

29 May 2018

Commerce Commission  
Wellington 6140

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## Auckland International Airport's pricing decisions

We welcome the opportunity to submit on the Commerce Commission's draft report "Review of Auckland International Airport's pricing decisions and expected performance (July 2017 – June 2022)" published 26 April 2018.

Our comments are limited to Chapter 4 and the prices set by Auckland Airport. We have previously commented on application of different WACC percentiles to airports, and for information disclosure, and don't repeat those comments here.<sup>1</sup>

### Consistency of approach to network utility pricing

We have a particular interest in airport pricing because of the strong parallels, and lessons that can be learnt, across the different network utility sectors, including airports, electricity (both distribution and transmission), gas, roads, telecommunications and water. We would like to see a coherent and consistent approach, regardless of the sector and who the regulator is (if any).

Differences in pricing approaches across each of the sectors should reflect industry-specific, and/or individual operator-specific, circumstances.

### Towards a generic set of pricing principles applicable across all sectors

We consider the principles the Commission has used to assess Auckland Airport's pricing methodology are fundamentally sound.<sup>2</sup> We note there are any number of variants to the Commission's pricing principles that are equally valid.<sup>3</sup>

None of the Commission's pricing principles are industry-specific. We would be equally comfortable if the principles were applied universally, including in relation to electricity and electricity transmission.

However, there are nuances we would add for clarity - prices should be actionable, simple (no more complex than necessary), and understood:

- For "the price to ensure a good or service is consumed by those that value it the most" (principle 3) and that prices "enable consumers to make price-quality trade-offs" (principle 4), the prices should be actionable i.e. consumers need to understand and be able to respond to the price signal(s).

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<sup>1</sup> Transpower, Airport WACC percentile review consultation, 16 March 2016.

<sup>2</sup> Commerce Commission, Review of Auckland International Airport's pricing decisions and expected performance (July 2017 – June 2022), 26 April 2018, paragraph 275.

<sup>3</sup> For example, ENA, New Pricing Options for Electricity Distributors, A discussion paper for industry feedback, November 2016, page 3.

- Simplicity is an important building block to allow for “development of prices [to be] transparent, and promote price stability and certainty for consumers” (principle 5).

## The importance of peak-usage or capacity pricing

The consultation paper usefully illustrates there are a number of different reasons why peak-usage pricing can be a good idea, but whether it ultimately should be adopted can depend on industry or firm specific factors. Drawing on the consultation paper, we would summarise the reasons for considering the use of peak-usage pricing as:

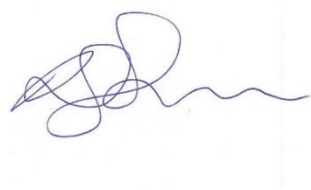
- Helping to ensure prices are subsidy-free (principle 1) – relevant where investment is driven by peak-demand. (The consultation paper is silent on this element but we consider it relevant).
- A way to delay or avoid the need for future investment in capacity expansion (principle 2) – this is relevant where peak-demand is price responsive.
- An efficient (non-distortionary) way to recover fixed and common costs (principle 2) – this is relevant where peak-demand is price responsive.
- As a corollary to the last point, to (efficiently) encourage greater off-peak demand (principle 2) – relevant where off-peak demand is price responsive.

The last three points are reflected, succinctly, in the consultation paper with the observation “Although there has been significant demand growth since PSE2, submissions from airlines suggest there may be little demand response to congestion charging. However, we note this lack of demand response may indicate there is room to increase charges at peak times while lowering charges to off-peak users who may be more responsive, and thereby increase overall demand. This is an area which would benefit from greater consideration”.<sup>4</sup>

We have emphasised the importance of our own peak-usage charges for curbing peak-demand and delaying the need for future transmission investment (we note this reason may not be as relevant to Auckland Airport’s circumstances or future investment (runway) needs). The role for peak-usage charging is likely to grow over-time with the emergence of new technologies. For example, if electricity network pricing (transmission plus distribution) does not send the correct signals then consumers could charge their electric vehicles at the same time, increasing or exacerbating existing peaks. As the uptake of electric vehicles increases the issue will become larger.

Finally, and as reflected in our strategic papers *Transmission Tomorrow* (2016) and *Te Mauri Hiko – Energy Futures* (2018), technological developments are changing consumer demand, and disrupting the link between population (GDP) and electricity demand. We see a much greater future risk that if investment is made earlier than necessary it could become obsolete. The potential for obsolescence is a much bigger concern than the simple loss of the time value of money from investing too early (but in something that will ultimately be needed).

Yours sincerely



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<sup>4</sup> Commerce Commission, Review of Auckland International Airport’s pricing decisions and expected performance (July 2017 – June 2022), 26 April 2018, paragraph 272.