports to disclose information as described in the draft Determination. See BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 10.

³²³ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010, paragraphs 88–92.

³²⁴ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 3 August 2010, page 8.

CHAPTER 6: PRICING AND RELATED DISCLOSURES

6.1 Introduction

6.1 This chapter sets out the reasons for the disclosure requirements set out in the ID Determination relating to pricing methodologies, standard prices, pricing incentives and pricing statistics. The chapter discusses how this information can assist interested persons assess, amongst other things, 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. The price mechanism balances supply and demand of goods and services and:

- determines outcomes such as pricing efficiency (which includes the allocation of resources to the highest value uses);
- provides incentives to improve efficiency; and
- provides incentives for investment and innovation.

6.3 In sectors that are characterised by more limited competition, market forces play a reduced role in determining prices and related outcomes.

6.4 Pricing information helps interested persons to assess whether the purpose of Part 4 is being met. The Act recognises this by providing 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.³²⁵

6.5 Disclosure of pricing statistics provides interested persons with information that can assist them to assess the overall financial performance of the regulated business. When used in an appropriate context, pricing statistics are able to provide insight into 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 regional variations in the cost of inputs.

6.3 Approach

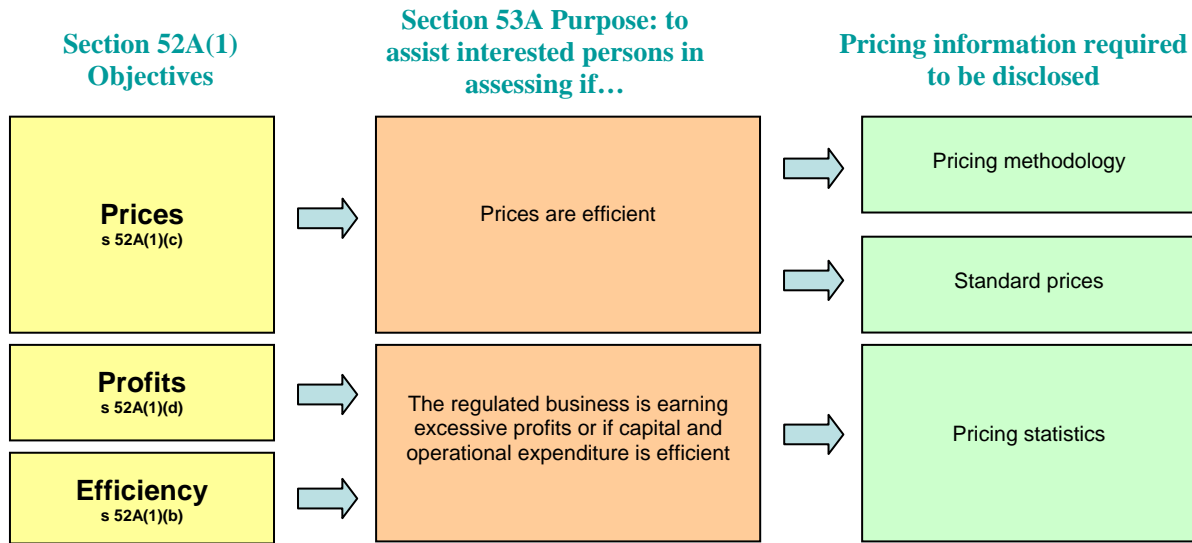
6.6 The efficiency of pricing can be assessed on an ex-ante or ex-post basis. Chapter 4 outlines how the disclosure of segmented information assists with the ex-post assessment of pricing efficiency.³²⁶

³²⁵ Commerce Act 1986, s 53C(2).

³²⁶ Segmented historical financial information assists interested persons to assess revenue and cost trends in each of the three segments (as well as overall). Such assessments are limited in that they are restricted to the groups

- 6.7 The disclosure of pricing methodologies and standard prices also assists interested persons to assess pricing efficiency. Airports are required, through the pricing methodology disclosures, to describe how prices reflect the forecast cost of providing the services for which prices are set. This allows for a more detailed assessment on an ex-ante basis.
- 6.8 Figure 6.1 summarises the Commission’s approach to the disclosure of pricing information.

Figure 6.1 Approach to pricing information



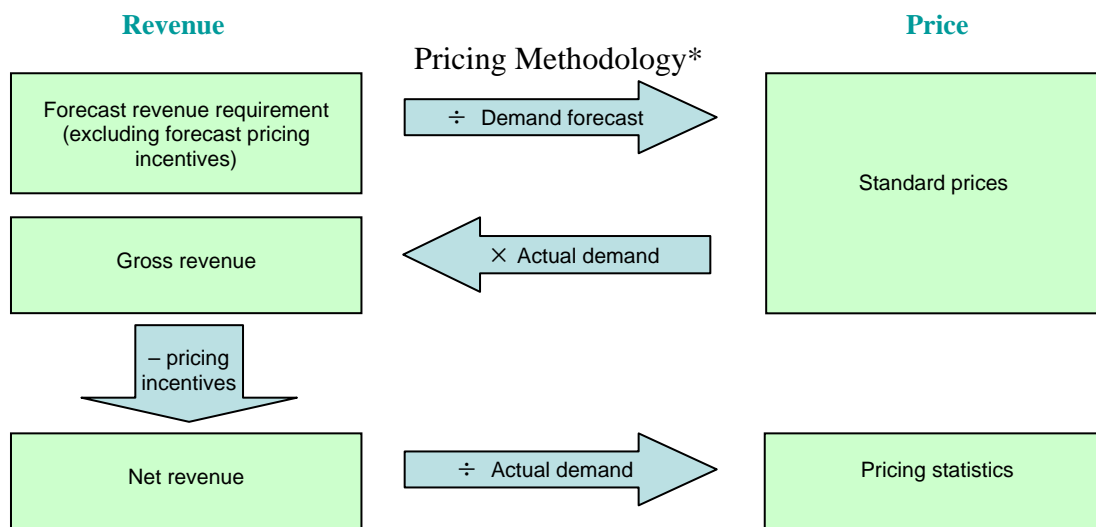
- 6.9 The Commission understands that currently all three Airports apply pricing methodologies to set standard prices. Pricing methodologies build on the forecast total revenue requirement (Chapter 5) by determining and allocating the required revenue to each service for which prices are set.
- 6.10 It is common practice for Airports to offer financial incentives to airlines through commercial arrangements. Financial incentives include discounts, rebates, credits, joint initiatives such as marketing campaigns, and subsidised use of facilities. Pricing incentives (a subset of financial incentives) involve an adjustment being made to the standard price (i.e. discounts or rebates).³²⁷ Consequently, the prices charged to consumers are not always consistent with the standard prices calculated using the disclosed pricing methodologies. Accordingly, Airports are required to disclose pricing statistics which provide interested persons with average charge information that is consistent between Airports, irrespective of the pricing incentives employed and the basis for charges.

of activities for which segmented information is disclosed and the definition of the segments is somewhat arbitrary and may not completely reflect the ranges of services provided to different consumer groups. The Commission, however, considers that segmented disclosure allows a simple and cost effective, headline assessment of prices for services by being consistent with segmented services defined in the AAA.

³²⁷ The disclosure of financial incentives other than pricing incentives is discussed further in Chapter 3.

- 6.11 Pricing incentives are to be transparently disclosed so that interested persons can reconcile the information contained in the forecast total revenue requirement and pricing methodology disclosures with the actual outcomes.
- 6.12 Figure 6.2 outlines the relationship of the forecast total revenue requirement with standard prices and the disclosure of actual revenues. The figure also demonstrates how interested persons can compare the forecast total revenue requirement and standard prices with actual revenue and pricing statistics without the specific incentives being disclosed.

Figure 6.2 Relationship of forecast total revenue with standard prices and the disclosure of actual revenues



* Pricing methodologies determine standard prices based on the forecast total revenue requirement

- 6.13 Section 53F(1)(a) provides that suppliers subject only to information disclosure regulation do not have to apply input methodologies for pricing methodologies.³²⁸ This is consistent with the obligation on Airports to operate as commercial undertakings.³²⁹ 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 Airports relate prices to demand and reflect the cost incurred in providing the services for which prices are set.

³²⁸ Although the Commission has the ability to set an input methodology for pricing methodologies in order to monitor and analyse information for Airports, it has not determined one.

³²⁹ Airport Authorities Act 1966, s 4(3).

- 6.15 The pricing methodology allocates the forecast total revenue requirement to each service for which a price is set. By linking the pricing methodology disclosure requirement to the forecast total revenue requirement disclosure (see Chapter 5), interested persons can reconcile their assessments of the future profitability of the Airports with their assessment of prices.
- 6.16 Pricing methodology disclosures assist interested persons in understanding the degree to which prices reflect underlying cost and customer demand. An understanding of the pricing methodologies is important for interested persons because Airports' pricing decisions might not be consistent with outcomes in workably competitive markets.
- 6.17 As a result of Airports not being required to adhere to any specific pricing methodology, the approach to setting prices may vary between Airports (including the structure and level of prices and the extent to which services are bundled).³³⁰ Accordingly, the Commission has provided for flexibility around how information relating to the setting of prices can be disclosed.
- 6.18 The Commission understands that Airports generally include summaries of pricing models used within their written pricing proposals and charge-setting decisions.³³¹ 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.
- 6.19 BARNZ submitted that transparent disclosure of pricing methodologies assists interested persons to assess whether efficient pricing principles are being applied. It noted the importance of ensuring disclosed pricing methodologies are sufficiently detailed and informative to provide interested persons with an understanding of how prices are determined.³³²
- 6.20 The Commission agrees that pricing methodology disclosures should be sufficient to assist with these assessments and does not support NZAA's alternate view that the statement of the methodology is sufficient for the purpose of information disclosure.³³³ Due to the complexity in assessing what prices would be efficient in a market that is not competitive, interested persons need to understand why Airports consider their pricing methodology is likely to lead to efficient prices.
- 6.21 Accordingly, pricing methodology disclosures should at least assist in assessing whether prices:
- signal the costs of service provision, such as:
 - the extent to which they involve cross-subsidies;

³³⁰ In setting prices Airports are also not required to apply the cost allocation IM.

³³¹ BARNZ, *Cross Submission by BARNZ on NZ Airports Submission with respect to the Commission's Information Disclosure Discussion Document*, 2 November 2009, page 12.

³³² BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 36.

³³³ NZAA, *Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 12 July 2010.

- 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.³³⁴
- 6.22 Airports are required to disclose pricing methodologies and standard prices in combination with the forecast total revenue requirement and supporting information disclosures (Chapter 5) within 20 working days following the decision to set prices.
- 6.23 The pricing methodology disclosures must include:
- a summary of the price setting framework and pricing methodology;
 - details of the pricing methodology; and
 - an explanation of the extent to which Airports consider the application of their pricing methodology leads to efficient prices.³³⁵

6.5 Pricing Incentives

- 6.24 Pricing incentives are any arrangements that have the effect of changing the standard price charged to a customer. Such incentives usually take the form of discounts, rebates or credits. Standard prices, as determined through the pricing methodology, are usually a function of forecast total revenue for the supply of specified airport services and forecast demand. Accordingly, Airports are likely to consider the effect pricing incentives have on profitability when setting prices.³³⁶
- 6.25 A reduction in prices due to incentives may affect profitability in the short-term but the boost in demand resulting from the price reduction may increase profitability in the longer-term. To understand the short term impact of pricing incentives would require an estimate of the increase in demand resulting from the pricing incentives. It is, however, difficult to separate demand movements resulting from pricing incentives from demand changes due to other economic factors. Accordingly, any assessment of

³³⁴ The assessments outlined are based on pricing principles that regulated suppliers are required to adhere to under Part 4 price-quality regulation.

³³⁵ See Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination 2010*, 22 December 2010, clause 2.5(2).

³³⁶ 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.

pricing incentives needs to be limited to the impact of those incentive mechanisms on prices.³³⁷

- 6.26 To understand the impact of pricing incentives on actual profitability, excluding the effect of demand changes, interested persons would need to compare the total value of actual pricing incentives with any allowance in the forecast total revenue requirement.
- 6.27 Airports are only required to disclose, as part of the historical financial information disclosures, the total pricing incentives provided to all customers.³³⁸ Chapter 3 discusses NZAA's concerns regarding confidentiality of financial incentives and the Commission's response. It is also noted that Airports provide incentives other than pricing incentives such as contributions to joint marketing. As outlined in Chapter 3, these incentives are also required to be disclosed.

6.6 Pricing Statistics

- 6.28 Pricing statistics compare revenue earned through charges against a standardised volume statistic.³³⁹ These allow interested persons to make comparisons of average charges between Airports and over time. Pricing statistics are *ex-post* indicators that demonstrate the historical performance of the Airports.
- 6.29 NZAA expressed concern at the cost of preparing such information for disclosure. The Commission has been mindful of this especially where revenue and consumption data for consumer groups is not readily available. Accordingly where possible, the pricing statistics are based on information that is readily available. For example, pricing statistics are based on information that is aligned with airport activities as defined in the AAA.
- 6.30 During consultation the Commission considered requiring the disclosure of pricing statistics that were based on the charges.³⁴⁰ Such a disclosure assists interested persons to compare actual average prices with prices as disclosed through the pricing methodology. Given the diversity of charges between the Airports, however, it was considered more appropriate to allow for comparisons between the Airports in the pricing statistic disclosures. This does not, however, preclude interested persons from determining average prices from the information as outlined in Chapter 3 such that, for example, comparisons could be undertaken with pricing methodology disclosures or with overseas airports.
- 6.31 It is noted that in some instances the Airports have different price structures for different customer groups or may even charge customer groups that another Airport

³³⁷ Pricing statistics provide information for interested persons to determine the impact actual demand versus forecast demand has on revenue and therefore profitability.

³³⁸ See Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination 2010*, 22 December 2010, Schedule 2.

³³⁹ See Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination 2010*, 22 December 2010, Schedule 17.

³⁴⁰ Commerce Commission, *Commerce Act (Specified Airport Services Information Disclosure) Determination*, draft, 31 May 2010, paragraph 6.33.

does not. Accordingly, pricing statistics have been defined so that the denominator is consistent across the Airports and includes all customers, irrespective of the basis for which they are charged.

6.7 Other Disclosures Related to Pricing

Contracts

- 6.32 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.
- 6.33 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, it would be difficult for Airports to isolate and present only the relevant information for regulated services in a cost-effective manner. Second, commercial sensitivity may be compromised unnecessarily if full contracts are disclosed. Accordingly, Airports are not required to disclose contractual terms and conditions.

Policies

- 6.34 The ID Determination does not require the disclosure of policies which may be required under s 53C(2)(j). During consultation the Commission suggested that Airports may be required to disclose the following policies:³⁴¹
- credit policy;
 - delegated authority policy;
 - profit distribution policy;
 - sponsorship policy; and
 - insurance policy.
- 6.35 Both BARNZ and Air NZ submitted that some policies would be more relevant to disclose than others.³⁴² NZAA questioned the relevance of information on policies for an information disclosure regime. In particular, NZAA noted that:
- credit policy is transparently disclosed and discussed as part of the AAA consultation;
 - delegation authority is a management function;
 - profit distribution policy is irrelevant since the Commission has excluded equity from the annual financial information disclosure; and

³⁴¹ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 109, paragraph 496.

³⁴² 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.

- 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.³⁴³
- 6.36 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.³⁴⁴ Accordingly, information relating to policies is not required to be disclosed.

Transitional provisions

- 6.37 As discussed further in Chapter 7, the ID 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 before 30 September 2011, and will include disclosure of information used in the most recent pricing decisions. Also, pricing statistics disclosures for the disclosure year ended 2011 will be required within 11 months after the 2011 disclosure year end.

³⁴³ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 83.

³⁴⁴ 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 Introduction

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

7.2 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 prepared in accordance with the ID Determination. The Commission is therefore concerned to ensure an appropriate level of assurance is provided in respect to the verification of that information.

7.3 Section 53C(3) of the Act explicitly provides that a s 52P determination may require information to be verified by statutory declaration or audit. Section 53C(3)(f) also provides for the Commission to impose any other requirements that it considers necessary or desirable to promote the purpose of information disclosure regulation. The Commission interprets this provision as enabling it to require other forms of verification, such as director certification, if this promotes the purpose of information disclosure regulation.

7.4 In determining the verification requirements, 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.

7.5 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. The Commission expects that directors will seek whatever advice they consider is needed prior to signing the directors' certificate, which may include senior executive or external advice. Accordingly, the Commission proposes that director certification will be required to certify that all information disclosures are compliant with the ID Determination.

7.6 Statutory declarations are a stronger form of certification owing to the sanctions that apply should a declaration be given falsely. The ID Determination does not require

statutory declarations but, rather, intends to rely upon the assurance provided by director certifications.

- 7.7 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.
- 7.8 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.
- 7.9 The Commission notes that a level of assurance as to the accuracy of disclosures is provided through s 103 of the Act, which provides for penalties where a party knowingly provides false or misleading information to the Commission. In addition s 86 and s 86B of the Act provide for penalties for breaching the ID Requirements.
- 7.10 The following sections outline submitters' feedback on proposed verification requirements and the Commission's ID Determination regarding the application of statutory declaration, certification and audit requirements.

7.3 Director Certification Requirements

- 7.11 The ID Determination provides that:
- for all disclosures, directors are required to certify that, having made all reasonable enquiry, to the best of their knowledge, the audited information complies with the relevant requirements. Each directors' certificate covers disclosures which have a common disclosure date. Accordingly the financial and quality annual disclosures are covered by a single certificate, disclosures required subsequent to a price setting event are covered by a separate directors' certificate as are the disclosures relating to the initial RAB;
 - the director certification of the forecast total revenue requirement and pricing disclosure certifies that the pricing methodology has been used to set disclosed prices; and
 - director certification is required to be signed by two directors and attached to the disclosures when disclosure is made, including publication on the internet.

- 7.12 As previously discussed in paragraph 7.3, s 53C(3)(f) of the Act provides for the Commission to impose any other requirements that it considers necessary or desirable to promote the purpose of information disclosure regulation. The Commission considers that director certification serves as an important means of self-verification of disclosures and that it strikes an appropriate balance between incentivising companies to take care in preparing accurate disclosures, and imposing additional costs. Interested persons need to be able to rely on the accuracy of disclosed information in assessing whether the purpose of Part 4 is being met. BARNZ agreed with an NZAA submission³⁴⁵ that a single generic directors' certificate could be required, provided that the directors' certificate:
- referenced the disclosures to which it related;
 - referenced the clauses of the ID Determination; and
 - confirmed that the pricing methodology had been applied in setting prices.³⁴⁶
- 7.13 The Commission is conscious of the cost and administrative burden placed on Airports. The ID Determination requires a single directors' certificate for disclosures which have common disclosure dates. Given the certificate relating to the Report on the Initial Regulatory Base will not be required after the first disclosure year all ongoing disclosures will be covered by just two certificates.
- 7.14 The Commission considers it essential 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.
- 7.15 BARNZ suggested that, in addition to the directors certifying disclosures, there would be merit in the disclosures being similarly certified by the relevant senior executive responsible for overseeing these aspects of the regulated service.³⁴⁷
- 7.16 NZAA accepted that it is reasonable to require some form of director certification as part of the Part 4 information disclosure regime but noted its concern that the requirement that directors have made all "reasonable enquiry" is overly onerous, does not meet the purpose of information disclosure under Part 4, and will result in unjustified compliance costs.³⁴⁸
- 7.17 NZAA expressed a concern that the wording "having made all reasonable enquiry..." is inconsistent with company law as set out in s 138 of the Companies Act 1993 and *Ministry of Economic Development v Feeney & Ors*³⁴⁹ (the Feltex case). NZAA assert that, by requiring separate certifications on specific information disclosure requirements, this strongly implies an expectation that directors will inform themselves

³⁴⁵ NZAA, *Topic for Technical Consultation Round—Director Certification*, letter to Commerce Commission, 27 September 2010, page 1.

³⁴⁶ BARNZ, *Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 9.

³⁴⁷ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 41.

³⁴⁸ NZAA, *Topic for Technical Consultation Round—Director Certification*, letter to Commerce Commission, 27 September 2010, page 1.

³⁴⁹ *Ministry of Economic Development v Feeney & Ors*, DC AK CRI-2008-004-029199, 2 August 2010.

that the disclosed information meets those requirements. NZAA argued that certification should be on behalf of the board of the airport company rather than by directors personally.

- 7.18 The Commission considers that the wording of the directors' certificate is consistent with the Feltex case. That case, at paragraphs 39–40, describes s 138(2) of the Companies Act as containing the steps required for a reasonable enquiry to have been made. In other words, it is appropriate for a 'reasonableness' standard to be imposed. The Commission interprets the word 'reasonable' in accordance with the Feltex case.
- 7.19 The Commission expects directors will seek whatever advice they consider is needed prior to signing the directors' certificates, which may include senior executive or external advice. The Commission does not accept that requiring separate certifications, by itself, increases the level of scrutiny required by directors. The Commission has consolidated a number of the required certificates, where they are required to be prepared at the same time, or in response to the same trigger event. The Commission considers that it is appropriate for directors to be signing the certificate in a personal capacity, given the wording of s 138 of the Companies Act 1993 (which refers to directors, rather than the board).
- 7.20 NZAA, in its submission, also suggested that the Commission has not yet made a case as to why requiring directors' certificates, to the extent proposed by the Commission, is "necessary or desirable" to promote the purpose of information disclosure and also suggests that the Commission carefully consider whether the proposed certification achieves the correct balance of incentivising companies to take care in preparing accurate disclosures, without imposing additional costs.³⁵⁰ As previously stated in paragraph 7.12 the Commission considers an appropriate balance of incentivising companies to take care in preparing accurate disclosures, without imposing additional costs has been struck.

7.4 Audit Requirements

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

- 7.21 The ID Determination provides that:
- historical financial, quality and statistics disclosures will be required to be audited; and
 - forecast information is not required to be audited.
- 7.22 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

³⁵⁰ NZAA, *Topic for Technical Consultation Round—Director Certification*, letter to Commerce Commission, 27 September 2010, page 2.

when establishing audit requirements. Further, the Commission understands that an auditor who qualifies as an Independent Auditor (as defined in the ID Determination) would be qualified to complete all aspects of the audit engagement. Air NZ considered ‘the utility of having a financial auditor audit non-financial aspects of the disclosure would be questionable’.³⁵¹ As discussed in paragraph 7.8, where necessary, financial auditors can engage experts to ensure they have the skill set available to complete the audit of disclosures.

7.23 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 ID Determination, and calculated based on the records examined. NZAA, noted in the technical consultation on the draft determination process,³⁵² a concern that the wording “based on the records examined” imposed greater audit work on Airports than would be the case if the previously proposed “based on the source data provided by the Airport” had been used. The Commission considers that the revised wording does not require additional audit work. The ID Determination makes clear the Commission’s intention that the auditor is entitled to rely upon records provided by a third party in auditing non-financial information.

7.24 The Commission considers an acceptable level of assurance with regard to prospective information will be available through director certification. The added scrutiny provided by the consultation process required under the AAA,³⁵³ is such that the Commission considers a similar level of assurance as required by the Securities Regulations 1983 is not required. The Commission notes that the audit is intended to assure interested persons that the forecast figures incorporated in the Report on Actual to Forecast Expenditure 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 Total Revenue Requirements is required.

Form of Audit Reports

7.25 The ID Determination provides that:

- audit reports include a statement as to whether the disclosures comply with the requirements; and
- include explanations of any material non-compliance.

³⁵¹ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 41.

³⁵² NZAA, *Technical Consultation Submission on Revised Draft Information Disclosure Determination*, 5 November 2010, page 5.

³⁵³ Airport Authorities Act 1966, s 4C: ‘Specified airport companies must consult concerning capital expenditure plans’.

- 7.26 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.
- 7.27 The ID Determination reflects the Commission's view 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.

Addressee/duty of care to the Commission

- 7.28 The ID Determination requires that audit reports are to be addressed to interested persons.
- 7.29 The Commission received submissions from BARNZ and Air NZ supporting the preliminary view that audit reports should be addressed to interested persons and contain a statement acknowledging the auditor's duty of care to the Commission.³⁵⁴ 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.³⁵⁵

Auditor qualifications

- 7.30 The ID Determination provides 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.
- 7.31 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.³⁵⁶

7.5 Publication, Retention of Information and Timing of Disclosures

- 7.32 This section addresses issues relating to publication, retention of information and timing of disclosures and outlines the ID Determination requirements.

³⁵⁴ Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 119.

³⁵⁵ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 86.

³⁵⁶ New Zealand Institute of Chartered Accountants, *Code of Ethics: Independence in Assurance Engagements*, August 2003.

Publication/form of disclosures

- 7.33 The Commission may, under s 53B(1)(a), determine how information is to be publicly disclosed.
- 7.34 The ID Determination provides that:
- performance indicators, financial, asset valuation, quality, statistics and asset management forecast information be disclosed as an annual disclosure package;
 - the annual, pricing methodology, prices and Report on the Forecast Total Revenue Requirements disclosures are to be publicly disclosed and notified in the *Gazette* so that interested persons are made aware of 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. Where standard templates are 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
 - information supporting disclosures to be retained for at least seven years.
- 7.35 BARNZ and Air NZ suggested an alternative approach to notifying disclosures in the *Gazette* would be for regulated suppliers to notify interested persons, with BARNZ further suggesting regulated suppliers be required to maintain a register of ‘interested persons’.³⁵⁷ Subsequent to the draft determination being issued BARNZ submitted that the regulated supplier could be required to give a similar notice in an industry publication and in the local newspaper.³⁵⁸ NZAA, in its cross-submission³⁵⁹ advised it did not consider publication in the *Gazette*, newspaper or other publication to be necessary. The Commission noted the concerns but considers notification in the *Gazette*, as currently required by EDBs under the EDB disclosure requirements,³⁶⁰ identifying the Internet site where the information disclosed can be accessed and where hard copies of that information can be inspected or obtained better enables all interested persons opportunity to access the information.
- 7.36 BARNZ and Air NZ identified concerns with the Commission’s preliminary view that Airports notify new charges to each consumer by whom a charge is payable. NZAA noted that Airports do not know in advance who the end-consumers will ultimately be.³⁶¹ The Commission acknowledges also that the customers of Airports are not located in a particular geographic region (as is the case with, for example, customers of

³⁵⁷ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 39.

³⁵⁸ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 18.

³⁵⁹ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 28.

³⁶⁰ Commerce Commission, *Electricity Distribution (Information Disclosure) Requirements 2008*, 31 October 2008.

³⁶¹ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 83.

Electricity Distribution Businesses). The Commission accepts having prices publicly disclosed provides sufficient disclosure.

7.37 Submitters generally supported the preliminary views set out in the Discussion Paper³⁶² 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,³⁶³ 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 has determined that information is to 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.

Timing of disclosures/regulatory year end

7.38 The ID Determination provides that:

- annual disclosure package, consisting of performance indicators, financial, asset valuation, quality, statistics, and asset management forecast information, be disclosed within five months of the regulatory year-end;
- forecast revenue requirements, pricing methodologies and prices be disclosed within 20 working days following a decision to set prices under the Airports Authorities Act 1966; and
- the regulatory period will align with each Airport's financial year.

7.39 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.³⁶⁴ 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.³⁶⁵ 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.

7.40 BARNZ, subsequent to the issue of the draft determination, submitted that it would be appropriate for the initial disclosures of AIAL and CIAL to be required eight months after year end (rather than 11 months after year end), given the final determination will

³⁶² Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, page 115.

³⁶³ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 40.

³⁶⁴ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 40; Air NZ, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, 11 September 2009, page 19.

³⁶⁵ NZAA, *Submission by NZ Airports Association on the Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 84.

be available to AIAL and CIAL for an additional three months prior to their year end.³⁶⁶ BARNZ suggested this would mean the disclosures for all three airports would be available at the end of February 2012 and would be available to the Commission for the s 56G review due to occur in 2012. NZAA submitted, in a cross submission³⁶⁷ that it does not believe disclosure by 28 February 2012 is feasible for Auckland Airport and Christchurch Airport. The Commission, having considered the submissions, remains of the view 11 months is an appropriate period for all Airports to prepare their initial disclosures.

- 7.41 An initial pricing disclosure (based on the most recent price changes prior to September 2011, along with an initial forecast total revenue disclosure) is required to be disclosed in September 2011. Thereafter, a pricing methodology disclosure is required to be disclosed within 20 working days of a decision to set prices as part of a price setting event.
- 7.42 The Commission notes that currently WIAL is the only Airport which has a 31 March statutory year-end and is thus aligned with the 31 March year end proposed in the draft ID Determination. 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.³⁶⁸ 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 aligns with the year-end date of their statutory financial statements.

Initial Disclosure Year and Transitional Provisions

- 7.43 The ID Determination provides that:
- the initial disclosure year for historical financial, quality and statistical information will be the 2011 disclosure year;
 - the Initial Regulatory Asset Value Report and the initial asset allocation adjustment information in the Report on Asset Allocations will be required within 11 months of the initial year-end;
 - historical financial, quality and statistical information for the initial disclosure year will not be required until 11 months after year end;
 - comparative information related to the Return on Investment, prior to the initial disclosure year, is not required to be disclosed;
 - each airport must, by 30 September 2011, publicly disclose its pricing methodology, forecast total revenue requirement and supporting information

³⁶⁶ BARNZ, *Cross-Submission on Commerce Commission Information Disclosure (Airport Services) Draft Reasons Paper and Draft Determination*, 12 July 2010, page 9.

³⁶⁷ NZAA, *Cross Submission on Draft Information Disclosure Determination and Draft Reasons Paper*, 3 August 2010, page 20.

³⁶⁸ BARNZ, *Submission on Commerce Commission Information Disclosure Discussion Paper*, 11 September 2009, page 40; Air NZ, *Submission to the Commerce Commission on Information Disclosure—Discussion Paper*, 11 September 2009, page 19.

related to the price setting event that occurred immediately preceding the setting of the ID Determination;

- the following information is not required to be disclosed in the initial disclosure year:
 - passenger satisfaction survey results, where surveys have not been undertaken during the year;
 - a break-down of total capital expenditure and total operational expenditure;
 - on-time departure delay indicators, fixed electrical ground power indicator and parties primarily responsible for interruptions (reliability); and
 - a break-down of capital expenditure by primary purpose in the asset roll-forward.

7.44 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. This enables abnormal performance and trends to be identified.

7.45 The ID Determination requires the disclosure of forecast total revenue, expenditure and demand forecasts and pricing information based on the price setting event immediately preceding the commencement date. The Commission considers that interested persons should have sufficient information on how current prices are set to place future pricing and investment decisions fully in context. This will assist interested persons to undertake assessments as early as possible of whether Airports' pricing and investment decisions are promoting the objectives of Part 4. The information disclosed may also assist the Commission in making its report on the effectiveness of the information disclosure regime in 2012.³⁶⁹

7.46 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.

7.47 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 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.

³⁶⁹ Section 56G of the Act requires the Commission to, as soon as practicable after any new price for a specified airport service is set in or after 2012, review information disclosed, consult with interested persons and report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose in s 52A of the Act, in respect of specified airport services. See Commerce Act 1986, s 56G(1).

APPENDIX A: INFORMATION DISCLOSURE FRAMEWORK SUMMARY DIAGRAMS

Table A1: Disclosures informing ex post assessments

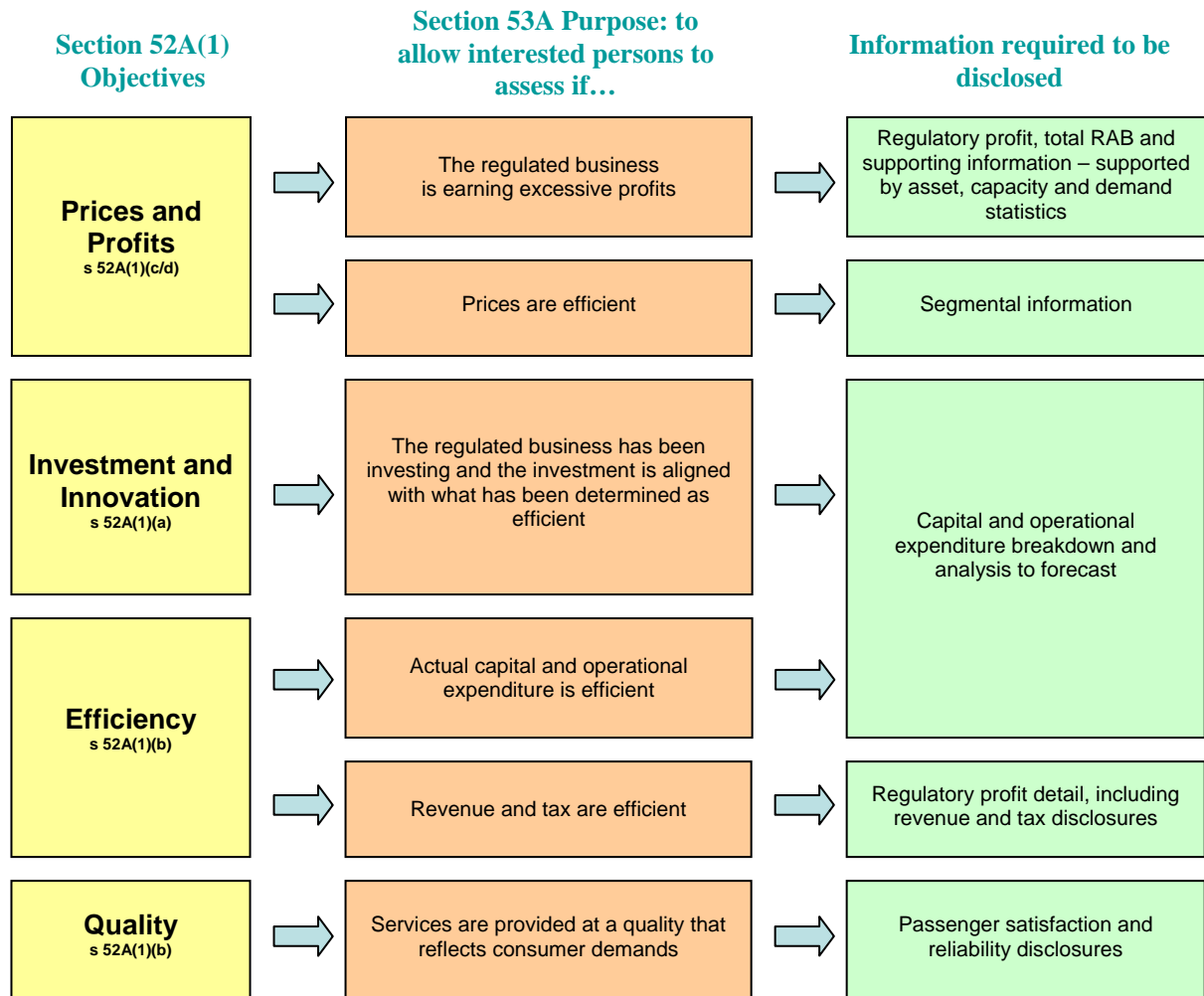
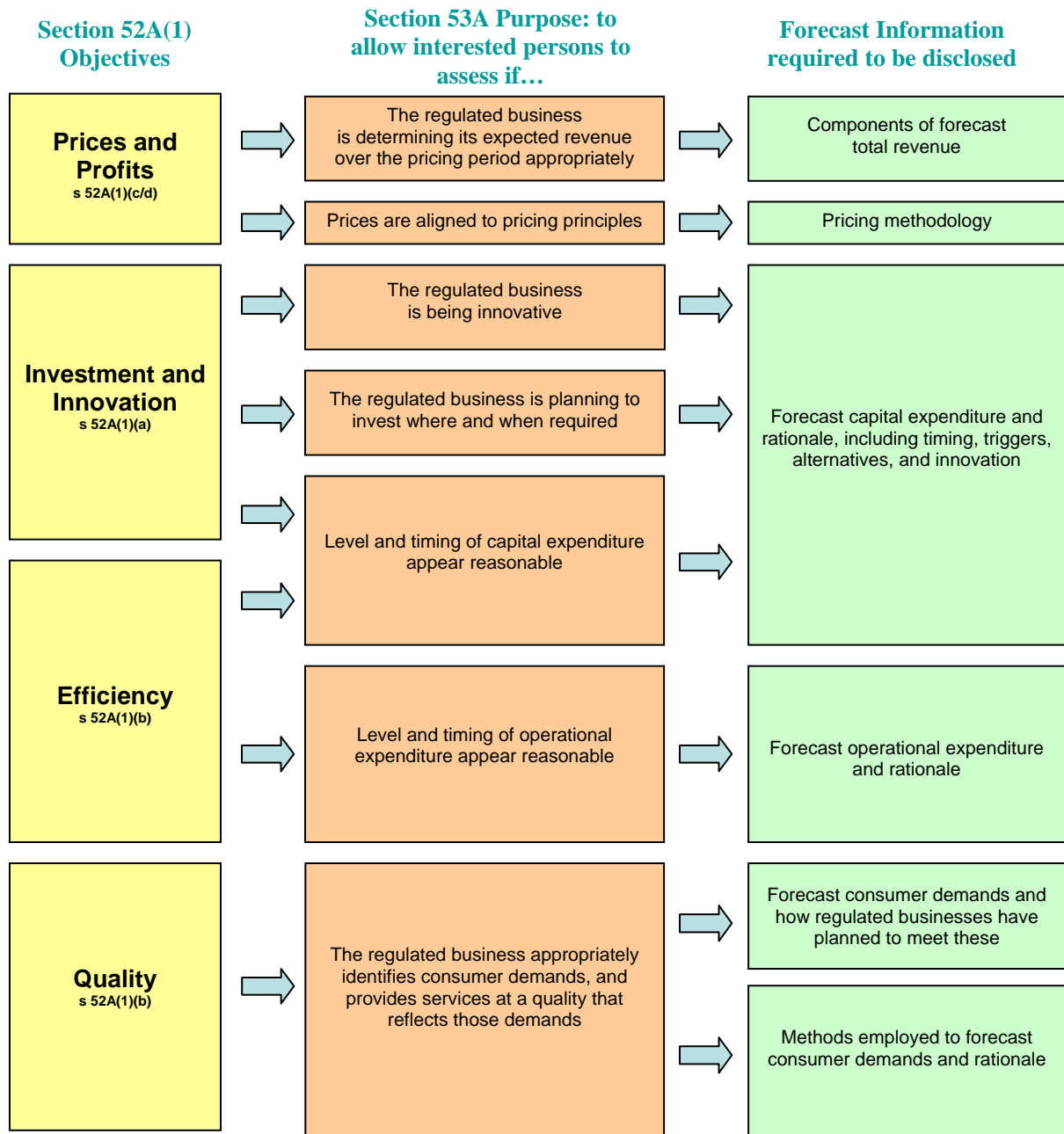


Table A2: Disclosures informing ex ante assessments



APPENDIX B: SUMMARY OF KEY DEPARTURES FROM GAAP

- B1.1 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.
- B1.2 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 ID Determination is that GAAP is the starting point for preparing information disclosures.
- B1.3 Outlined below are the key areas where the Commission's decisions included in the IM Reasons Paper and this Paper are not consistent with or are refinements of GAAP.

Initial RAB Value

- For regulatory purposes the Initial RAB value is specified based on the airport's 2009 disclosures.³⁷⁰ 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 the cost allocation input methodology.

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 is consistent with 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 revaluated based on MVAU every 5 years, with CPI based revaluation in

³⁷⁰ Being the disclosures made pursuant to Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, SR 1999/242.

the intervening years. MVAU revaluations of land are 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 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.
- The value of vested assets and assets for which capital contributions have been received are required to be included in the RAB at their actual cost to the Airport (i.e. at the net price paid by the Airport). This is inconsistent with GAAP which requires such assets to be recorded at fair values.

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, 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

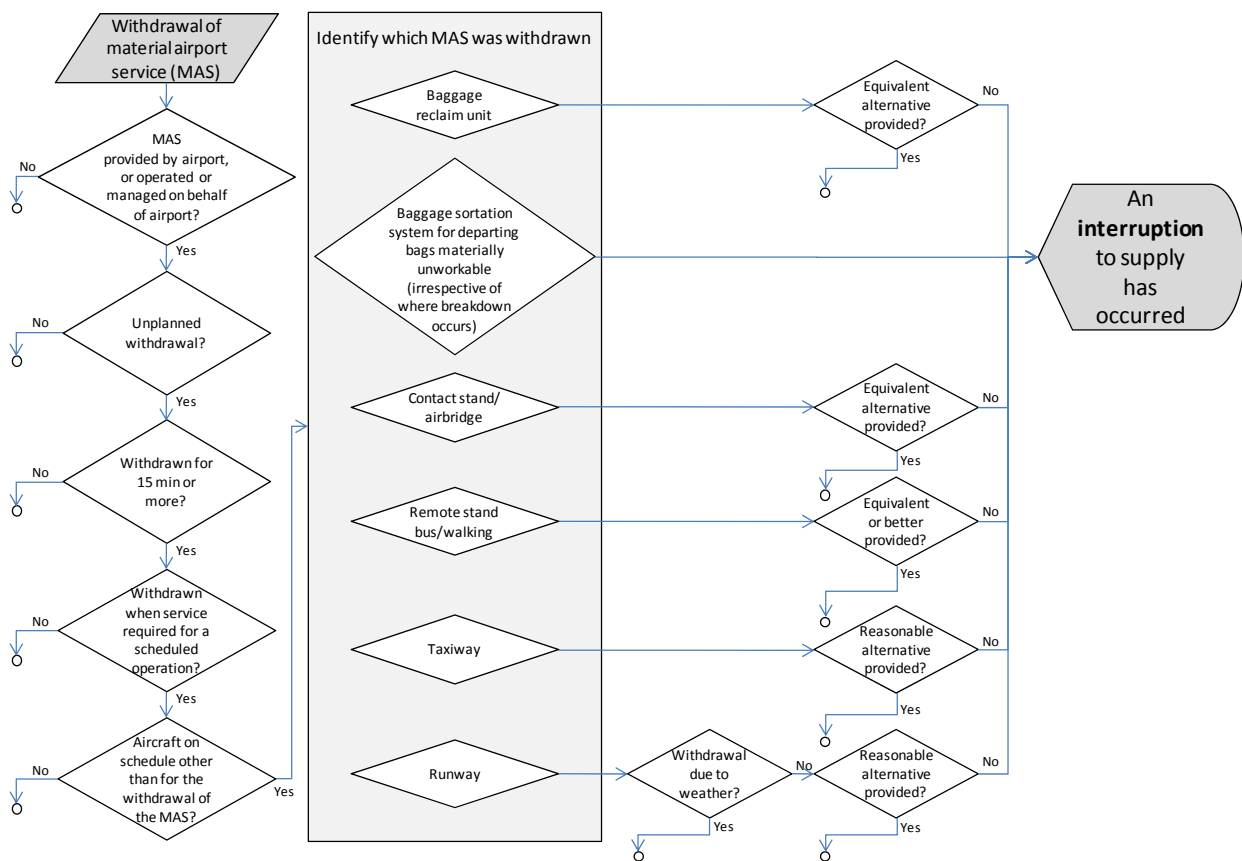
- No guidance is available under GAAP.

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- | | |
|------------------------------------|---|
| ROI | <ul style="list-style-type: none">▪ 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) | <ul style="list-style-type: none">▪ 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 offset against the value of the asset for which the contribution has been received. 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) | <ul style="list-style-type: none">▪ 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 | <ul style="list-style-type: none">▪ 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, 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:<ul style="list-style-type: none">– statement of cash flows;– statement of changes in equity;– statement of financial position; and– various note disclosures. |

APPENDIX C: RELIABILITY CONDITIONS FOR DISCLOSURE

C1.1 The report on reliability measures in Schedule 11 to the ID Determination requires a similar form of disclosure concerning interruptions in the provision of each of the following material airport services: baggage reclaim belts; baggage sortation system on departures; contact stands and airbridges; remote stands and means of embarkation/disembarkation; taxiway; and runway. For the purposes of disclosure not all withdrawals of service will constitute an interruption. The flow chart in Figure C1 depicts decisions implicit in the requirements for determining which withdrawals of service are included in these disclosures.

Figure C1: Conditions for an interruption to supply of a material airport service



C1.2 The report on reliability measures in Schedule 11 to the ID Determination also requires a disclosure concerning on-time departure delays. These are delays to scheduled flights that are primarily the result of an interruption to a specified airport service. The flow chart in Figure C2 depicts decisions in the disclosure requirements for determining which flight delays contribute to these disclosures.

Figure C2: Conditions for a regulatory airport related on-time departure delay

