

# CHRISTCHURCH AIRPORT

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AIRPORT  
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# Alternative Depreciation

## Christchurch Airport's Experience

July 2015



# Overview

- Background - Use of a long-run levelised price path
- Initial concerns with our disclosures
- Use of Alternative Depreciation Approach in revised disclosures
- Remaining concerns
- Reflections

## Background -Use of a long-run levelised price path

- New Integrated Terminal investment
- Longer term price path smooths prices
- Efficient approach to pricing

## Background -Use of a long-run levelised price path

- Prices were set for approx. 5 years by reference to a 20 year levelised price path
- Initial price setting event disclosure
  - Used straight line depreciation
  - Return on capital becomes the residual in the smoothed price path
  - Relatively low in early years, higher in out years

## Initial concerns with our disclosure

Concern	Our response
Use of straight line depreciation makes it hard to assess profitability in any period. Should have used implied depreciation.	Adopted implied depreciation methodology for disclosures
Should have used a post-tax WACC not a pre-tax WACC	New methodology uses a post-tax WACC and we are committed to using a post-tax WACC in future
Concept of a rolling 20 year period makes it hard to assess profitability in any period.	We will use a fixed 20 year period



# Use of alternative depreciation approach

- Prices set to 2017 do not change
- Depreciation is calculated as the residual, after deducting forecast costs and the targeted return

# Use of alternative depreciation approach

Using this method means our disclosures show:

- How much of our investment we recover during the pricing period
- A closing RAB at the end of the pricing period that is:
  - Consistent with our pricing decision
  - Shows how much of our investment remains to be recovered



# Use of alternative depreciation approach

Using the 2017 closing RAB means:

- The implications of our PSE2 prices can be assessed in isolation
- For PSE3, we can consult with customers on a forward looking basis – changes do not create windfall gains or losses.

## Remaining Concerns

- There are some remaining concerns, and we will look to address these when resetting prices for PSE3:
  - More information on the process for re-forecasting and re-setting the levelised price path
  - More detailed forecasts for the 2017 to 2032 period
  - Some stakeholders remain concerned at level of complexity
  - Level of targeted returns

# Reflections

- The levelised price path was a good idea
- Getting the disclosure right has been a journey
- The issues were not driven by the IMs or the ID requirements
  - Alternative depreciation requirements are not restrictive
- Our price consultation process will start soon
  - Engage airline customers in second half of 2016
  - Any other problems need to be flagged now so can be dealt with
  - Major IM changes in December 2016 will add complexity and challenges