

By email

19 October 2017

Adrienne Darling
Head of Economic Regulation and Pricing
Auckland International Airport Limited
Email: adrienne.darling@aucklandairport.co.nz

Dear Adrienne

Conditional Exemption for AIAL airport services specific information disclosures for 2017/2018 and 2018/2019 disclosure years

1. Annual disclosure of financial information in the Report on Return on Investment in Schedule 1 of the Airport Services Information Disclosure Determination 2010 (ID Determination) is required by clause 2.3(1)(a)(i) and 2.3(1)(b) of the ID Determination.
2. Following the publication of our Airport Services Information Disclosure Amendments Determination 2016 (Amendments Determination), we have implemented an approach for assessing profitability in our forward-looking information requirements that differs from the approach for our backward-looking information requirements.
3. After the Auckland International Airport Limited (AIAL) forward-looking price setting event in June 2017, AIAL is required, under clause 2.5 of the ID determination, to assess profitability by the disclosure of-
 - 3.1 an *ex ante* internal rate of return (IRR) for the current pricing period, including an opening investment value, a forecast closing investment value and forecast cash-flows over the duration of the pricing period; and
 - 3.2 a carry forward mechanism that can be used to adjust the opening investment value and the forecast closing investment value used in an IRR calculation.
4. Conversely, AIAL's backward-looking profitability requirement, as required to be disclosed by clause 2.3(1)(a)(i) of the ID Determination, does not require the disclosure of-
 - 4.1 an annual *ex post* IRR, including an opening investment value, a closing investment value and historical cash-flows over the current pricing period; and

- 4.2 a carry forward mechanism that can be used to adjust the opening investment value and the closing investment value used in an IRR calculation.
5. Our current intention is that we would address this difference in approach by changing the backward-looking disclosure requirements in the ID determination before Wellington International Airport Limited (WIAL) completes its price-setting event in 2019.
6. These changes to the backward-looking disclosure requirements will be based on a better understanding of how a backward-looking carry forward mechanism (as required by the conditions of this exemption notice) is applied in practice and how that could impact on the calculation of the annual return on investment in the case of each airport.

Exemption granted

7. The Commission considers that a conditional exemption from compliance with the Report on Return on Investment set out in Schedule 1 of the ID Determination is necessary due to the different profitability assessment approaches required for AIAL following our Amendments Determination. We consider that having AIAL comply with the current Report on Return on Investment requirements in Schedule 1 of the ID Determination would require AIAL to disclose information which is not useful for interested parties.
8. Under clause 2.9(1)(a) of the ID Determination, by this notice and subject to the following condition, the Commission grants AIAL an exemption for the disclosure year ended 30 June 2018 and the disclosure year ended 30 June 2019 from completing and publicly disclosing the Report on Return on Investment set out in Schedule 1 of the ID Determination as required by clauses 2.3(1)(a)(i) and 2.3(1)(b) of the ID Determination.
9. This exemption is granted on the condition that AIAL includes with its annual disclosure of its financial position for the disclosure year ended 30 June 2018 and the disclosure year ended 30 June 2019 in accordance with clause 2.3(1) of the ID Determination (as modified by this exemption)-
 - 9.1 an annual return on its regulatory asset base, on a post-tax basis, using an approach consistent with the approach used for its disclosed pricing methodology;
 - 9.2 a description of how the annual return is consistent with its forecast return in its pricing methodology;
 - 9.3 the calculation used to produce its annual return; and
 - 9.4 the assumptions used for its annual return, including-
 - 9.4.1 cash-flow timings for revenue and expenditure; and

9.4.2 any carry forward adjustments used to adjust its opening and closing regulatory investment value.

10. This exemption notice may be revoked or amended by the Commission in accordance with clause 2.9(1)(b) of the ID Determination.

Submissions received on our draft exemption notice

11. In our proposed amendments to the information disclosure requirements applying to suppliers of airport services, electricity distribution services, gas distribution services, and gas pipeline services, we provided draft text for this exemption for consultation.¹
12. In its submission on our draft text, New Zealand Airports Association (NZAA) supported our proposed approach.² NZAA noted that where the Commission receives information that will assist a full contextual assessment of the price setting disclosures, including backward-looking financial returns, NZ Airports would expect the Commission will take this into account notwithstanding any technical inconsistencies.³
13. We agree and will consider the disclosures provided in accordance with this exemption notice when undertaking analysis of AIAL's price-setting disclosures.
14. In its submission on our draft text, the Board of Airport Representatives New Zealand Inc (BARNZ) acknowledged that the draft exemption is workable, but recommended that we amend Schedule 1 of the ID Determination as part of our current amendments process and provide WIAL with an exemption from the amended requirements.⁴
15. We have instead provided this conditional exemption for AIAL at this time, as we consider that obtaining the information disclosed in accordance with this conditional information will better inform us on what requirements interested persons will find valuable for our future amendments to Schedule 1.

¹ Commerce Commission "Proposed amendments to information disclosure determinations for airport services, electricity distribution services, and gas pipeline services – Draft companion paper" (30 June 2017), pages 21-22.

² NZAA "NZAA "Submission on proposed changes to ID determinations" (28 July 2017), para 6.

³ NZAA "NZAA "Submission on proposed changes to ID determinations" (28 July 2017), para 6.

⁴ BARNZ "Amendments to information disclosure determinations" (28 July 2017), p. 2.

Further information

16. If you have any questions regarding this matter, please contact Jo Perry on (04) 924 3667 or Jo.Perry@comcom.govt.nz.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'S. Gale', with a stylized flourish at the end.

Stephen Gale

Commissioner