

Airport Services (Weighted Average Cost of Capital percentile) Input Methodology Amendments Determination 2015

[2015] NZCC 16

Input methodologies made under Part 4 of the Commerce Act 1986

The Commission:

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Date of decision:

10 June 2015

Associated documents

Publication date	Determination number	Determination title
22 December 2010	ISBN: 978-1-869454-38-8	Commerce Act (Specified Airport Services Input Methodologies) Determination 2010 (consolidation as of 14 November 2014)

Commerce Commission
Wellington, New Zealand

Introduction

Purpose of this paper

1. This paper sets out our decision on amendments to the input methodologies relating to the weighted average cost of capital (**WACC**) percentile that applies to airport services regulated under Part 4 of the Commerce Act 1986 (the **Act**).

Background

2. On 31 March 2014, we issued a notice of intention (**notice of intention**) under sections 52V(1) and 52X of the Act to begin work on potential amendments to input methodologies including the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010 (**Airport Services Determination**).¹
3. The work on potential amendments included the appropriate percentile of the WACC range to use for the purposes of information disclosure of airport services. The notice of intention set out our indicative timeframes and process for reaching a final decision on the proposed amendments.
4. On 23 June 2014, we announced that, given the time-constraints due to the impending price-quality path resets for electricity, we would prioritise reconsideration of the WACC percentile in relation to electricity lines and gas pipeline services, and defer our consideration of the WACC percentile in relation to airport services.²
5. On 27 February 2015, we issued a proposal to consider the WACC percentile for airport services as part of the input methodologies review (**27 February 2015 proposal**).³

Our decision on input methodologies amendments to the WACC percentile for airports

6. We have decided not to make amendments to the airport services WACC percentile at this time. A key consideration in our decision has been the upcoming review of the input methodologies under section 52Y of the Act. We advised today that we have commenced this review,⁴ and that this will cover all aspects of the Airport Services Determination, including the WACC percentile for airport services.
7. Submissions received in response to our 27 February 2015 proposal were largely supportive of rolling the airport services percentile process into the review.

¹ Commerce Act (Specified Airport Services Input Methodologies) Determination 2010 (Commerce Commission Division Decision 709, 22 December 2010).

² Commerce Commission "Further work on cost of capital input methodologies: Process Update" (23 June 2014). The WACC percentile applicable to price-quality regulation was determined on 30 October 2014, the WACC range for information disclosure for energy services was determined on 12 December 2014.

³ Commerce Commission "Further work on the cost of capital input methodologies for airports – Proposal to consider the WACC percentile for airports as part of the input methodologies review", 27 February 2015.

⁴ Commerce Commission "Notice of Intention: input methodologies review" 10 June 2015; and Commerce Commission, "Covering letter to notice of intention: input methodologies review" 10 June 2015.

8. Both Air New Zealand⁵ and BARNZ⁶ stressed their preference that a decision on the WACC percentile is reached in time for Auckland and Christchurch Airports to take any changes into account in resetting their prices in 2017. BARNZ and Air New Zealand seem to agree that considering the WACC percentile as part of the review will achieve this, provided that the review is completed by the end of 2016. BARNZ submitted that if that if a decision on the WACC percentile cannot be made by December 2016, then it should be separated out on an earlier timeframe from the rest of the review.⁷
9. NZ Airports agreed that it is appropriate to consider the WACC percentile for airports as part of the review;⁸ Christchurch Airport supported the NZ Airports submission.⁹
10. However, Christchurch Airport also noted the long lead in time to resetting prices: a December 2016 completion date for the review means that Christchurch Airport's price-setting process will be well underway before the review is completed. As such, Christchurch Airport submitted that a December 2016 completion date may not achieve the Commission's intention of ensuring that any change in the WACC percentile for airports is able to be reflected in Christchurch Airport's 2017 price reset.
11. We acknowledge that there are some elements of the airport IMs that may need to be considered and, if appropriate, amended well in advance of December 2016 (eg, land valuation). This may be needed where any amendments need to be made in sufficient time so that the outcomes of applying these rules are available in time to be used for the 2017 airport price-setting events. Accordingly, in our covering letter to the notice of intention to commence the IM review,¹⁰ we have invited submissions on whether we should fast track the review of any particular aspects of the IMs and any resulting amendments. We expect to make a final decision on whether to fast track the review of any aspects of the IMs relating to airport services by 3 July 2015.

⁵ Air New Zealand "Comments on proposed review of input methodologies" 20 March 2015, page 1. Air New Zealand did not explicitly refer to Christchurch and Auckland Airports' price setting in 2017 as the reason it favours that any change to the IMs to be in place by 1 January 2017, but we assume this is the reason.

⁶ BARNZ "Review of input methodologies" 23 March 2015, pages 1-2.

⁷ BARNZ "Review of input methodologies" 23 March 2015, pages 1-2.

⁸ NZ Airports "Proposed scope, timing and focus for the review of input methodologies, and further work on the cost of capital input methodology for airports" 20 March 2015, paras 8(a) and 9.

⁹ Christchurch Airport "Input methodologies review" 20 March 2015, para 2.

¹⁰ Commerce Commission "Notice of Intention: input methodologies review" 8 June 2015; and Commerce Commission, "Covering letter to notice of intention: input methodologies review" 8 June 2015.