



# Media Release

Issued 31`May 2010 /No 115

## **Important milestone in setting regulatory regime for airports**

The Commerce Commission has reached an important milestone in the setting of a new regulatory regime for airports under Part 4 of the Commerce Act.

The Commission has published its draft decisions and reasons on the input methodologies that will be applied to the Information Disclosure requirements for airports. The Commission has also released its draft Information Disclosure requirements and associated reasons.

In relation to input methodologies the key draft decisions that underpin the Information Disclosure requirements are that:

- the initial regulatory asset value for each Airport will be the value of non-current assets included in the airport's 2009 disclosed financial statements with an adjustment to the value of land using a Market Value Alternative Use (MVAU) valuation methodology;
- airports must revalue non-land assets annually using CPI indexation, and may revalue land before the start of a new pricing period using an MVAU methodology;
- airports must allocate costs by applying an accounting-based approach to cost allocation using causal factors;
- an airport's tax obligations must be estimated using a tax payable approach; and
- the Commission will produce and publish vanilla and post-tax cost of capital estimates of a five-year term for each airport on an annual basis using the Simplified Brennan-Lally model.

In relation to Information Disclosure, the key draft decisions are that airports will need to publicly disclose:

- historical financial performance;
- quality measures. These will include passenger satisfaction survey results, reliability, capacity and utilisation, and operational improvement measures;
- forecasts of their total revenue requirements (and related assumptions) after they have gone through their required consultation processes and set their prices;
- prices and pricing methodologies; and
- other key statistics.

When disclosing the financial information, airports will be required to apply the input methodologies set by the Commission, except the input methodology for the cost of capital.

The Commission has received detailed submissions from parties with differing views, and now moves into the most important part of the consultation process. Parties involved now have the opportunity to fully critique the Commission's draft decisions. Parties are expected to fully articulate, with supporting evidence, where they have a concern with any matter in the Commission's draft determinations and reasons.

"Given that this is a totally new regime, the Commission has engaged leading independent international experts to provide their views, which parties will also have the benefit of in preparing their submissions," said Dr Mark Berry, Chair of the Commerce Commission.

The Commission is working to a very tight statutory timeframe to determine the new regime for airports, and following a further round of submissions and cross-submissions will issue its final decisions on Input Methodologies by 31 December 2010 and Information Disclosure for Airports by 1 January 2011.

The Draft Input Methodologies (Airport Services) Determination 2010, and Input Methodologies (Airport Services) Draft Reasons Paper are available on the Commission website at [www.comcom.govt.nz/input-methodologies](http://www.comcom.govt.nz/input-methodologies) , and the Information Disclosure (Airport Services) Draft Reasons Paper and Draft Commerce Act (Specified Airport Services Information Disclosure) Determination 2010 are available at [www.comcom.govt.nz/airports-information-disclosure](http://www.comcom.govt.nz/airports-information-disclosure)

The Commission has also today released a joint report from its independent experts on “Asset Valuation in Workably Competitive Markets” with its draft reasons paper for Airports. This is available at [www.comcom.govt.nz/input-methodologies](http://www.comcom.govt.nz/input-methodologies)

The independent experts’ reviews of the draft decisions are now being undertaken and their reports will be released during the consultation period.

### **Background**

The airports regulatory regime will apply to specified airport services supplied by the companies operating Auckland, Christchurch and Wellington International Airports.

**Independent experts.** The independent experts engaged to assist the Commission with the airport input methodologies are:

- Professor George Yarrow, who is Chairman of the Regulatory Policy Institute, and Emeritus Fellow, Hertford College, Oxford University. Professor Yarrow has advised extensively on airport and energy regulation in the UK and internationally;
- Dr Martin Cave, who was Professor and Director of the Centre for Management under Regulation at Warwick Business School until 31 March 2010. He is currently an academic director at the Centre on Regulation in Europe (CERRE);
- Dr Michael Pollitt, who is a University Reader in Business Economics at the Judge Business School, University of Cambridge, an Assistant Director of the ESRC Electricity Policy Research Group (EPRG), and external economic advisor to Ofgem; and
- Dr John Small, who was an academic economist for 11 years and is now a consulting economist and founding director of economics firm Covec.

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