



COMMERCE COMMISSION

DECISION NO. 709

Input methodologies determination applicable to specified airport services pursuant to Part 4 of the Commerce Act 1986 (the Act).

The Commerce Commission:

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COMMERCE ACT (SPECIFIED AIRPORT SERVICES INPUT METHODOLOGIES) DETERMINATION 2010

PART 1	GENERAL PROVISIONS	4
1.1	Title.....	4
1.2	Application	4
1.3	Commencement	4
1.4	Interpretation	4
PART 2	COST ALLOCATION.....	13
2.1	Cost allocation process	13
2.2	Accounting-based allocation approach.....	13
PART 3	ASSET VALUATION.....	14
3.1	Composition of initial RAB.....	14
3.2	Initial RAB values for assets	14
3.3	RAB roll forward.....	14
3.4	Depreciation.....	15
3.5	Unallocated depreciation constraint	15
3.6	Asset life	15
3.7	Revaluation	16
3.8	Revaluation treated as income	17
3.9	Value of commissioned asset	17
3.10	Value of found asset	19
3.11	Cost of excluded asset	20
3.12	Works under construction.....	21
PART 4	TREATMENT OF TAXATION	23
4.1	Regulatory tax allowance	23
4.2	Regulatory tax asset value	23
PART 5	COST OF CAPITAL.....	25
5.1	Methodology for estimating the weighted average cost of capital	25
5.2	Fixed WACC parameters.....	26
5.3	Methodology for estimating risk-free rate.....	26
5.4	Methodology for estimating debt premium	27
5.5	Standard error of the debt premium.....	29
5.6	Methodology for estimating the WACC standard error	29
5.7	Methodology for estimating the WACC range.....	30
5.8	Publication of estimates.....	31
SCHEDULE A	AIRPORT LAND VALUATION METHODOLOGY	32
A1	Overview	32
A2	MVAU definition	33
A3	Professional valuation framework	34
A4	IVS 2—Bases other than market value.....	36

A5	IVS 3—Valuation reporting	37
A6	IVGN 1—Real property valuation	38
A7	ANZVGN 1—Valuation procedures real property	39
A8	Applicable MVAU valuation methods	39
A9	Practical valuation requirements	41
A10	MVAU valuation steps	43
A11	Data sources.....	45

Pursuant to Part 4 of the Commerce Act 1986 the Commerce Commission makes the following determination:

PART 1 GENERAL PROVISIONS

1.1 Title

This determination is the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010.

1.2 Application

This determination applies to **specified airport services**.

1.3 Commencement

This determination comes into force on the day after the date on which notice of it is given in the New Zealand Gazette under s 52W of the **Act**.

1.4 Interpretation

(1) In this determination-

- (a) unless stated otherwise, references to Parts are to named and numbered parts of this determination;
- (b) unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa; and
- (c) unless stated otherwise, any reference to an allowance, amount, cost, sum or value is a reference to an allowance, amount, cost, sum or value determined in relation to an **airport** in respect of a **disclosure year**.

(2) In this determination, including in the schedule, the words or phrases in bold type bear the following meanings:

2009 disclosed assets means the assets included by the **airport** in question in the 'Non-current assets' category of the **statement of financial position** in the **2009 disclosure financial statements**;

2009 disclosure financial statements means the disclosure financial statements completed by an **airport** under regulation 4 of the **airport regulations** for the accounting period (as defined in regulation 2(1) of those regulations) ending in 2009;

A

accounting-based allocation approach means the methodology described, in respect of-

- (a) **asset values**, in clause 2.2(1); and
- (b) **operating costs**, in clause 2.2(2);

Act means the Commerce Act 1986;

aircraft and freight activities has the same meaning as defined in s 2 of the Airport Authorities Act 1966;

airfield activities has the same meaning as defined in s 2 of the Airport Authorities Act 1966;

airport means a company described in s 56A(2) of the **Act** insofar as it provides **specified airport services**;

airport regulations means the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999;

asset allocator means a proportion of a quantifiable measure used to allocate **asset values** that are not **directly attributable** and whose quantum is-

- (a) based on a **causal relationship**; or
- (b) equal to a **proxy asset allocator**;

asset life has the meaning specified in clause 3.6;

asset value means, in respect of an asset used by an **airport** for the undertaking of-

- (a) **regulated activities** only; or
- (b) **regulated activities** and the **supply** of one or more **unregulated service**,

in-

- (c) the **disclosure year** 2009, its **unallocated initial RAB value**; and
- (d) all other **disclosure years**, its **unallocated closing RAB value**;

B

business day means any day on which statistics relating to trading in New Zealand government bonds are published by a financial information service such as Bloomberg or Reuters;

C

causal relationship means, in relation to-

- (a) **asset values**, a circumstance in which a factor influences the utilisation of an asset during the 18 month period terminating on the last day of the **disclosure year** in respect of which the asset allocation is carried out; and
- (b) **operating costs**, a circumstance in which a cost driver leads to an **operating cost** being incurred during the 18 month period terminating on the last day of the **disclosure year** in respect of which the cost allocation is carried out;

closing RAB value means the value determined in accordance with clause 3.3(4);

Commission has the same meaning as defined in s 2 of the **Act**;

commissioned means used by the **airport** to **supply specified airport services** other than **excluded services** and **commission** shall be construed accordingly;

commissioning date means the date that an asset is first **commissioned**;

corporate tax rate means the prevailing rate of income taxation applying to companies as specified in the **tax rules**;

cost allocator means a proportion of a quantifiable measure used to allocate **operating costs** that are not **directly attributable**, and whose quantum is-

- (a) based on a **causal relationship**; or
- (b) equal to a **proxy cost allocator**;

cost of debt means the amount specified for r_d in clause 5.1(4);

CPI means-

- (a) subject to paragraph (c), in respect of the December 2010 quarter and subsequent quarters, the consumer price index stipulated in the 'All Groups Index SE9A' as published by Statistics New Zealand;
- (b) subject to paragraph (c) in respect of each quarter prior to the December 2010 quarter, the same index as described in paragraph (a) multiplied by 1.02; and
- (c) in respect of quarters prior to any quarter in which the rate of **GST** is amended after this determination comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index (expressed as a decimal) arising from the amendment;

D

debt premium has the meaning specified in and is the amount determined in accordance with clause 5.4;

decommissioned asset means an asset (other than a **disposed asset**) formerly used in or in relation to the **supply** of **specified airport services** other than **excluded services** that has been permanently withdrawn from such use;

depreciation means an allowance to account for the diminution in a **non-land asset's** remaining service life potential in the **disclosure year** in question with respect to its **opening RAB value** and the amount of such allowance is determined in accordance with clause 3.4;

directly attributable means, in relation to-

- (d) **asset values**, wholly and solely related to an asset used by the **airport** in or in relation to its undertaking of a **regulated activity**;
- (e) **operating costs**, wholly and solely incurred by the **airport** in or in relation to its undertaking of a **regulated activity**; and

disclosure year shall be construed as a 12 month period ending on the date specified in an **ID determination** as the last date in the period to which annual disclosure relates;

*Example: whilst the **ID determination** provides that disclosure is required by Auckland International Airport Limited in respect of the 12 month period ending on 30 June, **disclosure year 2010** means, in respect of Auckland International Airport Limited, the twelve month period ending 30 June 2010;*

disposed asset means an asset that, in the **disclosure year** in question, has been sold or transferred by the **airport**, or has been irrecoverably removed from the **airport's** possession without consent, but is not a **lost asset**;

document has the same meaning as defined in s 2 of the **Act**;

E

easement means a right to use but not possess **land** belonging to another **person** or a right to prevent certain uses of another **person's land**;

easement land means **land** acquired with the intention of-

- (a) creating an **easement** in respect of it; and
- (b) disposing of the **land** thereafter;

excluded asset means-

- (a) an asset that is acquired or held to **supply excluded services**;
- (b) property to the extent due to the incursion of **land conversion costs** except Auckland International Airport Limited's costs of seawall construction;
- (c) an asset that is not used to **supply specified airport services** as on the last day of the **disclosure year** 2009; or
- (d) **easement land**;

excluded services means **services supplied** in markets directly related to the holding of any facilities or assets for the future undertaking of—

- (a) **aircraft and freight activities**;
- (b) **airfield activities**; or
- (c) **specified passenger terminal activities**;

F

finance lease has the same meaning as under **GAAP**;

fixed life easement means an **easement** that-

- (a) is of fixed duration; or
- (b) whilst of indefinite duration, is to be held for a fixed period;

found asset has the meaning specified in clause 3.10(1);

G

GAAP means generally accepted accounting practice in New Zealand, save that, where the cost of an asset is being determined in accordance with this determination, only the cost model of recognition is applied insofar as an election may be made between the cost model of recognition and the fair value model of recognition;

GST has the same meaning as defined in s YA 1 of the Income Tax Act 2007 as amended from time to time, and any equivalent legislation that supplements or replaces that definition;

H

highest and best alternative use means the most probable use of **land**, which use-

- (a) is not the **supply** of **specified airport services**;
- (b) is not a use to the extent that it is influenced by the **supply** of **specified airport services**;
- (c) is physically possible;
- (d) is appropriately justified;
- (e) is legally permissible;
- (f) is financially feasible; and
- (g) results in the highest estimated value of the **land** in question;

I

ID determination means an information disclosure determination in relation to **specified airport services** made by the **Commission** under s 52P of the **Act**;

identifiable non-monetary asset has the same meaning as under **GAAP** save that goodwill is excluded;

initial RAB has the meaning specified in clause 3.1;

initial RAB value means value of an asset in the **initial RAB** determined in accordance with clause 3.2;

input methodology has the same meaning as defined in s 52C of the **Act**;

investment grade credit rated means endorsed with a credit rating by an established credit rating agency (such as Standard and Poor's) of "investment grade" on that agency's credit rating scale applicable to long-term investments;

L

land excludes-

- (a) **easements**; and
- (b) real property to the extent due to the incursion of **land conversion costs**;

land conversion costs means-

- (c) costs incurred in-
 - (i) the holding and levelling of **land**;
 - (ii) seawall reclamation;
 - (iii) sea protection; or
 - (iv) seawall construction; or
- (d) any other costs incurred relating to the conversion of **land** for use in the **supply of specified airport services**;

leverage means the ratio of debt capital to total capital and is the amount specified in clause 5.2(1);

local authority has the same meaning as defined in s 5(1) of the Local Government Act 2002;

lost asset means an asset having, in relation to a particular **disclosure year**, an **unallocated opening RAB value** but determined by an **airport** in that **disclosure year** never to have been used to provide **specified airport services** in, where the disclosure year is-

- (a) the **disclosure year** 2012 or earlier, any prior **disclosure year**; or
- (b) any other **disclosure year**, any prior **disclosure year** after the **disclosure year** 2009;

M

mid-point estimate of WACC means the mid-point estimate of-

- (a) vanilla **WACC**; or

- (b) post-tax **WACC**,

as the case may be, as each is estimated in accordance with clause 5.1;

MVAU means market value alternative use;

N

non-land asset means an asset other than **land**, and for the avoidance of doubt, includes-

- (a) **easements**;
- (b) **buildings**;
- (c) real property to the extent due to **land conversion costs**;

non-standard asset means a **non-land asset** in relation to which an **airport** has made a **non-standard depreciation disclosure**;

non-standard depreciation disclosure means disclosure of information in accordance with any requirements relating to the making of 'non-standard depreciation disclosure' in an **ID determination**;

O

opening RAB value means the value determined in accordance with clause 3.3(3);

operating cost means a cost incurred by the **airport** in question relating to the **supply** of-

- (a) a **regulated activity** alone; or
- (b) a **regulated activity** and the **supply** of one or more **unregulated service**,

and excludes-

- (c) a cost that is treated as a cost of an asset by GAAP;
- (d) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under **GAAP**;
- (e) **pass-through costs**; and
- (f) **recoverable costs**;

P

person has the same meaning as defined in s 52C of the **Act**;

physical asset life has the meaning specified in clause 3.6(2);

post-tax WACC means the amount determined in accordance with clause 5.1(2);

prescribed investor rate has the same meaning as defined in the Income Tax Act 2007 or any subsequent legislation that supplements or replaces the provisions relating to prescribed investor rate in the Income Tax Act 2007;

proxy asset allocator means a proportion of a quantifiable measure-

- (a) used to allocate **asset values** for which a **causal relationship** cannot be established; and
- (b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the **disclosure year** in respect of which the asset allocation is carried out;

proxy cost allocator means a proportion of a quantifiable measure-

- (a) used to allocate **operating costs** for which a **causal relationship** cannot be established; and
- (b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the **disclosure year** in respect of which the cost allocation is carried out;

Q

qualifying issuer means a New Zealand resident limited liability company -

- (a) that-
 - (i) undertakes the majority of its business activities in Australia and New Zealand; or
 - (ii) is part of a corporate group that undertakes the majority of its business activities in Australia and New Zealand;
- (b) that-
 - (i) does not operate predominantly in the banking or finance industries; or
 - (ii) is part of a corporate group that does not operate predominantly in the banking or finance industries; and
- (c) that issues **vanilla NZ\$ denominated bonds** that are publicly traded;

qualifying rating means-

- (a) a Standard and Poor's long term credit rating of the specified grade; or
- (b) an equivalent long term credit rating of another internationally recognised rating agency;

R

regulated activity means one of the following types of activity:

- (a) **aircraft and freight activities**;
- (b) **airfield activities**; and
- (c) **specified passenger terminal activities**;

regulated goods or services has the same meaning as defined in s 52C of the Act;

regulated supplier means a supplier of **regulated goods or services**;

regulatory tax asset value has the meaning specified in clause 4.2;

related party means-

- (a) a **person** that, in accordance with **GAAP**, is related to the **airport** in question; or
- (b) any part of the **airport** in question that does not **supply specified airport services**;

revaluation means the amount determined in accordance with clause 3.7(3), which, for the avoidance of doubt, may be a negative amount;

revaluation rate has the meaning specified in clause 3.7(7);

S

services has the same meaning as defined in s 2 of the Act;

specified airport services has the same meaning as defined in s 56A of the Act;

specified passenger terminal activities has the same meaning as defined in s 2 of the Airport Authorities Act 1966;

standard error means estimated standard deviation;

statement of financial position means the statement of financial position referred to in regulation 5(a) of the **airport regulations**;

supply has the same meaning as defined in s 2 of the Act, and **supplied** must be construed accordingly;

T

tax rules means the rules applicable to an **airport** for determining income tax payable contained in the Income Tax Act 2007 (as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act);

U

unallocated closing RAB value has the meaning specified in clause 3.3(2);

unallocated depreciation means an allowance to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question with respect to its **unallocated opening RAB value** and the amount of such allowance is determined in accordance with clause 3.4(1);

unallocated initial RAB value means value of an asset in the **initial RAB** determined in accordance with clause 3.2(1);

unallocated opening RAB value has the meaning specified in clause 3.3(1);

unallocated revaluation means the amount determined in accordance with clause 3.7(1);

unregulated service means any good or service **supplied** by the **airport** that is not a **regulated good or service**;

V

valuation and property standards means the material contained within the **document** entitled Valuation and Property Standards 2009 jointly published by the Australian Property Institute and the Property Institute of New Zealand (effective 1 October 2009);

valuation standard means material entitled-

- (a) Valuation Standard;
- (b) Application; or
- (c) Guidance Note,

within **valuation and property standards**;

value of commissioned asset means the value determined in accordance with clause 3.9;

value of found asset means the value determined in accordance with clause 3.10;

valuer means an individual who-

- (a) is registered as a valuer under the Valuers Act 1948;
- (b) holds a current practising certificate issued by-
 - (i) the Property Institute of New Zealand; or
 - (ii) the New Zealand Institute of Valuers;
- (c) has been engaged to act in his or her professional capacity as a valuer; and
- (d) has no relationship with, nor interest in, the **airport** that is likely to involve the individual in a conflict of interest between his or her duties to the-
 - (i) **airport**; and
 - (ii) **Commission**;

vanilla NZ\$ denominated bonds means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;

vanilla WACC means the amount determined in accordance with clause 5.1(1);

W

WACC means weighted average cost of capital;

works under construction means an asset, or a collection of assets that-

- (a) has been or is being constructed by, or on behalf of, an **airport**;
- (b) has not been **commissioned**; and
- (c) the **airport** intends to **commission**.

PART 2 COST ALLOCATION

2.1 Cost allocation process

(1) Any-

- (a) **asset values**; and
- (b) **operating costs**,

that are **directly attributable** must be allocated to the **regulated activity** to which they are **directly attributable**.

- (2) Any **asset values** and **operating costs** that are not allocated in accordance with subclause (1) must be allocated to **regulated activities** in accordance with the **accounting-based allocation approach**.

2.2 Accounting-based allocation approach

- (1) **Asset allocators** must be used to allocate **asset values** that are not **directly attributable** to-

- (a) **aircraft and freight activities**;
- (b) **airfield activities**; and
- (c) **specified passenger terminal activities**.

- (2) **Cost allocators** must be used to allocate **operating costs** that are not **directly attributable** to-

- (a) **aircraft and freight activities**;
- (b) **airfield activities**; and
- (c) **specified passenger terminal activities**.

PART 3 ASSET VALUATION

3.1 Composition of initial RAB

Initial RAB means the **land** and **non-land assets** included in **2009 disclosed assets**, less-

- (a) **excluded assets**;
- (b) intangible assets, unless they are-
 - (i) **finance leases**; or
 - (ii) **identifiable non-monetary assets**; and
- (c) **works under construction**.

3.2 Initial RAB values for assets

- (1) The unallocated initial RAB value of-
 - (a) a **non-land asset** is its value as on the last day of the **disclosure year** 2009 as disclosed in the **2009 disclosure financial statements** had no allocation of asset value relevant to regulatory disclosures been undertaken; and
 - (b) **land**, is its value determined as on the last day of the **disclosure year** 2009 in accordance with Schedule A.
- (2) The initial RAB value of an asset is determined by-
 - (a) adopting its **unallocated initial RAB value**; and
 - (b) applying clause 2.1 to it.

3.3 RAB roll forward

- (1) Unallocated opening RAB value in respect of an asset in relation to-
 - (a) the **disclosure year** 2010, is its **unallocated initial RAB value**; and
 - (b) a **disclosure year** thereafter is its **unallocated closing RAB value** in the preceding **disclosure year**.
- (2) Unallocated closing RAB value means, in relation to a **disclosure year**, in the case of-
 - (a) a **found asset**, its **value of found asset**;
 - (b) a **disposed asset**, nil;
 - (c) a **lost asset**, nil;
 - (d) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-

$$\text{unallocated opening RAB value} - \text{unallocated depreciation} + \text{unallocated revaluation}; \text{ and}$$
 - (e) any other asset having a **commissioning date** in that **disclosure year**, its **value of commissioned asset**.
- (3) Opening RAB value in respect of an asset, is, for-
 - (a) the **disclosure year** 2010, its **initial RAB value**; and

- (b) a **disclosure year** thereafter, its **closing RAB value** in the preceding **disclosure year**.
- (4) Closing RAB value, in respect of an asset is determined by-
 - (a) adopting its **unallocated closing RAB value**; and
 - (b) applying clause 2.1 to it.

3.4 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clause 3.5, in accordance with the formula-

$$[1 \div \textit{remaining asset life}] \times \textbf{unallocated opening RAB value}.$$
- (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3) in accordance with the formula-

$$[1 \div \textit{remaining asset life}] \times \textbf{opening RAB value}.$$
- (3) For the purpose of subclauses (1) and (2)-
 - (a) unallocated depreciation and depreciation are, in the case of-
 - (i) **land**, nil;
 - (ii) an **easement** other than a **fixed life easement**, nil;
 - (iii) a **non-standard asset**, determined in the manner specified in the **non-standard depreciation disclosure**;
 - (b) in the case of a **decommissioned asset**-
 - (i) unallocated depreciation is its **unallocated opening RAB value**; and
 - (ii) depreciation is its **opening RAB value**; and
 - (c) in all other cases, where an asset's **physical asset life** at the end of the **disclosure year** is nil-
 - (i) unallocated depreciation is its **unallocated opening RAB value**; and
 - (ii) depreciation is its **opening RAB value**.
- (4) In this clause 'remaining asset life' means the term remaining of an asset's **asset life** at the commencement of the **disclosure year** in question.

3.5 Unallocated depreciation constraint

For the purpose of clause 3.4, the sum of **unallocated depreciation** of an asset calculated over its **asset life** may not exceed the sum of-

- (a) all unallocated **revaluations** applying to that asset in all **disclosure years**; and
- (b) in the case of an asset-
 - (i) in the **initial RAB**, its **unallocated initial RAB value**; or
 - (ii) not in the **initial RAB**, its **value of commissioned asset** or **value of found asset**.

3.6 Asset life

- (1) Asset life means a finite period relating to an asset, being, in the case of-
 - (a) a **non-standard asset**, the asset life specified for that asset in the **non-standard depreciation disclosure**; and
 - (b) in all other cases, the **physical asset life** of the asset.
- (2) Physical asset life means, in the case of-
 - (a) a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
 - (b) property to the extent due to the incursion of **land conversion costs**-
 - (i) in the **initial RAB**, its remaining physical service life potential determined by an **airport** as on the first day of the **disclosure year 2010**; and
 - (ii) not in the **initial RAB**, its physical service life potential determined as of its **commissioning date** by an **airport**;
 - (c) a **found asset**-
 - (i) for which an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age), the asset life applying to the similar asset; and
 - (ii) otherwise, its remaining physical service life potential determined by an **airport** as on the last day of the **disclosure year** in which the **airport** first determined it to be a **found asset**; and
 - (d) any other type of asset-
 - (i) in the **initial RAB**, its remaining service life potential as on the last day of the **disclosure year 2009** as determined in accordance with the **airport's 2009 disclosure financial statements**; and
 - (ii) not in the **initial RAB**, its remaining service life potential determined as of its **commissioning date** by an **airport**.

3.7 Revaluation

- (1) Unallocated revaluation is the amount determined, subject to subclauses (2) and (6), in accordance with the formula-

unallocated opening RAB value × revaluation rate.

- (2) For the purpose of subclause (1), where an **airport** revalues, in accordance with Schedule A, as of the same date, all-

- (a) **land** having an **unallocated opening RAB value**; and
- (b) **land commissioned** by that date,

unallocated revaluation for **land** so revalued is the revalued amount for that **land** less, where the **land**-

- (c) has an **unallocated opening RAB value**, its **unallocated opening RAB value**; and
- (d) does not have an **unallocated opening RAB value**, its **value of commissioned asset**.

- (3) Revaluation is the amount determined, subject to subclause (4) and (6), in accordance with the formula-

opening RAB value × revaluation rate.

- (4) For the purpose of subclause (3), where an **airport** revalues **land** in accordance with subclause (2), revaluation for **land** so revalued is determined by-
- (a) applying clause 2.1 to its revalued amount to obtain the amount allocated to the **supply of specified airport services**; and
 - (b) subtracting, where the **land**-
 - (i) has an **opening RAB value**, its **opening RAB value**; and
 - (ii) does not have an **opening RAB value**, the value determined by applying clause 2.1 to its **value of commissioned asset** or **value of found asset**,
- from the product of paragraph (a).
- (5) For the avoidance of doubt, for the purpose of subclauses (2) and (4), where a revaluation in accordance with Schedule A is undertaken more than once in a **disclosure year**, 'revalued amount' is determined in respect of the last revaluation undertaken in that **disclosure year**.
- (6) For the purposes of subclauses (1) and (3), where-
- (a) the asset's **physical asset life** at the end of the **disclosure year** is nil; or
 - (b) the asset is a-
 - (i) **disposed asset**; or
 - (ii) **lost asset**,

unallocated revaluation and revaluation are nil.

- (7) Revaluation rate means the amount determined in accordance with the formula-
- $$(CPI_4 \div CPI_4^{-4}) - 1,$$

where-

CPI_4 means **CPI** for the quarter which coincides with the end of the **disclosure year**; and

CPI_4^{-4} means **CPI** for the quarter which coincides with the end of the preceding **disclosure year**.

3.8 Revaluation treated as income

Revaluation, for the purpose of determining or assessing profitability using disclosures made pursuant to an **ID determination**, must be treated as income.

3.9 Value of commissioned asset

- (1) Value of commissioned asset, in relation to an asset (including an asset in respect of which capital contributions were received or a vested asset), is the cost of the asset to an **airport** determined by applying **GAAP** to the asset as on its **commissioning date**, except that, subject to subclause (3), the cost of-
- (a) an intangible asset, unless it is-

- (i) a **finance lease**; or
 - (ii) an **identifiable non-monetary asset**,

is nil;
- (b) an easement, is limited to its market value as on its **commissioning date** as determined by a **valuer**;
- (c) **easement land**, is nil;
- (d) an asset-
 - (i) acquired by an **airport** from another **regulated supplier**; and
 - (ii) used by that other **regulated supplier** in the **supply of regulated goods or services**,

is limited to the unallocated opening RAB value of the **asset** for the **regulated supplier** as on the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by the **regulated supplier**);
- (e) an asset acquired by an **airport** from a related party other than an asset to which paragraph (d) applies is-
 - (i) its depreciated historic cost in respect of the **related party** determined by applying **GAAP** as on the day before the acquisition by the **airport**; or
 - (ii) where sufficient records do not exist to establish this cost, its market value as of its **commissioning date** as determined by a **valuer**, subject to subclause (4);
- (f) an asset meeting paragraph (a) of the definition of excluded asset, prior to becoming a **works under construction**, is determined, to the extent relevant in applying **GAAP**, in accordance with clause 3.11;
- (g) an asset that is-
 - (i) **land**; or
 - (ii) real property due to the incursion of **land conversion costs**,

that is **works under construction** on the last day of the **disclosure year 2009** is determined, to the extent relevant in applying **GAAP**, in accordance with clause 3.12; and
- (h) an asset in respect of which capital contributions were received, where such contributions do not reduce the cost of the asset when applying **GAAP**, is the cost of the asset by applying **GAAP** reduced by the amount of the capital contributions; and
- (i) a vested asset in respect of which its fair value is treated as its cost under **GAAP**, must exclude any amount of the fair value of the asset determined under **GAAP** that exceeds the amount of consideration provided by the **airport**.

- (2) For the purpose of subclause (1)-

- (a) 'capital contributions' means money or the monetary value of other consideration charged to or received from consumers or other parties for the purposes of asset construction or enhancement; and
- (b) 'vested asset' means an asset, associated with the **supply of specified airport services**, received by an **airport**-
 - (i) without provision of consideration; or
 - (ii) with provision of nominal consideration.
- (3) When applying **GAAP** for the purpose of subclause (1), the cost of financing is-
 - (a) applicable only in respect of the period commencing on the date the asset becomes a **works under construction** and terminating on its **commissioning date**; and
 - (b) calculated using a rate no greater than the **airport's** estimate of its post-tax cost of capital.
- (4) For the purpose of subclause (1)(e), the market value of-
 - (a) **land**, must be determined in accordance with Schedule A; and
 - (b) a **non-land asset** is limited to its depreciated replacement cost.
- (5) For the avoidance of doubt-
 - (a) revenue derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**; and
 - (b) where expenditure on an asset which forms part of the cost of that asset under **GAAP** is incurred by an **airport** after the asset was **commissioned**, such expenditure is treated as relating to a separate asset.
- (6) For the purpose of subclause (2)(a), 'consumer' means a person that consumes or acquires **specified airport services**.

3.10 Value of found asset

- (1) **Found asset** means an asset-
 - (a) other than **easement land**;
 - (b) other than an intangible asset, unless it is-
 - (i) a **finance lease**; or
 - (ii) an **identifiable non-monetary asset**;
 - (c) not having a **commissioning date** in the **disclosure year** in question;
 - (d) the value of which is neither included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior **disclosure year** pursuant to clause 3.3(1); and
 - (e) first determined by the **airport** in the **disclosure year** in question to have a **commissioning date**, where the **disclosure year** is-
 - (i) the **disclosure year** 2012 or earlier, in any prior **disclosure year**; or

- (ii) any other **disclosure year**, any prior **disclosure year** after the **disclosure year 2009**.
- (2) The value of found asset for a **found asset** is-
 - (a) its cost calculated in accordance with **GAAP**; or
 - (b) where sufficient records do not exist to establish its cost for the purposes of **GAAP**, where-
 - (i) an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age) to the **found asset**, the **unallocated opening RAB value** of the similar asset;
 - (ii) it is a **non-land asset** to which sub-paragraph (i) does not apply, its market value as determined by a **valuer** as at the date that the asset was first determined by the **airport** to have been **commissioned** in a prior **disclosure year**; and
 - (iii) it is a **land asset** to which sub-paragraph (i) does not apply, its value determined in accordance with Schedule A as at the date that the asset was first determined by the **airport** to have been **commissioned** in a prior **disclosure year**.

3.11 Cost of excluded asset

- (1) This clause applies to an asset-
 - (a) meeting paragraph (a) of the definition of **excluded asset**; and
 - (b) that is not a **works under construction** on the last day of the **disclosure year 2009**.
- (2) Subject to subclauses (3) and (4), the cost of an **excluded asset** to which this clause applies for a **disclosure year** is determined in accordance with the formula-
base value + holding costs - net revenue - tracking revaluations.
- (3) For the purpose of subclause (2), where **land** is revalued in accordance with clause 3.7(2), all **land** to which this clause applies that is not **works under construction** must be revalued in accordance with Schedule A as at the same date in respect of which that revaluation was carried out.
- (4) For the purpose of subclause (2), holding costs and net revenue exclude amounts incurred or derived-
 - (a) before the first day of the **disclosure year 2010**; and
 - (b) on and from the date referred to in subclause (5).
- (5) An **excluded asset** becomes a **works under construction** on and from the date at which construction using the **excluded asset** commences, and the cost of the **excluded asset** at that date is determined in accordance with subclause (2), provided that-
 - (a) the base value is treated as expenditure relating to the cost of **land**; and
 - (b) the holding costs less net revenue and tracking revaluations are treated as the cost of property due to the incursion of **land conversion costs**.
- (6) For the purpose of this clause-

- (a) 'base value' is the sum of tracking revaluations in respect of all prior **disclosure years** plus, in the case of-
 - (i) **land** held on the last day of the **disclosure year** 2009, the value for that **land** determined in accordance with Schedule A as on that day;
 - (ii) an asset other than **land** held on the last day of the **disclosure year** 2009, the value for that asset disclosed in the **2009 disclosure financial statements**; and
 - (iii) an asset not held on the last day of the **disclosure year** 2009, its cost as of its date of acquisition determined in accordance with **GAAP**, but excluding any costs of financing;
- (b) 'holding costs' means the sum of an **airport's** notional costs of holding the **excluded asset** for all **disclosure years**, where the notional cost of holding an excluded asset for the **disclosure year** in question is determined by applying the **airport's** estimate of its post-tax **WACC** to the cost determined in accordance with subclause (2) in respect of the preceding **disclosure year**;
- (c) 'net revenue' means the sum of amounts, other than those included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements, for all **disclosure years** derived from holding the **excluded asset**, where the amount derived from holding the **excluded asset** in the **disclosure year** in question is determined in accordance with the formula-

*revenue derived from the **excluded asset** (other than tracking revaluations) - operating costs incurred in relation to the **excluded asset**; and*
- (d) 'tracking revaluations' means the sum of all amounts obtained by-
 - (i) multiplying the **revaluation rate** for each complete **disclosure year** in which the **excluded asset** is not revalued in accordance with Schedule A between the **disclosure year** in which its base value is established and the **disclosure year** in which the asset becomes a **works under construction**, by the base value for that **disclosure year**; and
 - (ii) subtracting the base value from the revalued amount in respect of each **disclosure year** in which the **excluded asset** is revalued in accordance with Schedule A.
- (7) For the avoidance of doubt, for the purpose of subclause (6)(d)(ii), where a revaluation in accordance with Schedule A is undertaken more than once in a **disclosure year**, 'revalued amount' is determined in respect of the last revaluation undertaken in that **disclosure year**.

3.12 Works under construction

- (1) This clause applies to-
 - (a) **land**; and
 - (b) real property due to the incursion of **land conversion costs**,
 that are **works under construction** on the last day of the **disclosure year** 2009.

- (2) The cost of **land** to which this clause applies at the date referred to in subclause (1) is the value for that **land** determined in accordance with Schedule A as on that day.
- (3) The cost of real property described in subclause (1)(b) at the date referred to in subclause (1) is nil, save that Auckland International Airport Limited's cost of constructing the Northern Runway must not exceed \$17.3 million.

PART 4 TREATMENT OF TAXATION

4.1 Regulatory tax allowance

- (1) Regulatory tax allowance is determined by applying the **tax rules** and the **corporate tax rate** to regulatory profit / (loss) before tax.
- (2) For the purpose of subclause (1), 'regulatory profit / (loss) before tax' means the amount of 'regulatory profit / (loss) before tax' as determined in accordance with an **ID determination**.
- (3) For the purpose of subclause (1), in applying the **tax rules** in respect of particular items of income and expenses included in 'regulatory profit / (loss) before tax'-
 - (a) a tax deduction for interest incurred in relation to debt must be substituted with a tax deduction for notional deductible interest;
 - (b) any tax deduction for depreciation in respect of an asset must be calculated by applying the **tax rules** to the **regulatory tax asset value**;
 - (c) any **revaluation** included in 'regulatory profit / (loss) before tax' must be excluded and ignored; and
 - (d) the effect of any-
 - (i) tax losses (other than those produced from the **supply of specified airport services**); and
 - (ii) subvention payment, made by an **airport** must be ignored.
- (4) For the purpose of subclause (3)(a), 'notional deductible interest' means the product of multiplying the sum of all **opening RAB values** by both **leverage** and the **cost of debt**.

4.2 Regulatory tax asset value

- (1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-

$$\text{tax asset value} \times \text{result of asset allocation ratio}.$$
- (2) For the purpose of subclause (1), 'tax asset value' means, in respect of-
 - (a) an asset-
 - (i) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or
 - (ii) acquired or transferred from a **related party**,
 the value of the asset determined by applying the tax depreciation rules to its notional tax asset value; and
 - (b) any other asset, its adjusted tax value.
- (3) In this clause-
 - (a) 'adjusted tax value' has the same meaning as in the tax depreciation rules; and

- (b) 'tax depreciation rules' means the **tax rules** that relate to the determination of depreciation allowances for tax purposes.
- (4) 'Notional tax asset value' means, for the purpose of-
 - (a) subclause (2)(a)(i), value after applying the tax depreciation rules to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and
 - (b) subclause (2)(a)(ii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-
 - (i) consistent with the **tax rules**; and
 - (ii) limited to its **value of commissioned asset**.
- (5) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-
 - (a) has a matching asset or group of assets maintained for the purpose of Part 3, the value obtained in accordance with the formula-

$$\frac{\text{opening RAB value or sum of opening RAB values, as the case may be}}{\text{unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,}}$$
 applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Part 3 that has a matching asset or group of assets maintained under the **tax rules**; and
 - (b) does not have a matching asset or group of assets maintained for the purpose of Part 3, the value of the asset allocated to the **supply of specified airport services** were clause 2.1 to apply to the asset or group of assets.

PART 5 COST OF CAPITAL

5.1 Methodology for estimating the weighted average cost of capital

- (1) The **Commission** will determine a mid-point estimate of vanilla **WACC** for the **disclosure year 2011** and each **disclosure year** thereafter-
 - (a) for each **airport**;
 - (b) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
 - (c) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
 - (d) in accordance with the formula-

$$r_d L + r_e(1 - L).$$

- (2) The **Commission** will calculate a mid-point estimate of post-tax **WACC** for the **disclosure year 2011** and each **disclosure year** thereafter-
 - (a) for each **airport**;
 - (b) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
 - (c) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
 - (d) in accordance with the formula-

$$r_d (1 - T_c)L + r_e (1 - L).$$

- (3) The **Commission** will estimate or determine, as the case may be, the amounts or values-
 - (a) to which this subclause applies; and
 - (b) in respect of the **disclosure year 2011**,

as soon as practicable after this determination comes into force.

- (4) In this clause-

L is **leverage**;

r_d is the cost of debt and is estimated in accordance with the formula $r_f + p + d$;

r_e is the cost of equity and is estimated in accordance with the formula $r_f(1 - T_i) + \beta_e TAMRP$;

T_c is the average corporate tax rate;

r_f is the risk-free rate;

p is the **debt premium**;

d is the debt issuance costs;

T_i is the average investor tax rate;

β_e is the equity beta; and

TAMRP is the tax-adjusted market risk premium.

- (5) For the purpose of this clause-
 - (a) the average investor tax rate, the equity beta, the debt issuance costs, the average corporate tax rate and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 5.2; and
 - (b) the risk-free rate must be estimated in accordance with clause 5.3.

5.2 Fixed WACC parameters

- (1) Leverage is 17%.
- (2) The average investor tax rate is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the 5 year period commencing on the first day of the **disclosure year** in question.
- (3) For the purpose of subclause (2), 'investor tax rate' is-
 - (a) for the **disclosure year** 2011, in the case of-
 - (i) Wellington International Airport Limited, 29%; and
 - (ii) Auckland International Airport Limited and Christchurch International Airport, 28.5%; and
 - (b) for each **disclosure year** thereafter, the maximum **prescribed investor rate** applying at the start of that **disclosure year** to a natural person who is-
 - (i) resident in New Zealand; and
 - (ii) an investor in a multi-rate PIE, (as 'multi-rate PIE' is defined in s YA 1 of the Income Tax Act 2007).
- (4) The average corporate tax rate is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the 5 year period commencing on the first day of the **disclosure year** in question.
- (5) The equity beta is 0.72.
- (6) The debt issuance costs are 0.35%.
- (7) The tax-adjusted market risk premium is, for the 5 year period commencing on the first day of-
 - (a) the **disclosure year** 2011, 7.1%; and
 - (b) each **disclosure year** thereafter, 7.0%.

5.3 Methodology for estimating risk-free rate

The **Commission** will estimate a risk-free rate in respect of each **airport**-

- (a) for each **disclosure year**; and
- (b) subject to clause 5.1(3), within 1 month of the start of the **disclosure year** in question,

by-

- (c) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to 5

- years on each **business day** in the month preceding the start of the **airport's disclosure year**;
- (d) calculating the annualised interpolated bid yield to maturity for each **business day**; and
- (e) calculating the un-weighted arithmetic average of the daily annualised interpolated bid yields to maturity.

5.4 Methodology for estimating debt premium

- (1) Debt premium means the spread between-
 - (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
 - (i) are issued by an **airport**;
 - (ii) are publicly traded;
 - (iii) have a **qualifying rating** of grade A-; and
 - (iv) have a remaining term to maturity of 5 years; and
 - (b) the contemporaneous interpolated bid yield to maturity of benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (2) The **Commission** will estimate an amount for the debt premium-
 - (a) in respect of each **airport**;
 - (b) for each **disclosure year**; and
 - (c) subject to clause 5.1(3), within 1 month of the start of each **disclosure year**.
- (3) The amount of the debt premium will be estimated by-
 - (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-
 - (i) **investment grade credit rated**; and
 - (ii) of a type described in the paragraphs of subclause (4);
 - (b) in respect of each bond identified in accordance with paragraph (a)-
 - (i) obtaining its annualised wholesale market bid yield to maturity;
 - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
 - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),

for each **business day** in the month immediately preceding the start of the **disclosure year**;

- (c) calculating, for each bond identified in accordance with paragraph (a), the un-weighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and
 - (d) subject to subclause (4), estimating, by taking account of the average spreads identified in accordance with paragraph (c), the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bond** that-
 - (i) is issued by an **airport** that is neither majority owned by the Crown nor a **local authority**;
 - (ii) is publicly traded;
 - (iii) has a **qualifying rating** of grade A-; and
 - (iv) has a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:
- (a) those that-
 - (i) have a **qualifying rating** of grade A-; and
 - (ii) are issued by an **airport** that is neither majority owned by the Crown nor a **local authority**;
 - (b) those that-
 - (i) have a **qualifying rating** of grade A-;
 - (ii) are issued by an entity other than an **airport** that is neither majority owned by the Crown nor a **local authority**;
 - (c) those that-
 - (i) have a **qualifying rating** of a grade different to A-; and
 - (ii) are issued by an **airport** that is neither majority owned by the Crown nor a **local authority**;
 - (d) those that-
 - (i) have a **qualifying rating** of a grade different to A-; and
 - (ii) are issued by an entity, other than an **airport** that is neither majority owned by the Crown nor a **local authority**; and
 - (e) those that are-
 - (i) **investment grade credit rated**; and
 - (ii) issued by an entity that is majority owned by the Crown or a **local authority**.
- (5) For the purpose of subclause (4)-
- (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types described in subclause (4) in accordance with the order in which the bond types are described;

- (b) the spread on any bond of the type described in subclause (4) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and
- (c) the **Commission** will adjust spreads observed on bonds described under subclauses (4)(b) to (4)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (4)(a).

5.5 Standard error of the debt premium

- (1) The **Commission** will estimate an amount for a **standard error** of a **debt premium**-
 - (a) subject to clause 5.1(3), within 1 month of the start of the **disclosure year** in question; and
 - (b) as either-
 - (i) the product of the formula specified in subclause (2); or
 - (ii) 0.0015,
 whichever is the greater.
- (2) For the purpose of subclause (1)(b)(i), the formula is-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2},$$

where-

N is the number of **qualifying issuers** issuing bonds of the type described in the subparagraphs of clause 5.4(3)(d);

p_i is each **qualifying issuer's** arithmetic average spread for its bonds of the type described in the subparagraphs of clause 5.4(3)(d); and

\bar{p} is the **debt premium**.

provided that for the purposes of determining N and p_i , no regard may be had to any bonds of the types described in clauses 5.4(4)(b) to 5.4(4)(e).

5.6 Methodology for estimating the WACC standard error

- (1) The **Commission** will determine a **standard error** of a **mid-point estimate of WACC**-
 - (a) subject to clause 5.1(3), within 1 month of the start of the **disclosure year** in question; and
 - (b) in accordance with this clause.
- (2) The **standard error** for a mid-point estimate of vanilla **WACC** determined in accordance with clause 5.1(1) will be determined in accordance with the formula-

$$\sqrt{0.000087 + 0.0256E^2(T\hat{A}MRP) + 0.0289\text{var}(\hat{p})}$$

- (3) The **standard error** for a mid-point estimate of post-tax **WACC** determined in accordance with clause 5.1(2) will be determined in accordance with the formula-

$$\sqrt{0.000087 + 0.0256E^2(T\hat{A}MRP) + (1 - T_c)^2(0.0289\text{var}(\hat{p}))}$$

- (4) In this clause-

- (a) $E^2(T\hat{A}MRP)$ is the square of the tax-adjusted market risk premium determined in accordance with clause 5.2(7);
- (b) $\text{var}(\hat{p})$ is the square of the **standard error** of the debt premium determined in accordance with clause 5.5(1); and
- (c) T_c is the average corporate tax rate determined in accordance with clause 5.2(4).

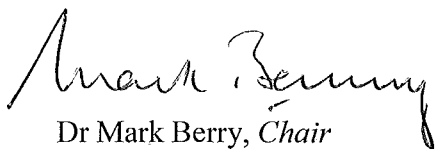
5.7 Methodology for estimating the WACC range


- (1) The Commission will determine a WACC range for each **mid-point estimate of WACC**-
 - (a) for each **disclosure year**; and
 - (b) subject to clause 5.1(3), within 1 month of the start of the **disclosure year** in question
- (2) For the purpose of subclause (1), 'WACC range' means the values falling between the 25th percentile and 75th percentile inclusive of the **mid-point estimate of WACC**.
- (3) For the purpose of subclause (2)-
 - (a) the **mid-point estimate of WACC** must be treated as the 50th percentile;
 - (b) the 75th percentile must be determined in accordance with the formula-
mid-point estimate of WACC + $0.674 \times \text{standard error of mid-point estimate of WACC}$; and
 - (c) the 25th percentile must be determined in accordance with the formula-
mid-point estimate of WACC - $0.674 \times \text{standard error of mid-point estimate of WACC}$,
 where 'standard error ' means the **standard error** of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 5.6(2) or 5.6(3), as the case may be.


5.8 Publication of estimates


The **Commission** will publish all determinations and estimates that it is required to make by this part-

- (a) on its website; and
- (b) no later than 1 month after having made them.


Dr Mark Berry, *Chair*


Sue Begg, *Deputy Chair*


Pat Duignan


Peter Taylor

Dated at Wellington this 22nd day of December 2010.

COMMERCE COMMISSION

SCHEDULE A AIRPORT LAND VALUATION METHODOLOGY

A1 Overview

- (1) This schedule sets out the mandatory requirements for a **valuer** to apply when undertaking a valuation of **land** held by an **airport** for the purposes of this determination.
- (2) The valuation is required to be performed as if the **land** were to be put to its highest and best alternative use. This valuation approach is termed **MVAU**.
- (3) The requirements in this schedule are a practical implementation of **MVAU** based on the valuation standards and valuation industry practices applying in New Zealand.
- (4) In this schedule, requirements that must be applied by a **valuer** are accompanied by explanatory notes which provide interpretative guidance in applying the requirements.
- (5) This schedule contains the following clauses:

Clause	Content
A1	Overview
A2	MVAU valuation definition
A3	Professional valuation framework
A4	IVS 2—Bases other than market value
A5	IVS 3—Valuation reporting
A6	IVGN 1—Real property valuation
A7	ANZVGN 1—Valuation procedures real property
A8	Applicable MVAU valuation methods
A9	Practical valuation requirements
A10	MVAU valuation steps
A11	Data sources

A2 MVAU definition

Requirement

- (1) **MVAU** means the value of **land** in its **highest and best alternative use**, which is equal to the likely market price paid for the land by a developer or investor and is determined in accordance with the formula-

gross realisations or estimated value of the land - allowance for applicable development costs.

- (2) For the purpose of subclause (1), 'development costs'-
- (a) include all relevant construction costs, holding costs and the developer's or investor's profit and risk; and
 - (b) exclude-
 - (i) the value of costs required to convert the land for the **supply of specified airport services**; and
 - (ii) any allowance for remediation expenditure.

Explanatory notes

- (3) **MVAU** is the value of land in its **highest and best alternative use**. This latter term means the most probable use of airport land, other than for **supplying specified airport services**, or a use to the extent that it is influenced by **specified airport services** which is physically possible, appropriately justified, legally permissible, financially feasible, and results in the highest valuation of the **land** in question.
- (4) In undertaking an **MVAU** valuation, the value of **land** can be conceived of as the amount that would likely be paid by a developer or investor. This is arrived at by estimating the eventual gross realisations or estimated value of the **land** less allowances for applicable construction costs, holding costs and the developer's or investor's profit and risk.
- (5) The quantum of gross realisations or estimated value of the **land** is best assessed using reliable evidence of the proceeds that would be obtained on the open market from an orderly sale of the **land** (in economically manageable parcels) within the period as would reasonably be needed to achieve the **highest and best alternative use** value of the **land**.
- (6) **MVAU** is expressed singularly, but the term encompasses the potential for a range of different uses (other than use for **supplying specified airport services** or uses to the extent that they are influenced by **specified airport services**) to co-exist on the **land** which is probable where land holdings are large in size and have different location. As an example, it is likely that the highest value alternative use of the land held by Auckland International Airport Limited would comprise a combination of urban uses (e.g. commercial, retail, industrial, high density residential) and low density residential and heritage/rural.

- (7) The **MVAU** valuation must exclude the value of costs to the extent that the costs are required specifically to convert the land into that suitable for the **supply of specified airport services**. It must also exclude any allowance for remediation expenditure. Thus the estimated market price must exclude any allowance for these costs. Airport conversion costs and remediation expenditure are addressed further in clause A9.
- (8) Reliable, market-based evidence for estimating the eventual gross realisations or estimated value of the **land** would usually be drawn from comparable market sales for **land** in a similar use, which ideally is located adjacent (or in close proximity) to the **land** being valued to the extent that the use is unaffected by the **supply of specified airport services**. The **valuer** should adjust these sales if necessary to account for physical characteristics such as size, shape, and contour.
- (9) As an example, if the highest value alternative use of the **land** held by Auckland International Airport Limited comprises a combination of urban uses (e.g. commercial, retail, industrial, high density residential) and low density residential and heritage/rural, then market evidence of **land** in similar uses would be required, with adjustments for differing physical characteristics.
- (10) A **land** sale by, or to, the **airport** can be considered to provide acceptable market-based evidence where it is demonstrated that the relevant transaction occurred on an arm's-length basis, and only to the extent that the price and other terms of the sale are demonstrated not to have been influenced by the fact that **specified airport services** are supplied by the **airport**.
- (11) It is likely that the **highest and best alternative use** will be limited to a predictable set of alternate uses due to existing and possible zoning and district plan requirements, contour and **land** area, surrounding **land** uses, as well as existing linkages and current market supply and demand.

A3 Professional valuation framework

Requirement

- (1) Subject to subclauses (2) and (3), **valuers** must undertake an **MVAU** valuation in accordance with the following **valuation standards** specified in the **valuation and property standards**:
 - (a) IVS 2—Bases Other Than Market Value;
 - (b) IVS 3—Valuation Reporting;
 - (c) IVGN 1—Real Property Valuation; and
 - (d) ANZVGN 1—Valuation Procedures Real Property.
- (2) **Valuation standards** with ‘mandatory practice’ status must be adhered to by **valuers**.
- (3) **Valuation standards** with ‘best/good practice’ status must be adhered to by **valuers** when reasonably practicable.

Explanatory notes

- (4) The relationship between the rules for **MVAU** valuations in this schedule and the professional valuation framework applying to **valuers** in New Zealand is explained below.
- (5) **Valuers** are valuers acting in their capacity as members of the Property Institute of New Zealand ('PINZ') and/or the Institute of Valuers ('NZIV'). **Valuers** are required to comply at all times with PINZ's/NZIV's Code of Ethics, Rules of Conduct and the applicable requirements of the **valuation and property standards**.
- (6) In October 2009, the Australian Property Institute and PINZ jointly published the **valuation and property standards** which publication includes all of the International Valuation Standards, Applications and Guidance Notes ('International Valuation Standards' or 'IVS') published by the International Valuation Standards Council. Where there are departures from International Valuation Standards, an explanatory note is included and highlighted in the **valuation and property standards**. Specific Australia and New Zealand **valuation standards** have also been included as part of the **valuation and property standards** for areas of practice not covered by or supplementary to the International Valuation Standards.
- (7) Some **valuation standards** included in the **valuation and property standards** have 'mandatory practice' status for **valuers** which means that **valuers** must adhere to their requirements.
- (8) The remainder of the **valuation standards** have 'best/good practice' status which means that their application is voluntary; however, PINZ recognises that when such standards are properly applied, they provide some professional support and can serve as a comparative measure of the level of performance of a **valuer**.
- (9) In undertaking an **MVAU** valuation, the **valuation standards** with 'best/good practice' status specified in this Schedule must be applied wherever possible by a **valuer**.
- (10) The majority of **land** valuations undertaken in New Zealand are done having regard to the requirements of International Valuation Standard 1 ('IVS 1')—Market Value Basis of Valuation. In order to estimate Market Value under IVS 1, however, a **valuer** is required to determine the highest and best use or most probable use of the asset. That use may be for continuation of a property's existing use or for some alternative use.
- (11) While it is possible that a value produced using the criteria in IVS 1 would reflect the **highest and best alternative use** of airport **land**, this is not an inevitable outcome as IVS 1 permits a valuation to take account of a property's existing use. The requirements for an **MVAU** valuation indicate that the valuation should instead be undertaken under International Valuation Standard 2 ('IVS 2')—Bases Other Than Market Value.

- (12) In addition to applying IVS 2, International Valuation Standard 3 ('IVS 3')—Valuation Reporting is of mandatory application to an **MVAU** valuation and the **valuer** must therefore comply with IVS 3.
- (13) The **valuation and property standards** also include Guidance Notes which, as the name suggests, provide guidance on specific valuation issues and on how other **valuation standards** are to be applied. A **valuer** must comply with the following Guidance Notes as **valuation standards**:
 - (a) International Valuation Guidance Note 1 ('IVGN 1')—Real Property Valuation; and
 - (b) Australia and New Zealand Valuation Guidance Note 1 ('ANZVGN 1')—Valuation Procedures Real Property.
- (14) These **valuation standards** mentioned are applicable to an **MVAU** valuation as further specified in clauses A4 to A7.

A4 IVS 2—Bases other than market value

Requirement

- (1) Any requirement in the **MVAU** approach to determine the 'fair value' of **land** must be done in accordance with IVS 2—Bases Other than Market Value.
- (2) All assumptions made in undertaking such a valuation must be disclosed.

Explanatory notes

- (3) While market value can be the most appropriate basis of value for a wide range of purposes, alternative valuation bases may well be appropriate in certain circumstances. The objective of IVS 2 is to distinguish and explain bases other than market value.
- (4) Valuations may be undertaken under this standard for several reasons, such as-
 - (a) due to some specific benefit that an entity enjoys;
 - (b) due to ownership of an asset; or
 - (c) the value may represent a price agreed between two parties where the price reflects a specific advantage (or disadvantage) of ownership to the parties rather than wider market circumstances.

Lastly, a value may be undertaken under this standard as required by or in accordance with a definition set out in statute or contract.

- (5) IVS 2 terms the valuation arrived at as 'fair value', which is a wider concept than **MVAU**, although in some circumstances will produce the same result. The fair value approach requires the determination of a price that is fair and equitable between two specific parties and may take into account matters that must be disregarded in the assessment of market value. The fair value approach requires consideration of the respective advantages and disadvantages that each party will gain from the transaction.

- (6) The chief matter to be disregarded in undertaking an **MVAU** valuation under IVS 2 is the availability of the **land** for **supplying specified airport services** or for other uses to the extent they are influenced by **specified airport services**. The reason for this is explained in clause A8.
- (7) Full disclosure in the valuation of all assumptions made is required under IVS 2. This includes clearly defining the bases of valuation to ensure there is no misinterpretation of the valuation or the purpose for which it is to be used.
- (8) Under IVS 2, the **valuer** must ensure that-
 - (a) the estimate of value is based on data and circumstances appropriate to the valuation;
 - (b) the estimate of value is undertaken using appropriate methods and techniques; and
 - (c) the valuation is developed on the basis of sufficient information to support the analyses and conclusions.
- (9) This standard has ‘mandatory practice’ status.

A5 IVS 3—Valuation reporting

Requirement

IVS 3—Valuation Reporting applies for the purpose of reporting an **MVAU** valuation.

Explanatory notes

- (1) This standard has ‘mandatory practice’ status and sets out valuation reporting standards and requirements, including on the requirements in Business Focus 2, Reports, Content and Compilation.
- (2) The standard requires the **valuer** to make full disclosure of the regulatory framework and any departures from these standards that may be required to comply with local legislation, regulation or custom. The **valuer** must therefore disclose the **MVAU** basis required in an airport **land** valuation.
- (3) Under IVS 3, the **valuer** must-
 - (a) report the valuation in a manner that will not be misleading;
 - (b) define the basis or bases of value used and state the purpose and intended use of the valuation, the effective date of valuation, and the date of the report;
 - (c) clearly identify and describe the property and property rights and interests valued and the scope of work undertaken to develop the valuation conclusion;
 - (d) specify all assumptions and limiting conditions upon which the valuation is based;
 - (e) clearly distinguish the assumptions that are different from or additional to those underlying an estimate of Market Value; and
 - (f) fully explain the valuation approaches and procedures that have been applied and the reasoning that supports the analyses, opinions and conclusions in the report.

A6 IVGN 1—Real property valuation**Requirement**

IVGN 1—Real Property Valuation must be applied wherever reasonably practicable by a **valuer** in undertaking an **MVAU** valuation.

Explanatory notes

- (1) The purpose of IVGN 1 is to clarify the fundamental valuation-related principles (termed ‘Generally Accepted Valuation Principles’) so that they may be properly understood and applied by **valuers** when valuing real property.
- (2) This Guidance Note therefore provides assistance when undertaking real property valuations and includes key terms and definitions, a summary of the valuation process and rationale, and elaboration on key principles and concepts.
- (3) This standard has ‘best/good practice’ status and must be applied wherever possible by a **valuer** in undertaking an **MVAU** valuation.

A7 ANZVGN 1—Valuation procedures real property

Requirement

ANZVGN 1—Valuation Procedure—Real Property must be applied wherever reasonably practicable by a **valuer** in undertaking an **MVAU** valuation.

Explanatory notes

- (1) The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations in relation to valuations of any real property for any purpose.
- (2) This standard has 'best/good practice' status and must be applied wherever possible by a **valuer** in undertaking an **MVAU** valuation.

A8 Applicable MVAU valuation methods

Requirement

The assessment of **MVAU** must, where reasonably practicable, be determined by application of the following valuation methods:

- (a) direct sales comparison approach;
- (b) notional subdivision / residual value approaches; and
- (c) discounted cash flow approach (using cash flows from an alternative use).

Explanatory notes

- (2) **Land** held in single ownership and having an area in excess of the size typical for that class of **land** and which is capable of subdivision is generally known and described as 'block land'. The principal methods of valuing block land are the-
 - (a) direct sales comparison approach; and
 - (b) notional subdivision / residual value approaches.
- (3) The direct sales comparison approach may be analysed and assessed on an area basis or zonal basis. Notional subdivision / residual value approaches may utilise discounted cash flow techniques given the size of the land holding and likely assumptions around a staged sell down (or values in the case of an investor) of post-development sections or properties.
- (4) Application of accepted valuation practice will generally require a **valuer** to apply a number of valuation methodologies as this will improve the confidence in the valuation. On this basis, the Commission requires that both of the valuation methods in clauses A8(a) and A8(b) be employed wherever this is reasonable practicable.
- (5) In addition, a **land** valuation using discounted cash flow analysis is permitted where the **valuer** clearly describes the basis for the alternative use of the **land** and is able to demonstrate that the forecast cash flows in an alternative use are

not those that arise from operation of the site as an **airport**, nor from a use to the extent that it is influenced by **airport** activities. If the method in clause A8(c) is used, it would be expected to further improve the confidence in the valuation obtained under methods in clauses A8(a) and A8(b).

A9 Practical valuation requirements

Requirement

In undertaking an **MVAU** valuation, the **valuer** must-

- (a) value **land** as aggregated and notionally vacant;
- (b) have regard to designation, zoning and other district plan and legal requirements applying to the **land**;
- (c) rely on evidence of sales of **land** as comparable market-based data only to the extent the sales were unaffected by the **supply of specified airport services** and, where the evidence relates to sales to, or by, **airports**, the transactions in question occurred on an arm's-length basis);
- (d) exclude airport conversion costs; and
- (e) exclude allowances for remediation expenditure.

Explanatory notes

Land to be valued as aggregated parcel

- (2) The value of **land** is to be assessed by reference to market data for the **highest and best alternative use**. **Airports** usually comprise a substantially sized **land** parcel and should be valued as an aggregated parcel (which may be made up of multiple titles) of a size equal to that attributed to the **supply of specified airport services**. The valuer should assume an orderly sale of the aggregated **land** (in economically manageable parcels) over such time as would likely be needed to achieve the highest and best alternative use of the land.
- (3) While the **valuer** should value the **land** as an aggregated parcel, consideration should also be given to the physical characteristics of the **land** (including contiguity), existing title and easement arrangements, zoning and adjoining land uses, all of which will likely influence the alternative use(s), so as to maximise the value in the **land's** alternate use(s).

Designation, zoning, district plan and other legal requirements

- (4) The **land** is likely to be designated or zoned for the various aeronautical activities of the **airport** owner. In addition to considering the likely alternative uses for the **land**, the **valuer** should also consider the likelihood of the designation being uplifted or the land rezoned, and costs (if any) likely to be involved in this.
- (5) Should the **land** be subject to other restrictions or impediments, e.g. **easements**, reserve or endowment status, offer-back obligations etc., allowances for items such as these should typically be by way of a deduction from the assessed 'unencumbered' alternative use market land value. Such deductions should represent the extent to which the **valuer** considers such memorials/interests would affect the market value of the **land** (i.e. be applied in the market). Any material discounts should be justified by the **valuer**.

- (6) Specialist planning and legal advice may be required to assist the valuer in the above matters.

Land sale evidence

- (7) When determining an **MVAU** value for an airport, it is important to ensure that data for establishing comparable sales or as inputs into notional subdivision / residual value approaches is, wherever reasonable and practical, drawn from transactions that are unaffected by existing **airport** influences. Comparable sales for **land** would ideally be located adjacent (or in close proximity) to the **land** being valued and unaffected by the **supply** of **specified airport services**.
- (8) A **land** sale by, or to, the **airport** can be considered to provide acceptable marked-based evidence of a comparable sales where it is demonstrated to have occurred on an arm's-length basis, and only to the extent that the price and other terms of the sale are demonstrated not to have been influenced by the fact that **specified airport services** are supplied by the **airport**.

Conversion to airport costs

- (9) Costs incurred in the conversion of **land** which, while typically required for the development of an **airport**, are unlikely to be required for the development of the land in its **highest and best alternative use**.
- (10) For example, **airport** development requires the formation of a level and stable platform suitable for the construction of runways, taxiways, terminal and associated infrastructure. As such, the requirement for earthworks will be greater than that required for typical commercial, residential and rural alternative uses.
- (11) The **MVAU** valuation must exclude the value of costs to the extent that the costs are required specifically to convert the **land** into that suitable for the **supply** of **specified airport services**.
- (12) In addition to those more commonly identified airport **land** development works, individual **airports** may also have unique development costs. Nevertheless, the **valuer** should only include in the **MVAU** valuation such **land** development costs that would be included in the alternative use of the **land**.
- (13) Airport development costs that should be excluded from an **MVAU** valuation include-
- (a) costs of resource consents for airport development (however, costs of resource consents relating to the alternative use can be included);
 - (b) holding costs during **airport** development (however, holding costs relating to the alternative use can be included);
 - (c) costs of earthworks necessary for the formation of the level airport platform;
 - (d) costs of any land reclamation or dredging;

- (e) costs of sea-wall or other coastal protection systems save for those necessary for the alternative use;
- (f) cost of airport-specific drainage systems including retention ponds save for those necessary for the alternative use;
- (g) professional fees, e.g. those for surveyors, engineers, and planners with respect to the above-mentioned activities; and
- (h) any other costs incurred in the conversion of land so as to provide **specified airport services**.

Land to be valued as notionally vacant / no allowance for remediation costs

- (14) When assessing the **MVAU**, the **valuer** must assume that the site is vacant and unencumbered by any airport-related improvements.
- (15) As such there must be no deduction made for any remediation or demolition costs, including the costs of-
 - (a) demolition/crushing and removal of concreted and sealed surfaces such as runways, taxiways, aprons, roading, kerbs, and channels;
 - (b) demolition and debris removal of **airport**-specific buildings and structures such as terminals, hangars, fire rescue buildings, control tower, and fuel depots;
 - (c) removing above- and below-ground utilities, such as pipelines and cabling required for airport specific activities like fuel pipelines, tanks, runway drainage and lighting, and approach lighting; and
 - (d) clean-up of potential site contamination such as contamination occurring through aircraft and maintenance operations by spills of aircraft and vehicle fuels, paints/solvents, fire fighting foams, underground and above ground storage tanks, radioactive materials, asbestos, PCBs, pesticides and herbicides or battery acids, or through the operation of waste disposal facilities, vehicle storage, dredging operations, building construction and underground and above ground utility lines/pipes.

A10 MVAU valuation steps

Requirement

In undertaking an **MVAU** valuation the **valuer** must-

- (a) establish and compile a schedule of the **land** parcels that are to be included in the **MVAU** valuation;
- (b) confirm ownership, tenure and aggregated **land** area;
- (c) determine the existing or underlying zoning of the **land** or designations, and the likely zoning of the **land** for the **highest and best alternative use**, including the likelihood of zoning change or uplifting of designations;

- (d) consider and determine the **highest and best alternative use**, which must be-
 - (i) physically possible;
 - (ii) appropriately justified;
 - (iii) legally permissible; and
 - (iv) financially feasible;
- (e) consider resource management (including reserve) requirements, amenities in the area, and access to services;
- (f) for notional subdivision / residual value approaches-
 - (i) prepare a land development plan (in conjunction with a planner, where considered necessary by the **valuer**). This should demonstrate the **valuer's** view of the likely **highest and best alternative use** development of the **land**, and provide evidence for the assessment of inputs into the notional subdivision / residual value approaches;
 - (ii) determine market demand for the proposed development and the time period for the sale or realisation of the developed **land** in a notional subdivision or development;
 - (iii) determine the direct costs of developing the **land**, including but not limited to, e.g. roading, supply of services, legal, sales costs etc.; and
 - (iv) determine any indirect costs of developing the **land** e.g. the developer's holding costs, **local authority** rates etc.;
- (g) undertake market research and obtain comparable sales information to support the alternate **land** uses selected including both block sales and developed **land** sales if both a direct sales comparison and notional subdivision / residual value approaches are to be used;
- (h) apply suitable adjusted market evidence to **airport land** as required, and taking account of whether a direct sales comparison or notional subdivision / residual value approaches are to be used;
- (i) reconcile the results of the valuation approaches used and determine a final value for the **highest and best alternative use**; and
- (j) prepare a valuation report, incorporating all disclosures required by the relevant **valuation standards**.

Explanatory notes

The steps outlined in clause A10 are required to achieve comparability between **airport land** valuations for the purpose of regulation under Part 4 of the **Act** and to allow a valuation to be understood in that context. These steps must be followed by a **valuer** in undertaking an **MVAU** valuation when valuing **airport land**.

A11 Data sources

Requirement

The **valuer** must use sufficient and appropriate data to support an **MVAU** valuation consistent with the requirements of IVS 2.

Explanatory notes

- (1) There are a variety of data sources available to the **valuer** when making the assessment of value for **airport land** in an alternate use.
- (2) Some of these sources will be formal data and information offered by third party suppliers. Other sources may be relevant, particularly when obtaining direct cost information such as surveying, engineering, and construction data. The **valuer** should clearly identify and support all sales / market / cost information obtained.