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Submissions
Electricity Authority
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CONSULTATION PAPER - TRANSMISSION PRICING METHODOLOGY REVIEW - ISSUES AND PROPOSAL

Introduction

Auckland International Airport Limited ("**Auckland Airport**") makes this submission on the Electricity Authority's Transmission Pricing Methodology Review ("**Review**") because it believes the Review raises important issues for all economic regulation in New Zealand. Although Auckland Airport is an electricity distributor due to its ownership of electricity lines that serve the airport precinct, our comments are focused on matters of regulatory principle, rather than how the technical proposals may impact on us in that capacity.

Regulatory certainty is critical

Although we have not considered the proposals in detail, we understand that the Authority proposes fundamental changes to transmission costs allocation, including reallocating costs on sunk transmission investments undertaken since 2004. We understand that many electricity sector participants are concerned about the complexity of the proposal, and that it will result in costs for industry participants that are uncertain and challenging to estimate. There is also concern that the proposal is not sufficiently clear to allow industry participants to fully assess the impact on their businesses.

We understand that the proposal would have the effect of significantly altering the basis for recovering costs of past investments, and will therefore impact on the returns on those investments, in a way that could not be anticipated when the investments were made.

As an entity that has relatively recently been made subject to complex regulation under Part 4 of the Commerce Act 1986, we have much sympathy with those views. Like the electricity sector, airport infrastructure is long lived and capital intensive. The significant regulatory change that we are experiencing is making it much more difficult for us to proceed confidently with investment that is critical for the economy.

In our experience, investment in quality infrastructure relies heavily on providing investors with confidence that they will earn a reasonable return over the life of the assets. Capital providers place a premium on fundamental investment factors such as, the quality and stability of regulatory institutions, the quality and consistency of regulatory decision making and the ability to understand regulatory frameworks.

Given that New Zealand relies heavily on the ability to attract capital for critical infrastructure from international sources and that the Global Financial Crisis has made



access to overseas capital increasingly scarce, we cannot afford to be sending any adverse signals that will deter investment in New Zealand.

Clearly, confidence to invest in New Zealand's critical infrastructure will be severely undermined if volatility becomes a feature of the regulatory landscape. Specifically, New Zealand's investment appeal will be impaired to the extent regulatory decisions are seen to be reversible at short notice, result in significant asset value impacts, and which increase complexity and uncertainty around cost allocation.

Auckland Airport urges the Authority to exercise extreme caution before making significant regulatory change where the full consequences for the industry and New Zealand are unknown.

Transition period and further consultation

At the very least, there should be a lengthy transition period so that significant changes in cost allocation can be signaled well in advance and apply prospectively to avoid material shocks.

In conclusion, it appears to Auckland Airport that the Authority must undertake further consultation, once the details and implications of its proposals have been clearly outlined to all affected parties.

Given that the Authority's decision-making has the potential for adverse consequences in all critical infrastructure sectors, we encourage the Authority to seek advice from a wide range of sources including Treasury, the Reserve Bank, the investment community, rating agencies and infrastructure operators.

Yours sincerely

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