

Topic: Initial regulatory asset value for land



Notice of Input Methodologies Amendments (High Court Appeals – 27 November 2014)

Amendments to the Commerce Act (Specified Airport Services Input Methodologies)
Determination 2010 (Commerce Commission Decision 709, 22 December 2010)

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 ~~2009-2010~~** 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.

Auckland Airport response at time of draft orders

- We did not wish to create inefficiencies for our own business or the Commission's when these could be reasonably avoided
- Supportive of transparency provided that it is meaningful and efficient for all involved
- Considered that complex changes to the IMs may not be best way to give effect to the High Court decision

Industry response as part of the s56G

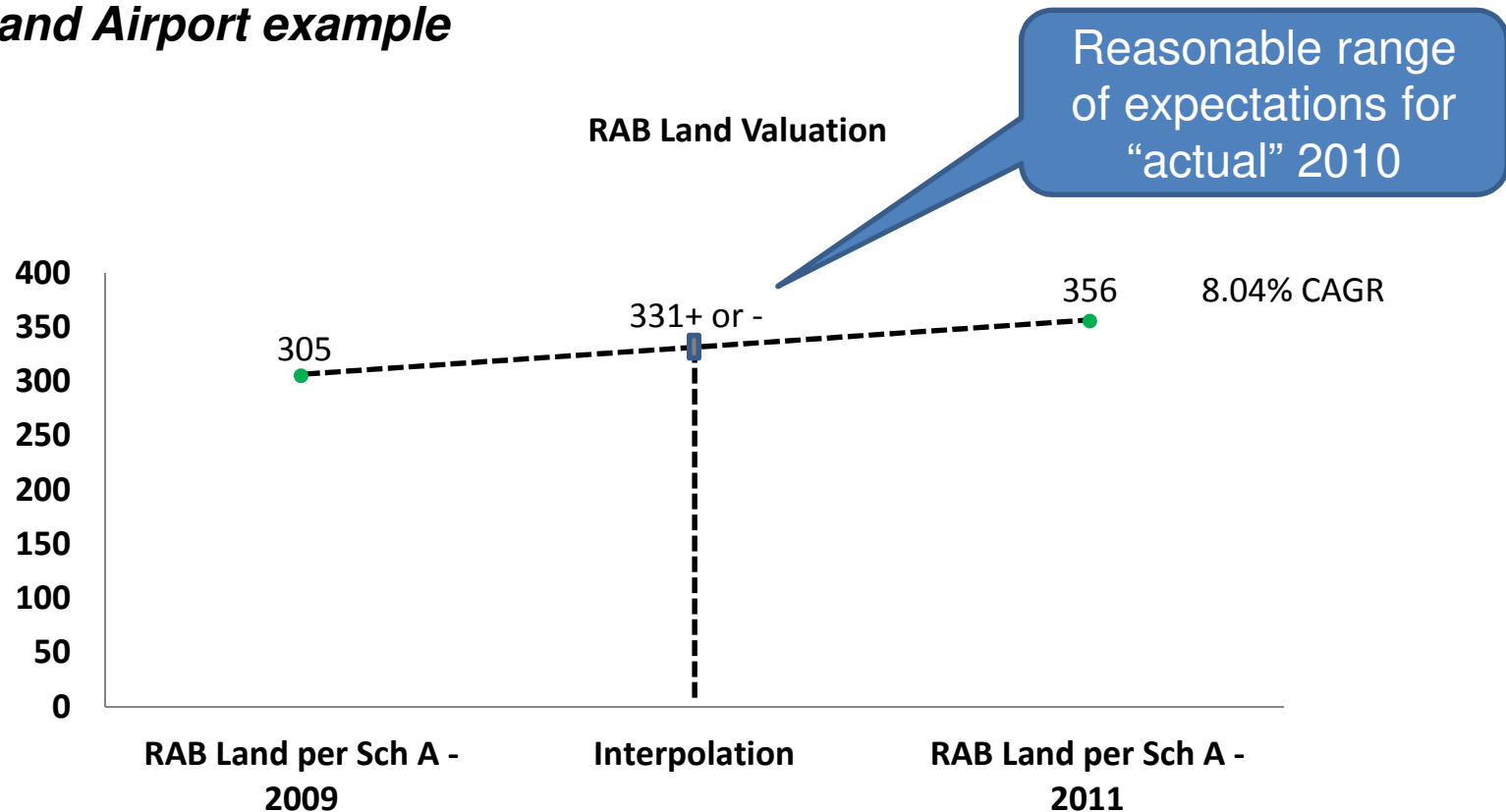
- BARNZ – while updating the s56G analysis for Auckland Airport would result in a different quantification of the return targeted by the airport, it would not affect the Commission's overall conclusions “strengthening rather than altering the Commission's conclusions.
- The later asset valuation date would not change the conclusions presented in its final s56G reports for any of the three airports
- BARNZ, AirNZ, Auckland Airport and each of the airports supported the Commission's pragmatic proposal not to update the analysis
- BARNZ noted that such an exercise would merely have caused a delay of at least six months of the finalization of the s56G review process, while not affecting the outcome in a material way

How to determine a 2010 IM compliant land valuation

- 2010 MVAU logical starting point for ID regime if merits review proceedings had been determined quickly
- All airports had revalued land assets since 2009
- Cost / benefit - minimal practical difference to carrying disclosure values
- No requirement to “re-disclose” initial RAB under the ID requirements
- Nevertheless we appreciate there may be interest from the Commission in having an initial RAB reference point

Interpolation of land values for the initial RAB

Auckland Airport example



Note: Items in green – based on market valuations

Putting the change to the Initial RAB date in perspective

- Current disclosed value of RAB land would be the same as all airports have disclosed new values since 2010
- Amended IM would affect initial RAB (one-off disclosure) and disclosed ROI in FY11 (revaluation impact) – no ongoing impact on disclosed values

The way forward – A pragmatic answer to a technical problem


- Query whether a requiring a new valuation is an appropriate solution to the matter at hand
- Initial RAB already involves different dates for different classes of assets
- Efficient approach would confirm new valuations not required for land assets and would not make material differences to disclosed values or transparency
- Therefore we recommend that the initial land values could be proxied by an interpolation of 2009 and subsequent valuation
- This gives a clear and pragmatic starting point for the RAB value at the start of ID
- Broad support for pragmatism in industry at time of discussions


Discussion


For airlines and airports

- Setting the fast track land valuation issue aside what is the stakeholder response to an interpolation of existing land valuations for each airport?
- How does the fast track issue affect stakeholder views?

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