Topic – Land held for future use as a second runway

Auckland Airport

Treatment of future development land

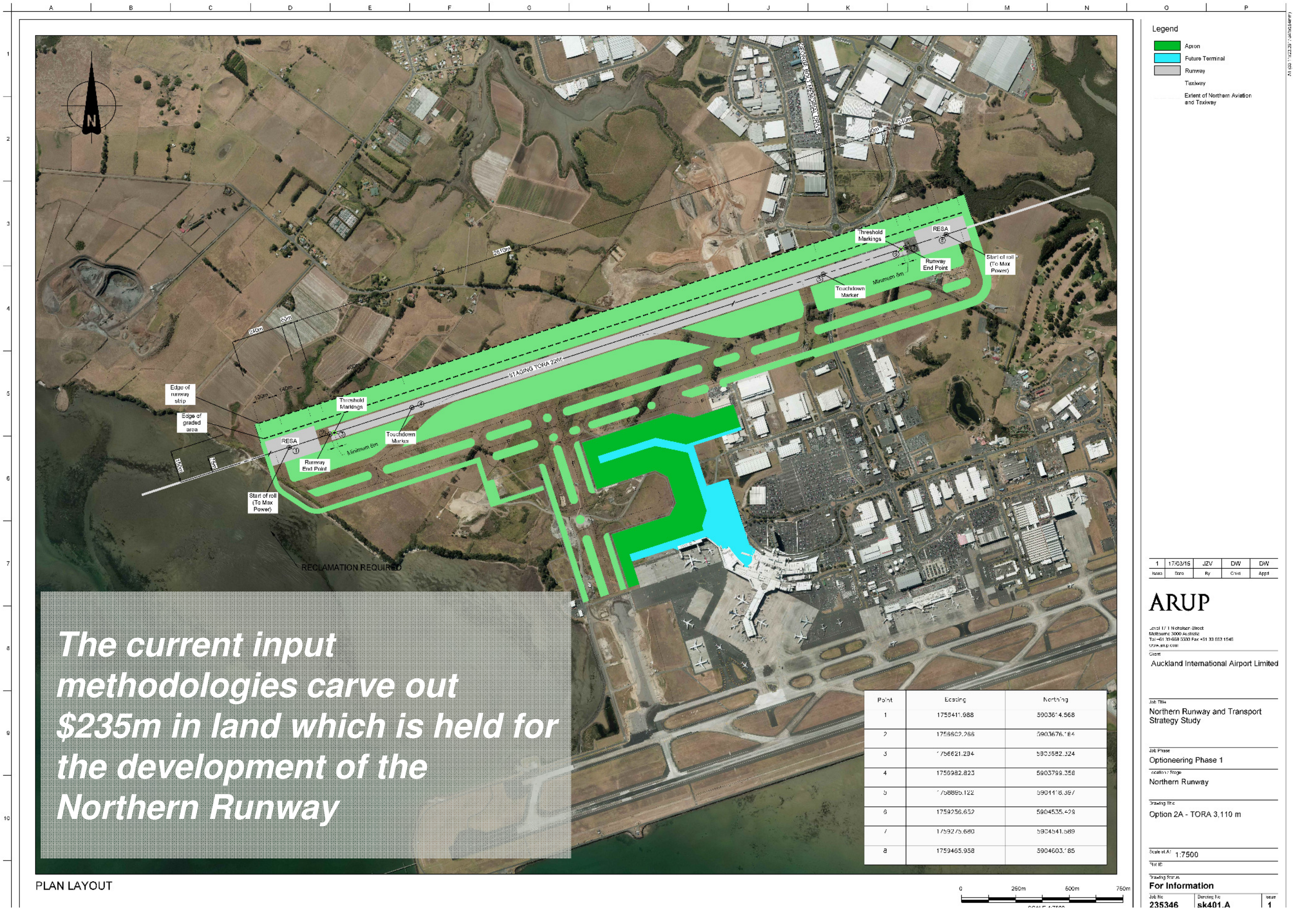
IM Determination

4.3.74 Land is to be excluded from the RAB unless it is currently used in the supply of specified airport services. This means that land being held or developed for future use—i.e. future development land—will not be included in the initial RAB.

214 Airports can nevertheless expect to be able earn a full return on and of the costs incurred in holding and developing this land without profits appearing excessive, provided it is eventually commissioned for use to supply airport services. This land will therefore enter the RAB once demand is sufficient to justify expansion of the Airport – not before

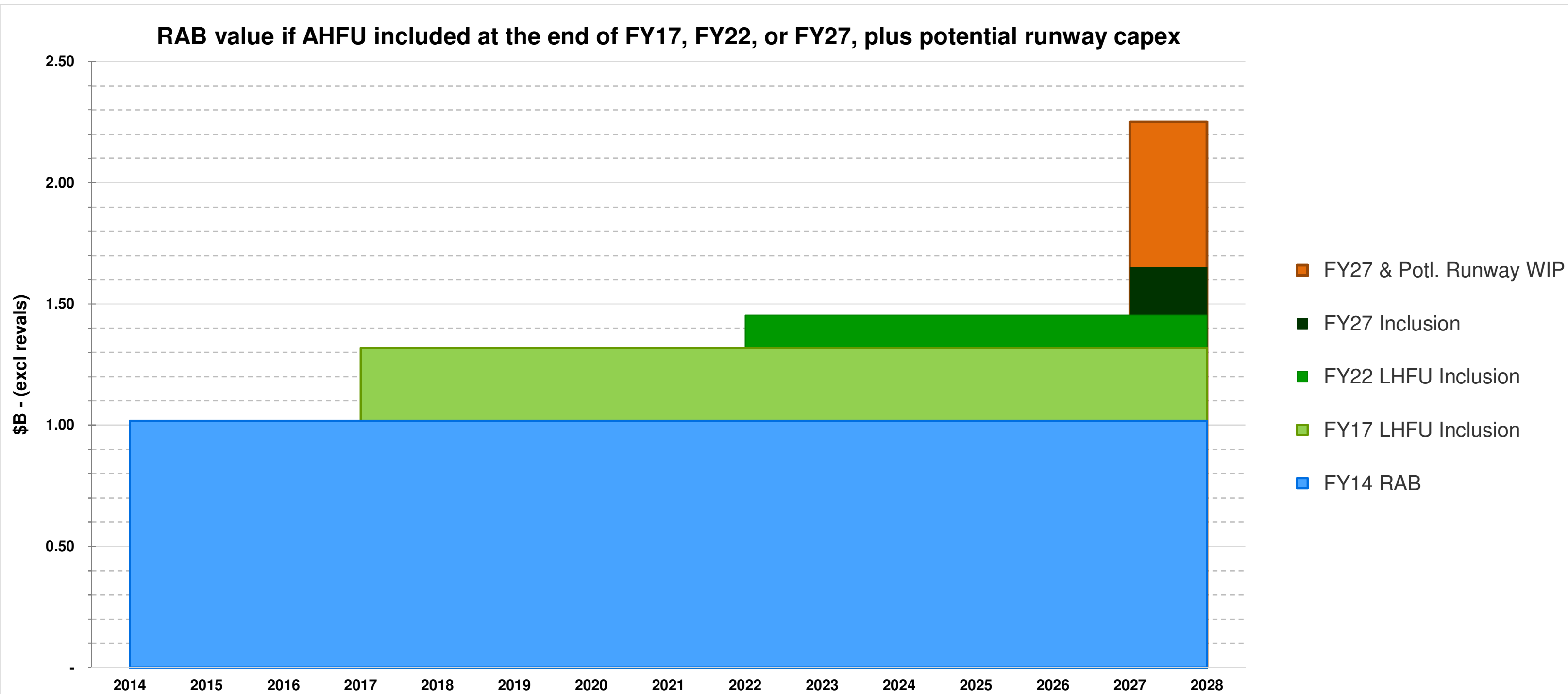
Auckland Airport

The current input methodologies carve out $235m in land which is held for the development of the Northern Runway



Point	Easting	Northing
1	1756411.988	5903614.568
2	1756602.266	5903676.184
3	1756621.234	5903682.324
4	1756982.823	5903799.356
5	1758895.122	5904418.397
6	1759256.632	5904535.429
7	1759275.680	5904541.589
8	1759465.958	5904603.185

- AHFU carrying value is forecast to grow from ~$300m at the end of this pricing period (June 2017), to more than $400m by the end of PSE3 (2022) and more than $600m by the end of PSE4 (2027).
- Northern runway capex is not yet costed, but could conceivably match compounded LHFU value in FY27.
- Introduction of AHFU into the RAB on either of those dates would increase Auckland Airport's RAB compared with today by ~30%, ~43% or ~62% respectively with a consequential impact on aeronautical prices. Inclusion of potential northern runway capex in FY27 could double the RAB increase, eg at the end of PSE4, to more than 120% versus FY14.



NZCC Reasons Paper

4.3.76 In reaching its view on this matter, the Commission notes that **no specific treatment is implied by the reference to workably competitive markets.**

While capacity constraints could cause higher prices for services supplied using existing land before congestion eases, relationships between suppliers and consumers could be such that the price would not rise until additional land comes into service, or price rises could be delayed even further into the future in order to encourage greater utilisation of the associated assets in the short- to medium-run.

High Court Merits Appeal

[908]

The extent to which an Airport seeks to recover the costs of assets held for future use, in the pricing it sets under the AAA, remains ultimately a decision for it. To the extent it considers appropriate, it can set prices to recover a return on such an asset, and comment on any apparently excessive ROI when it makes its ID disclosure

Decision 715 a sch 1 40/312/019798

Principles

Oxera

Assess assets for future expansion based on whether:

- It is prudently and efficiently held?
- Generates positive expected cost savings?
- There is reasonable expectation of future expansion?

Principles

- Is the method proposed transparent?
- Is the method proposed NPV neutral?

PSE 2 Consultation

Airline Feedback

- BARNZ did not support charges until such a runway is "used and useful"

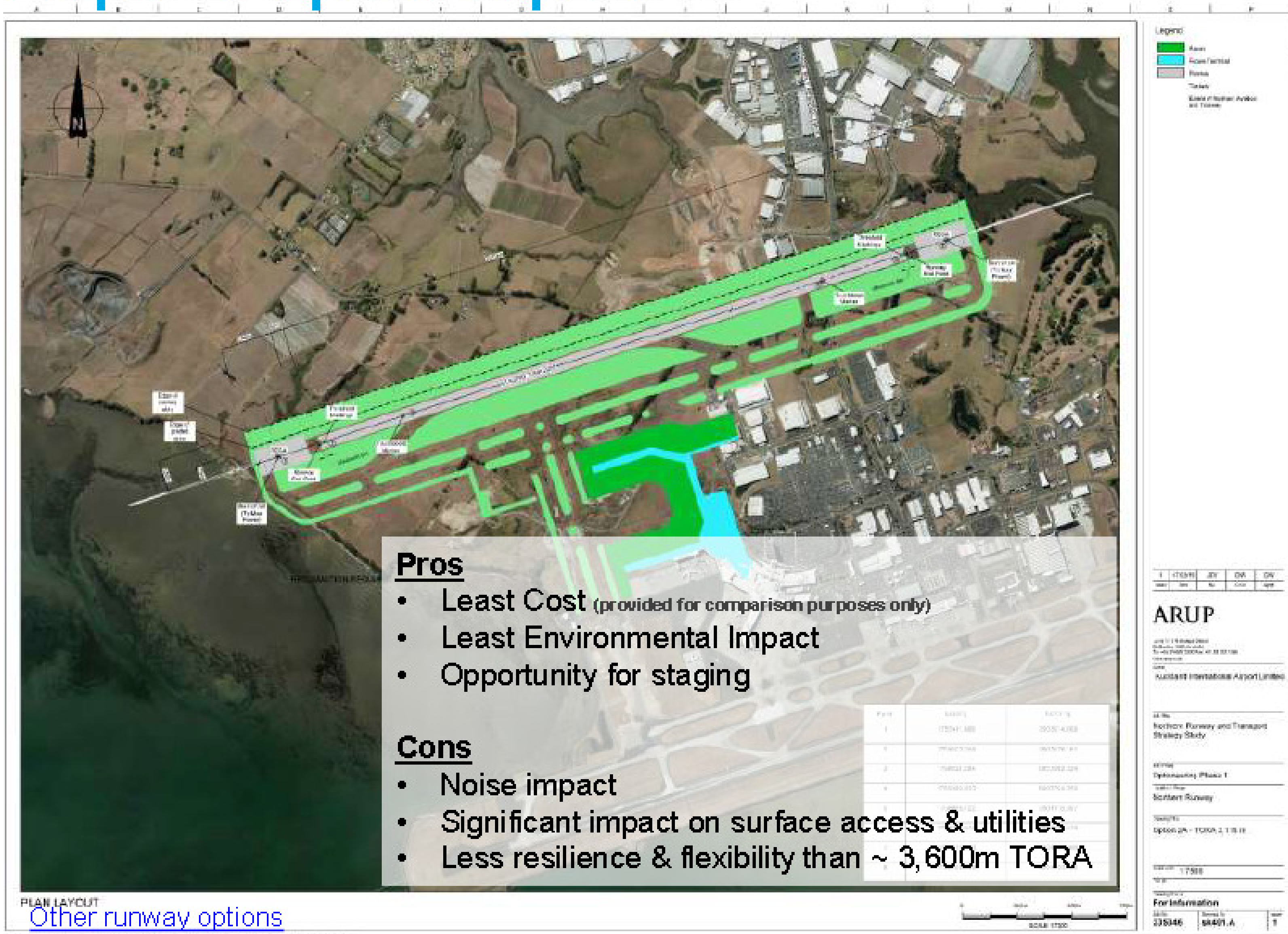
- Its economist Futures Consultants considered that pre-financing is inconsistent with workably competitive markets

- Some airlines consider that pre-financing of assets for future use is inequitable, as they would pay the same amount as a new entrant in future

Estina

- It would be inefficient not to signal how demand growth is driving the need for a major capacity-step investment in a second runway;
- A charge for the Northern Runway prior to commissioning is more consistent with efficient pricing; and
- There are inequities in the pricing of services by not signalling the cost of growing demand and instead pricing the services upwards just after a significant increase in the avoidable supply of the service.

Proposed Option - Option 2A



Pros

- Least Cost (provided for comparison purposes only)
- Least Environmental Impact
- Opportunity for staging

Cons

- Noise impact
- Significant impact on surface access & utilities
- Less resilience & flexibility than ~ 3,600m TORA

Other runway options

Existing IM Options :

- Excluded Assets IM and LHFU disclosure
- Non standard depreciation
- Other?

4.13.3 Proposal mechanism

The potential mechanism identified by Auckland Airport involves the following key steps:

- Track future use assets in much the same way as required by the Commission, as set in the following table:

4b(vii): Assets Held for Future Use

	Base Value	Holding Costs	Net Revenues	Tracking Revaluations	Total
Assets held for future use—previous disclosure year					-
plus Assets held for future use—additions					-
less Transfer to works under construction					-
less Assets held for future use—disposals					-
Assets held for future use	-	-	-	-	-

- consult through the ITF II governance group referred to in the capital expenditure section, to, in so far as possible, agree the timing and cost of the second runway with Substantial Customers;
- introduce a charge for the Northern Runway based on LRAC or a graduated price path;
- monitor the investment and change this by adding holding costs and varying it to reflect the actual outturn investment cost (higher or lower than forecast);
- offset all actual net revenues received prior to the date of commissioning, against the Northern Runway carrying investment value; and
- transition from a separate charge to standard pricing in the five year pricing period in which commissioning occurs.

Summary

There is no issue per se with the IMs (save a technical error in the AHFU)

The IM review should consider:

- What are the NPV neutral options for earning a return on assets held for future use? and
- If Auckland Airport explored price smoothing in future how could this be done in a way that meets the Commission's target outcomes ie:
  - clear assessment of profitability
  - both before and after price setting