30th June 2010

Dublin Airport Authority

helping you on your way

DAA's Comments on Submissions in Response to CP1/2010

1 INTRODUCTION 2

2 DIFFERENTIAL PRICING 3

3 T1X INCREMENTAL REVENUE AND REMUNERATION 11

4 T2 RETAIL AREA 13

5 DAA APPEAL: MATTERS REFERRED TO THE COMMISSION 14

5.1 PRM Revenues 14

5.2 Treatment of Inflation in the Reconciliation of CIP2006-2009 15

5.3 Disallowance of Pier D Cost 15

5.4 Disallowance of Pier D Fit-out and TFL Costs 16

Appendix I – Media Reports on the Opening of T2

Appendix II- DAA Commentary on Ryanair Assessment of Differential Charge

1 Introduction

DAA would like to take this opportunity to comment on other parties' responses to Commission paper CP1/2010 'Consultation on the Decisions of the 2010 Aviation Appeal Panel'.

For the purpose of this submission, DAA has limited its response to comments on a number of specific points raised in the various other party responses. This is without prejudice to DAA's own views as set out in its submission in response to CP1/2010.

DAA would like to reiterate the fact that among the various issues being considered by the Commission following the decisions of the Aviation Appeal Panel, the matter of differential pricing is an issue of critical importance for the financial viability of DAA and the future shape of the Irish aviation market. In addition, given the likely ramifications of the outcome of this consultation process for the impending opening of T2 and its predicted significance for the Irish economy, this will be an issue of national importance (Appendix 1 contains extracts from a number of articles commenting on the likely economic impact of the opening of T2).

For ease of reference, DAA has set out its comments in relation to the other party submissions under the headings of the appeal grounds.

2 Differential Pricing

DAA welcomes the fact that out of a total of nine responses to CP1/2010, seven respondents have concurred with DAA and with the approach of CAR in the Determination and have clearly expressed their objections to differential pricing. Opposition for differential pricing appears to be wide reaching with notable industry representatives such as Aer Lingus and IATA and wider stakeholder groups including IBEC, ITIC and Dublin Chamber of Commerce voicing their concerns regarding the possible introduction of such a potentially detrimental change in pricing policy.

"*There is no business case for differential pricing at Terminal 2 (T2).*"[1]

"There is no justification on economic grounds for differential pricing between the two terminals."[2]

"Airport charges should be the same throughout each airport with no differential charging between airport terminal buildings to maintain a level playing field and fair competition."[3]

Support for differential pricing appears to be limited to airlines such as CityJet and Ryanair. In the case of the CityJet, its rationale for the introduction of differential pricing is unsubstantiated. In contrast, Ryanair is calling for the implementation of differential pricing on the basis of a number of spurious arguments which DAA will comment on further below.

JUSTIFICATION FOR DIFFERENTIAL PRICING

In its submission regarding differential pricing, Ryanair calls on the Commission to mandate differential pricing at Dublin Airport between T1 and T2. In support of its position, Ryanair argues that a low cost terminal is required to serve low cost airlines and in the absence of a low cost terminal having been built by DAA, differential pricing should be introduced in order to end allegedly anti-competitive abusive pricing practices of DAA. Ryanair's arguments however are seriously flawed and incorrect.

Contrary to what is suggested by Ryanair, it does not follow from the fact that there is no "low cost" terminal at Dublin Airport that differential pricing at T1 and T2 must be introduced. Ryanair appears to believe that it is entitled to pay a lower price, if not by using a low cost terminal, then through the introduction of differential pricing. There is no reason why this should be so. As DAA

[1] Dublin Chamber of Commerce Response to CP1/2010 page

[2] Aer Lingus Response to CP1/2010 page 2

[3] IATA Response to CP1/2010 page 2 paragraph 2.2

comprehensively explained in its response to CP1/2010, in the absence of a low cost terminal at Dublin Airport (in accordance with the outcome of the consultation that led to the construction of T2) differential pricing between terminals could only be legally justified if there was an actual difference in the nature or level of service provided, regardless of the airlines which avail of the services concerned. This is patently not the case at Dublin Airport and neither Ryanair or CityJet have provided any evidence to support the view that there is likely to be a difference in service standards between T1 and T2. Ryanair has not addressed the issue as to what services they believe to be different or of a higher quality in either T1 or T2. Furthermore, despite various statements to the Appeal Panel which describe the use of IATA service level standards as being "meaningless", Ryanair has also failed to provide any alternative recognised methodology for assessing service levels. In contrast, IATA, the international airline representative body has highlighted in its response to the Commission's consultation process that not alone is there no actual differentiation in service between the terminals, but that the entire basis of the planning and design for T2, in which this party played an extensive role, was that no such differentiation would be implemented. IATA have further stated that

"We believe it would be unfair and unreasonable for CAR to now consider differential pricing, which would also create significant distrust for the airlines on any future CAR or DAA decision process"[4]

As T1 and T2 are both designed to operate to the same level of service, in these circumstances, there is no economic justification for the discrimination of users through the introduction of differential pricing between T1 and T2 in favour of T1 .

In this context, there is no basis whatsoever to Ryanair's claim that DAA would be abusing a dominant position by not differentiating the level of prices in T1 and T2.

- DAA does not accept that the relevant market for the provision of airport facilities is "the Greater Dublin region" and/or that DAA would have a "monopoly/dominant position" on that market, as contended by Ryanair.

- Even if DAA had a dominant position, which is not the case, DAA rejects in the strongest terms any suggestion that its pricing policy would constitute an abuse of that position. In particular, DAA's pricing policy cannot be considered to be "uniform" in the manner suggested by Ryanair. As Aer Lingus's submission attests, "DAA already operates a system of pricing for different services that allows airline operators with different business models to choose from a menu of services in a way that best fits their business model"[5]. DAA provides airlines

[4] IATA Reponse to CP1/2010 para 2.7

[5] Aer Lingus Response to CP1/2010 page 3

with "the appropriate mix of facilities, to the extent that this is practical" wished for by the Commission, as recalled at paragraph 12 of Ryanair's submission. There is therefore no merit to Ryanair's fanciful suggestion that DAA is "bundling 'basic' access … with the provision of high cost/specification facilities". Dublin Airport does not have a choice of basic facilities and high specification facilities. Rather, DAA provides non-discriminatory access to its facilities which are designed at IATA LOS C. These are not "high cost specification" which would have the effect of benefiting "high fare" carriers at the expense of "low fare" carriers. DAA denies in the strongest terms that its pricing policy harm consumers and airport users and distorts competition in the downstream market for air travel; rather, as explained in DAA's previous submission, it is the introduction of differential pricing between T1 and T2 which would be likely to distort downstream competition at Dublin Airport.

In its submission in response to CP1/2010, DAA explained how, in the absence of a difference in the level of services, the introduction of differential pricing at T1 and T2 would lead to the stranding of assets, contrary to the Commission's statutory objective to ensure the sustainability and financial viability of Dublin Airport. . For the same reasons, DAA believes that Ryanair's claim that differential pricing would enhance airport resource allocation is flawed. There is a very real possibility that differential pricing would leave T2 unused. This possibility has been acknowledged by a number of respondents to CP1/2010.

"*Differential pricing between T1 and T2 would create precisely the sort of distortion that the Commission has highlighted. In fact it would leave T2 virtually unused which would defeat the whole object of expanding terminal capacity in the first place.*"[6]

Furthermore IATA the international airline industry representative warned

"*Any form of differential pricing at Dublin would inevitably encourage airlines to remain in T1 and resist moves to T2. Differential charging thereby creates an undesirable imbalance of demand between the terminals which also hampers flexibility and longer-term airport development.*"[7]

DAA also believes that Ryanair is misinterpreting the requirements of the Airport Charges Directive. In particular, it is not the case that the Directive would require the provision of "differentiated terminal services" within the meaning suggested by Ryanair. Rather, as is clear from Article 10.1 of the Directive, Member States are required to give the airport managing bodies the freedom to introduce different levels of services, in which case airport managing bodies also have the latitude to introduce

[6] Aer Lingus Response to CP1/2010 page 3

[7] IATA Response to CP1/2010 page 2 paragraph 2.5

differentiated charges, provided that the differentiation is based according to the quality and scope of the services and their costs or any other objective and transparent justification. This is clearly not what Ryanair is proposing.

Finally, DAA disagrees with Ryanair's suggestion that the correspondence between DAA and Ryanair's respective solicitors Arthur Cox and A&L Goodbody, exhibited as an appendix to Ryanair's submissions, confirms that DAA "refused to introduce differential pricing or even to constructively engage with Ryanair on the issue of differential pricing". On the contrary, as is evident from the correspondence, there was no attempt on the part of Ryanair to engage with DAA on the issue on any reasonable basis. The purpose of the correspondence initiated by Ryanair was, from the very first letter, to accuse DAA of abuses under the competition rules and demand that DAA accepts immediately the principle of differential pricing, under the threat of Court proceedings. When DAA requested in the context of that correspondence that Ryanair explain what it meant by "differential airport charges", this was done begrudgingly and "not for the purposes of [DAA] embarking upon a trail of correspondence or inquiry or request and counter request". These calculations, which DAA was thus not to contest or query, appeared to DAA to have been drawn "on the back of an envelope", had no proper economic foundation and were entirely unsustainable. Neither the context nor the content of Ryanair's correspondence was conducive to any examination of this issue and indeed it appears to be the precursor of more litigation from Ryanair.

Ryanair has now submitted further calculations to the Commission. DAA explains below why, in its view, these calculations and the basis for them are flawed and entirely inadequate for the purpose of pricing services at Dublin Airport.

RYANAIR'S ASSESSMENT OF THE DIFFERENTIAL PRICE

Even if the more important considerations of service levels and market demand did not arise, the biased nature of the computations put forward by and its antagonistic approach to the issue has clearly illustrated and reinforced the nature of the difficulties that in arriving at any sensible or legally defensible differential.

Ryanair has claimed that its analysis has demonstrated that the Commission could put itself in a position to calculate a differential price utilising the available information. However, Ryanair's own computation has clearly demonstrated that without further proper in depth analysis it is only possible to derive a flawed differential terminal charge which would be legally unsustainable. In its response to CP1/2010, DAA provided a preliminary outline of some of the complexities involved in carrying out an appropriate analysis to underpin a potential differential charge. This demonstrates that there are a substantial number of questions to be addressed in any such analysis with multiple permutations of possible answers.

In overall terms, it appears that the underlying basis for Ryanair's requirement for differential charging at Dublin Airport appears to be the desire to establish a competitive advantage over rival airlines- in fact a wholly self interested motivation. It is clear that there is no economic rationale to justify the introduction of differential charging at Dublin Airport and furthermore such a policy implementation is likely to be inconsistent with the Commission's statutory objective to ensure that Dublin Airport is developed to meet the requirements of current and prospective users in an economically efficient way.

Ryanair have presented the Commission with a number of alternative purported methodologies for deriving a potential differential charge between T2 and T1. These assessments are based on broadly the same starting point as DAA's high level analysis of the charging differential which was in turn based on the Commission's financial forecast for 2011 and which recognised that a large proportion of common costs exist within the airport facilities

As explained in more detail below, Ryanair's calculations are devoid of any economic foundation and are based on highly questionable assumptions, which appear to have been made with the sole purpose of arriving at a price which is suitably low in Ryanair's opinion, and sufficiently so to provide Ryanair with a competitive advantage over rival airlines. What Ryanair's calculations do, however, is support DAA's submission that the introduction of differential pricing at Dublin Airport, even if it was justified (which it is not) is a matter of high complexity and would require an overall change in the approach of the Commission to the regulation of airport charges.

DAA notes the following

- First, Ryanair's submissions illustrate that introducing differential pricing (assuming that it was justified, which it is not) is a matter of great complexity, in view of the number of assumptions and variables that would need to be examined. Thus, Ryanair proposes no less than three different answers for a single year (two detailed and one simplified version). This implies at least fifteen different permutations of differential pricing over the 2009 Determination period. DAA also notes that Ryanair's presentation of a "simplified" assessment is, in and of itself, an implicit recognition of the highly complex nature of the type of analysis required in each year of the determination period taking into account the multiple, interconnected, variables. The recognition that a large proportion of common costs exist in the airport facilities is also consistent with the DAA's own analysis.

- In addition to these permutations, Ryanair had set out in correspondence with DAA's solicitors Arthur Cox, exhibited in Ryanair's submission, another methodology for deriving a differential charge ("Note on Differential Pricing" on page 47 of submission). In that version the differential in 2011 was even higher (€17.20 vs €5.93) and the method of calculation was entirely different to that shown in either of the two versions (Tables A & B) in the body of the submission, giving rise to a further 5 differential charge permutations over the 2009 Determination period. This computation is arrived at in an equally disingenuous fashion and is described as relying on the "premise that T1 users should not be required to subsidise users of T2" but proceeds to do precisely the opposite by having T2 subsidise T1.

- Similarly the use of general (per passenger) measures of apportionment of cost and revenues to the various categories underlines the depth of analysis that would be required to actually complete a proper analysis, as highlighted in DAA's own response to CP1/2010.

- DAA notes that Ryanair's submission recognises that unitisation and differential pricing are mutually exclusive[8] and therefore that any attempt to impose differential pricing would necessitate a change in the Commission's current approach to depreciation.

- It appears upon review that Ryanair's calculations are based around the concept of a "redundant" element of T1. Ryanair however fails to provide any definition or rationale for such redundancy. In the absence of any supporting rationale, service definition or other methodology Ryanair simply reverted to assertions: asserting that part of the facility is redundant and that this amounts to a level of 40% across most cost and capital headings.

- The idea of a redundancy penalty appears to have been driven by the discovery by Ryanair on further examination that their assumptions about the outcome of a differential pricing computation would be thwarted by the combination of the efficiency of the operations of T2, the methodology of remuneration of T2 and associated assets and the commercial spend profiles of the passengers using each terminal. It is also clear that Ryanair have ignored the fact that the Commission set stretch targets for DAA in respect of the reduction in staffing levels and costs in existing facilities due to the transfer of services to T2.

[8] Ryanair appears to suggest that somehow adjusting for unitisation would lead to a further reduction in the costs associated with T1. Of course, what would be required is an increase in DAA's total revenues.

- DAA presented a high level analysis of the differential pricing result that might emerge using the Commission's own assessment of operating costs and remuneration of capital. This demonstrated that in fact the costs related to T2 were only two thirds of the equivalent costs for T1. DAA has also in Appendix II reconstructed Ryanair's analysis without the spurious 'T1R' concept, demonstrating that Ryanair's own approach would lead to charges in T1 being almost double those in T2.

- In this regard, Ryanair's reliance on the Commission's definition (from CP1/2007) of the user pays principle, namely that "*The charges users pay should only include the costs of the services that they are currently able to use."* involves a unique and self serving twist of the principle. Ryanair's view that users of T2, in addition to paying the capital and operating costs of T2, should also pay within the airport charge for T2 large elements of the same costs in T1 (between 37% and 42%), because parts of T1 following their departure to T2 would become redundant is unsustainable. It would even result in effectively imposing a penalty on new airlines at Dublin Airport who intend to occupy T2 although they would have never previously used T1. It also suggests that Ryanair would have happily paid c40% of the costs of the terminal that they vacated, had a low cost facility been built, a proposition which it is scarcely credible Ryanair would have agreed to.

- Similarly, the "alternative simplified" approach is a distortion of the underlying facts. Prices applying in the event that T2 was not operationally ready were presented as a scenario that ignored the previous commitments of the Commission to remunerate T2 once ready. More fundamentally, the denominator in this calculation is the total expected passenger base at Dublin Airport. This fails to reflect the change in the denominator for passengers no longer using T1 and to present this amount as a cap for T1 users is another spurious assumption by Ryanair.

- Ryanair have also clearly chosen to ignore the statements by the Commission in relation to the higher retail and commercial returns from different airlines and the reality that the transfer of long haul / non-EU passengers to T2 will dramatically increase the spend per passenger in T2 relative to T1. Ryanair have consistently benefited from this cross-subsidisation and have therefore simply chosen to assume a 60/40 split between terminals. In effect, they expect an outcome whereby T2 users cross-subsidise T1 users and Ryanair in particular not just by paying a large part of the operating costs but by not retaining the benefit of higher spend patterns.

- It should be noted that Ryanair have presented and seek to retain the €5m per annum T1X revenues within T1 notwithstanding their stated position regarding the remuneration of T1X where they have challenged the validity of these projected incremental revenues for T1X.

- However the most blatantly disingenuous assertion by Ryanair is that the same volume of passengers (and airlines) will use T2 regardless of whether a differential price is applied or indeed regardless of the scale of that potential differential. In addition to the statements by Aer Lingus and other airlines[9] that they will simply not use T2 in the event that any form of differential price is required, this also flies in the face of all previous arguments from Ryanair. Ryanair have consistently maintained that even modest increases in airport charges, such as the introduction of the aviation tax and even PRM or check-in charges can cause hugely significant reductions in passenger numbers. It should be noted that during the regulatory consultation period, the DACC, an airline representative body (representing Ryanair) made a submission to the Commission in which its presented an analysis by York Aviation which highlighted airline market sensitivity in respect of airport charges. Despite such previous representations, Ryanair appear to have no difficulty in suggesting that other airlines can accept in excess of 60% increases in the level of their charge over the price cap set by the Commission and at a an ever greater competitive disadvantage to airlines operating to similar markets from T1, without affecting their desire to use T2 and with no impact on volumes projected. DAA have consistently refuted the arguments made by Ryanair regarding the impact of the general level of airport charges on volumes. Nevertheless, it is utterly lacking in credibility to suggest that any volume of traffic could be attained both at the charge levels set out in Tables A and B of the Ryanair submission but more importantly with a price differential between competing airlines which in Table B actually exceeds the absolute value of the price cap. This lack of credibility extends to the statement by Ryanair in paragraph 24 of their submission that *"The introduction of differential pricing would not undermine the CAR's third statutory objective in relation to the sustainability and financial viability of Dublin Airport*." This statement stems from the assumption that DAA's total revenues would be the same in the event of differential pricing which is clearly fallacious.

DAA has set out further specific comments relating to the methodology employed by Ryanair in assessment of the differential terminal charge in Appendix 2.

In the light of the resounding opposition to differential pricing in the majority of responses made to CP1/2010 and on the basis of its own submission, DAA submits that there is no legal or economic basis for introducing a differential charge for terminal facilities at Dublin Airport.

---

[9] Delta and US Airways have recently confirmed to DAA that they would not occupy T1 should differential pricing be imposed.

3 T1X Incremental Revenue and Remuneration

As previously outlined in DAA's response to CP1/2010, by setting a €5 million per annum revenue uplift for T1X to offset capital costs, the Commission has ensured that the project is charges neutral, regardless of whether or not this revenue target is achieved by DAA. Therefore there is no requirement for a further analysis of T1X revenues within the short timeframe left in this consultation process.

Ryanair and Aer Lingus have suggested that in estimating potential incremental revenues from T1X that the Commission should look at retail revenues before and after the closure of Pier C. However DAA would like to clarify that certain sections of Pier C still remain in use and that the remainder has been incorporated in to the T2 development. The Pier C route will also operate as the airside access from the T1 retail street to T2 once T2 comes into operation.

If an analysis was carried out to assess incremental revenues based on a comparison of retail revenues in the period following the opening of T1X with that of any prior period it would be important to take account of the many other changing factors which were impacting on retail revenues in this intervening period such as changing consumer spending patterns resulting from the economic downturn and exchange rate movements, the opening of Pier D and the introduction of Ryanair's 'one bag' policy. The impact of such factors has been built into the Commission commercial revenue forecasts for the period 2010-2014.

DAA is unsure as to why airlines have given so much attention to the issue of T1X. The Commission's treatment of the T1X project ensures that airlines benefit from all the associated benefits of the investment, while being entirely protected from any downside risks.

DAA will facilitate the Commission in any efforts it makes to examine T1X incremental revenues; however the principle is that the project should have a neutral impact upon airport charges. Therefore the results of any investigations the Commission does undertake will be of limited relevance, as the price cap should neither increase nor decrease as a result.

DAA is concerned that in general there appears to be a degree of confusion among airline users in regard to the operation of the mechanism of the single till and the role of commercial revenues in relation to airport charges. This was evidenced in the submissions made in relation to both the issue of T1X and that of T2 Overspecification. DAA believes that the Commission's forthcoming consultation process on the operation of the single till will provide a welcome opportunity to debate these issues further and perhaps correct any underlying misconceptions.

Regardless, the Commission has stated that it will re-examine the issue, and re-adjust the price cap if necessary in 2014. This commitment to review with the benefit of historical data ensures users should have no concerns regarding the treatment of T1X.

4 T2 Retail Area

As outlined in DAA's response to CP1/2010 there is no basis for the suggestion by Aer Lingus that the Commission should apply a notional retail revenue adjustment to the alleged excess retail space in T2 given that

- In terms of direct retailing, DAA forecasts that it will earn a sufficient return to cover all operating expenditure
- In terms of indirect retailing, concessionaires will be required to cover any operating expenditure associated with their occupied space
- Overall retail space is expected to be virtually fully occupied when operations commence in T2

DAA would like to comment on what appears to be a general misconception that the Commission did not set DAA set additional commercial revenue targets to take account of the opening of T2. In particular, CityJet refers to how commercial revenues per passenger are expected to *fall from €6.20 in 2009 to €6.14 in 2010 before recovering to €6.26 in 2014.* In presenting its commercial revenue projections to the Commission, DAA provided evidence to the Commission on economy wide retail sales from the CSO to demonstrate general weakness in retail demand. DAA concluded that a sustained recession, business failures, widespread unemployment, a collapse in household wealth, the unavailability of credit facilities, weak consumer confidence, significant government cut backs, and the prospect of a weak recovery all combined to place huge strains on the retail industry. This was in addition to the unprecedented fall in passenger numbers. In its 2009 Determination, the Commission considered the likely impact of the opening of T2 and decided in forecasting commercial revenues for the period 2010-2014 that there was the potential for increased commercial spend due to the expansion of terminal facilities, but that this had to be balanced against changing consumer behaviour resulting from the both the recession and a general reduction in the propensity to spend. In its 2009 Determination, the Commission took no additional account of potential further economic deterioration when projecting commercial revenues for DAA. It is therefore only the availability of additional retail space in T2 which will allow DAA the opportunity to achieve the Commission's commercial revenue targets.

5 DAA Appeal: Matters Referred to the Commission

In this section, DAA has responded to views put forward by the various respondents in relation to the issues referred back by the Aviation Appeal Panel to the Commission in light of DAA's appeal. However, DAA would like to emphasise that these matters related to factual errors or omissions and it is imperative that such errors and omissions be corrected by the Commission. In this regard, no account should be taken of responses in which parties have simply stated that they agree with the Commission's original approach[10] without any substantiation and without seeking to identify or understand the nature of the error highlighted by DAA. Such responses are simply seeking to limit the level of any necessary increase in the price cap as a result of the correction of errors or the misinterpretation of data, rather than dealing with the merits of the argument and amount to little more than regulatory gaming.

5.1 PRM Revenues

In its response to CP1/2010, DAA confirmed the value of the PRM revenues which were contained within this revenue category and which lead to the double count and which must be corrected by the Commission.

In their respective submissions, Ryanair and CityJet have opposed the Appeal Panel's finding that the Commission double counted PRM revenues in its 2009 Determination. This was on the basis that the total of the 'other commercial revenues' category in the financial forecasts remains relatively constant despite the inclusion of PRM revenues. The total amount of projected PRM revenues contained in this category amounts to c. €6 million which is less than the full amount of PRM revenues forecast for this regulatory period. This is due to the fact that inadvertently PRM revenue was projected forward on the basis of the 2008 revenue figure which amounted to a less than full year's revenue.

DAA's forecast to the Commission for the remainder of this category was based on the assumption that 'other commercial revenues' would move in line with passenger numbers, and the Commission

[10] For example, "CityJet agrees with the CAR in its treatment of inflation"

recognised this in its interim Determination[11]. Indeed the Commission specifically noted that the forecasts appeared reasonable as they were '*consistent with recent trends'*.[12]

5.2 Treatment of Inflation in the Reconciliation of CIP2006-2009

In their respective submissions, Aer Lingus, Ryanair and CityJet have all suggested that the Commission should not correct the error in its treatment of inflation in the reconciliation of CIP2006-2009. There appears to be no basis for these stances other than that the impact of this correction is likely to raise the value of the RAB. Ryanair has provided a calculation relating to the treatment of inflation in the reconciliation of CIP 2006-2009 as presented in Annex 6, of its response to CP1/2010. However this assessment appears to be based on inflation indices that were used at the time of the 2009 Draft Determination and as such have since been superseded. Ryanair's conclusion (in paragraph 72 of its submission) that there are only "small differences" between DAA's required outturn costs and those approved in the Commission's 2009 Determination is simply incorrect. This assessment ignores the main issue, as highlighted by the Appeal Panel, which is the need for correction of the misalignment of inflation indices to ensure the proper application of recognised regulatory principles and to reduce regulatory risk.

5.3 Disallowance of Pier D Cost

Aer Lingus and Ryanair have argued against the Appeal Panel's concerns that the Commission's treatment of Pier D risks might prompt an adverse reaction from markets. This was on the grounds that the cost of capital compensated DAA for the risks of over runs associated with major capital projects.

The Aer Lingus and Ryanair arguments ignore the fact that DAA's cost of capital does not remunerate for risks *beyond the control of DAA*. It is for this reason that the Commission saw fit to remunerate DAA for the walkway link to the pier, which was a necessary cost incurred as a result of planning restrictions.

At this stage all participants in the Commission's consultation process will be aware that the DAA was mandated by government to deliver Pier D within a very short period of time. To meet this challenging

---

[11] CP3/2009, paragraph 8.37

[12] CP3/2009, paragraph. 8.38

timeline, DAA was obliged to commence construction prior to the completion of design. While this is a common fast-track construction approach, cost estimates are unavoidably less developed than would otherwise be the case. The Commission's timeline for the 2005 Determination required a cost estimate to be submitted prior to the completion of the final design. DAA attempted to provide a more accurate cost estimate for the interim Determination; however the Commission decided to retain the original estimate for the purposes of its decision.

It was completely out of the control of the DAA that the government's deadline and the Commission's requirements for its interim Determination coincided. It was as a result of this that the lower, incomplete cost estimate for Pier D was entered into price cap calculations, rather than the later, more accurate estimate. This is evidenced by the benchmarking data supplied by the DAA, which shows that the construction costs of Pier D were well below the international average.

DAA proceeded with the Pier D project on the understanding that the Commission would remunerateit for the efficiently incurred costs associated in providing required facilities to users. The data has shown that Pier D costs were efficiently incurred. It is indisputable that users are making full use of Pier D. Yet the costs associated with the delivery of the project have not been remunerated. Given this, it is completely understandable that the Panel had concerns regarding the reaction of the markets to such precedents.

DAA maintains that the Commissions should allow the full costs of Pier D into the RAB.

5.4 Disallowance of Pier D Fit-out and TFL Costs

Aer Lingus has stated that the TFL project was not included in the 2006 CIP, and that DAA 'forgot' this project as well as the Pier D fit out in its CIP. This is incorrect. The TFL project is clearly stated in the 2006 CIP as project 7.020. The requirement for the pier fit out project became apparent subsequent to the publication of the CIP. DAA has clearly articulated the drivers for both projects.

Ryanair's presentation of outturn costs for Pier D, TFL costs and Pier D Fit Out costs in table C is incorrect and misleading. Ryanair has completely ignored the key issue which is that DAA submitted to the Commission the project costs incurred in the 2006 – 09 period, and so the pre-2006 costs (€7.6m) were already deducted from the Pier D spend of €124.33m. For the avoidance of doubt, the TFL and Pier D Fit Out costs were not included in any Pier D outturn budgets, forecasts or actual costs reported.

DAA would like to reiterate that these projects delivered additional commercial revenues and contact stand availability to users, and need to be remunerated. The position of Aer Lingus and Ryanair is particularly disingenuous in light of the recent correspondence between the DAA, the Commission and the DACC on the issue of the TFL.

IRISH DAILY Mirror
THE VOICE OF IRELAND

Date 24 June 2010
Page 16

T2 JOBS BOOST

Airport terminal to create 500 posts

BY RORY TEVLIN
news@irishmirror.ie

THE opening of Terminal Two at Dublin Airport will create 500 jobs, it was revealed yesterday.

The new facility is due to be opened in November and the jobs will be added to the 400 retail positions announced by the Dublin Airport Authority in April.

The new staff will be responsible for all passenger services and facilities management at T2.

Transport Minister Noel Dempsey has confirmed the DAA will operate the new terminal and spokesman for the authority said recruitment for would start immediately.

Its chief executive Declan Collier said: "We are delighted to have been given the go ahead to operate Terminal Two and will continue to focus on putting the customer first and operating T2 as efficiently as possible.

"The new employees will be involved in security, cleaning, customer service, and passenger processing.

"We look forward to welcoming passengers to their new terminal." The new terminal features a boarding gate area with parking for up to 19 aircraft and a new US customs & border protection facility.

It has also involved major improvements to Dublin Airport's campus road network and a new energy centre has also been built.

T2's main construction phase is now effectively complete and the DAA has started to test the new facility.

Hundreds of volunteers have been requested for live dry runs of the facilities before T2 is officially open.

The DAA is seeking volunteers for its full-scale trials later this summer.

The authority added 900 full-time jobs have already been created but the total workforce will be in excess of 1,000 with a mixture of full and part-time positions.

Speaking at the announcement of the 400 retail jobs in April, DAA director Paul Neeson said: "There has been huge interest in T2's retail space and we are delighted to have secured an impressive portfolio of Irish and international retailers."

Irish Mirror Comment: Page 10

€395m
Total cost of Dublin Airport's new Terminal 2 facility

Publication: Irish Daily STAR
Date: Wednesday, June 30, 2010
Page: 22
Extract: 1 of 1
Circulation: 97647
Author: KEVIN JENKINSON
Headline: 7,500 apply for just 500 pasts at airport

7,500 apply for just 500 posts at airport

By KEVIN JENKINSON

MORE than 7,500 people have applied for 500 jobs at the new Terminal 2 at Dublin Airport.

The Dublin Airport Authority (DAA) said they have been getting an average of more than one thousand applications a day since the big job announcement was made late last Wednesday.

"The applications just keep coming in," said DAA spokesperson Siobhan Moore.

The positions available are in security, cleaning, customer service and passenger processing.

JOBS: New terminal

Daily Irish Mail

Date 24 June 2010
Page 23

Jobs boost for Dublin Airport as 500 more workers sought

UP to 500 staff are to be recruited for Terminal 2 at Dublin Airport.

The announcement came as a row broke out after it emerged that the head of the airport accepted a bonus of €51,000 last year – even though the airport lost €13million.

It pushed chief executive Declan Collier's total earnings last year to €568,000, including €320,000 in basic salary, €180,000 in pension contributions and €16,300 in fees for serving on the board of directors.

The jobs will be in areas including security, cleaning, customer service and passenger processing, and will be in addition to the 400 retail jobs that will also be created when it opens in November. Despite the jobs boost, Mr Collier's bonus was criticised by Independent Senator Shane Ross when the airport chief appeared before the Dáil Transport Committee.

Mr Ross said: 'So you can get €50,000 and the company can lose €13million. That's what happens, isn't it?'

But Mr Collier, who is also a Government-appointed director of AIB, said that the bonus was based on a number of key objectives, which the board's remuneration committee felt he had achieved, such as 'financial, strategic, staff' matters.

More than 100 employees at the Dublin Airport Authority received bonuses last year, he added.

IRISH DAILY Mirror
COMMENT
Park House, 191 - 197 North Circular Road, Dublin 7.
Tel: 01 868 8600, Fax 01 868 8626

A real air of optimism

THE opening of the futuristic new terminal at Dublin Airport is a welcome boost for the economy.

The 500 new jobs provided at the stunning T2 terminal is a real shot in the arm after the recent 1,100 redundancies at SR Technics.

Some have described the new facility as a white elephant but that is unfair.

It is certainly true there is overcapacity at the airport due to the drop in visitors coming here, mainly due to the recession.

But, on the other hand, similar complaints were made when travellers were forced to queue for hours in the old terminal.

While it might be under-used for some time T2 will prove to be a valuable national asset when the recovery finally comes.

Publication Irish Independent
Date: Thursday, June 24, 2010
Page: 1
Extract: 1 of 1
Circulation: 149.906
Author: Thomas Molloy
Headline: Economy on course to rebound next year

Economy on course to rebound next year

Key report predicts turning point as growth to hit 2.8pc

Thomas Molloy

THE economy will rebound dramatically next year after two years of brutal contraction, a new report will forecast today.

There will be growth of 2.8pc in 2011 after the declines of 1.1pc this year and 7.1pc in 2009, accountants Ernst & Young predict. This will make Ireland the second fastest growing economy in the eurozone after Slovakia next year.

"Ireland's short-term economic recovery will outperform most members of the eurozone in the next 12 to 18 months," Ernst & Young senior partner Mike McKerr said. "Today's forecast provides further evidence that Ireland is finally turning a corner and provides reassurance that we will not experience a 'lost decade' of economic growth as many had feared."

Business leaders are also showing a new-found confidence in the economy as they upgraded forecasts this week.

Aer Lingus confirmed the airline's performance in April and May was stronger than the same time last year, despite the downturn in the sector.

Companies are also reporting increasing activity, prompting them to increase staffing levels for the first time in two-and-a-half years last month, the closely watched NCB Purchasing Managers Index revealed.

Shoppers are also putting their hands into their wallets again with retail sales figures rising for the first time in years, spurred by the Government's car scrappage scheme.

The Ernst & Young quarterly report by Oxford-based economist Marie Dixon is the latest in a series of positive forecasts to predict the economy has turned the corner.

Continued from page 1

Taoiseach Brian Cowen appeared to back the report's findings when he told employers at the annual IBEC dinner last night that the economy would start growing again this year after going through "the worst recession in the history of the State".

The report found Ireland's cost base fell further than any other country in the eurozone last year and again this year as deflation and wage cuts slashed costs. The report also predicted Ireland would continue to experience the slowest inflation rises across the eurozone after Greece until at least 2014.

Earlier this week, Dublin-based Bloxham Stockbrokers predicted the economy would expand as early as this year as consumers started spending again and exports continued to surge – helped by the plummeting value of the euro.

"We believe the recession has ended, and assuming eurozone debt issue doesn't turn into a full-blown crisis, Ireland should be moving back up the eurozone GDP growth league table over the next 12 months," Bloxham economist Alan McQuaid said.

Falling costs have helped spur companies from Donegal to Drogheda and Dublin to announce job creation plans this month. Multinational US internet company MFG will add 50 new jobs in Drogheda. Irish-owned companies planning to hire include Donegal engineering company E&I Engineering, which aims to recruit 71 people;and the Dublin Airport Authority, which is seeking to fill 500 jobs to staff the airport's new Terminal 2.

However, the Ernst & Young report found unemployment here is now the highest in the eurozone, and is likely to fall very slowly over the next few years.

Prospects

The rate of jobless will slide slightly from 13.8pc this year to 13.4pc in 2011.

This will gradually inch down 11.2pc by 2014. The report also warned there would be no quick return to the low levels of unemployment seen during the boom years.

While the economy here and elsewhere in northern Europe is set to return to growth, Ernst & Young is gloomy about the prospects for countries such as Greece, Portugal and Spain which are expected to suffer a decade of poor growth.

Publication: Irish Times
Date: Thursday, June 24 2010
Page: 19
Extract: 1 of 1
Circulation: 106,926
Author: CIARAN HANCOCK
Headline: DAA to employ 500 to run Terminal 2

DAA to employ 500 to run Terminal 2

Dempsey rules out sale of airport body to raise money

CIARÁN HANCOCK
Business Affairs Correspondent

THE DUBLIN Airport Authority (DAA) is planning to recruit 500 people to run Terminal 2 (T2) when it opens in November.

Minister for Transport Noel Dempsey wrote to the DAA on Monday to confirm that he wanted the State-owned company to operate T2, and recruitment ads have been placed in national media today for 500 positions.

The staff will be employed by a new DAA subsidiary called ASC and will be engaged in security, cleaning, customer service and passenger processing.

"The terms and conditions will be different from the terms and conditions in the existing terminal," DAA chief executive Declan Collier told the Joint Oireachtas Committee on Transport yesterday. "That has been agreed with staff and their representatives."

The DAA said the new positions were in addition to 400 jobs that would be created in retail and catering outlets at T2.

In the Dáil yesterday, in response to a question from Fine Gael deputy Fergus O'Dowd, Mr Dempsey ruled out the sale of the DAA as a means of generating money for the exchequer.

"I have not had any discussions with the Minister for Finance with regard to selling off any of the assets of the Dublin Airport Authority, nor do I have any plans in that regard," the Minister said.

He added that the "wider national interest" could not be "guaranteed" if DAA was privately owned.

Mr Collier told the Oireachtas committee that the volcanic ash crisis cost the DAA €9 million in "lost revenue" as 5,000 flights were cancelled in April and May.

DAA's passenger traffic declined by 13 per cent last year due to the impact of the recession.

Mr Collier said current trading remained "difficult" but he expected "renewed modest growth from next year".

Mr Collier's remuneration of €568,100 was criticised at the committee hearing yesterday, particularly his €50,900 bonus in a year when the airport manager made a loss of €37.9 million.

The DAA boss said the bonus was performance-related, but declined to specify what targets he had met to merit the payment.

However, he indicated that his remuneration would be reduced this year. "I've taken a 26 per cent cut in remuneration [to date] and I will be taking a further cut this year."

He said "just over 100 people" out of a workforce of 3,200 in DAA were eligible for bonus payments annually.

Mr Collier was asked about Shannon airport and the autonomy of its management to make decisions locally.

He said Shannon had an "agreed" budget of €95 million a year, which its management was responsible for spending. "There's no question of them having to seek permission from the DAA to buy a box of biros. "They [Shannon and Cork] have very significant autonomy over their affairs. There is no dead-hand approach [by the DAA] that is portrayed sometimes in the media and in the regions."

He said the DAA had invested €370 million in Cork airport and €230 million in Shannon in recent years.

Publication: Metro Herald
Date: Thursday, June 24 2010
Page: 5
Extract 1 of 1
Circulation: 75,219
Author:
Headline: 500 more new jobs for Dublin Airport

500 more new jobs for Dublin Airport

MORE than 500 new jobs are to be created at Dublin Airport's Terminal Two, which will open in November, the Dublin Airport Authority (DAA) has announced. These positions are in addition to the 400 new retail jobs announced in April by the DAA. The 500 new staff will be responsible for all passenger services and facilities management at T2, with tasks such as security, cleaning, customer service, and passenger processing. T2's main construction phase is now effectively complete and the DAA has begun to commission and test the new facility. It is also seeking volunteers for trials later in the summer.

Publication: Irish Independent Business
Date: Thursday, June 24, 2010
Page: 3
Extract: 1 of 2
Circulation: 149,906
Author: John Mulligan
Headline: DAA hiring drive to fill 500 posts at T2 by November launch

DAA hiring drive to fill 500 posts at T2 by November launch

AVIATION

John Mulligan

THE Dublin Airport Authority (DAA) will today begin a recruitment drive for 500 jobs at its new Terminal 2 building due to open in November.

The new positions will be in areas such as passenger processing, customer service, security and cleaning, while a further 400 full-time positions are expected to be created at the terminal's retail operations.

Addressing the Oireachtas Joint Committee on Transport yesterday, DAA chief executive Declan Collier confirmed that large-scale testing of the facility had already begun.

The opening of the €600m terminal comes at a time when Dublin Airport's passenger traffic has fallen significantly from the 23.8 million recorded in 2008.

Terminal 2 is designed to handle 15 million passengers a year. This year, overall passenger numbers at Dublin are likely to fall to 19m. The DAA has also axed about 300 full-time positions, and a further 100 contract positions have not been renewed.

The 500 new staff won't earn as much as their colleagues in Terminal 1, however. A small number of existing staff at Dublin Airport accepted lump sums of up to €32,500 to move to the new facility where they'll be on lower rates of pay than at present.

Average pay at Terminal 2 will be about 6pc lower than at Terminal 1, although some positions will pay significantly less.

The Commission for Aviation Regulation (CAR) has stipulated, for example, that a security supervisor who can be paid as much as €57,400 in Terminal 1 can only be paid up to €37,600 in Terminal 2.

Different terms

"The terms and conditions of staff in Terminal 2 will be different from those of staff in Terminal 1. That has been agreed with staff and their representatives," Mr Collier told senators and TDs on the committee yesterday.

"It's all about meeting the benchmarks that the regulator set for the cost of operation of Terminal 2," he added.

"The regulatory system in this country has failed to generate the type of remuneration required to properly incentivise appropriate infrastructure at the right time," he said. "We keep having to chase our tails in order to fund the investment that this country requires."

The DAA recently argued that a 40pc increase in passenger fees granted by the CAR would not be enough.

Meanwhile Transport Minister Noel Dempsey last night rejected claims the Government is planning to sell off the Dublin Airport Authority (DAA).

Mr Dempsey denied he had held negotiations with the Department of Finance to draw up plans for such a sale, insisting such an important State asset should not be sold off.

He said there were strategic, national reasons why the Government should own infrastructure such as the DAA.

The comments come in the wake of reports which claimed the Department of Finance was considering a sell-off of a number of state assets to fund the Government's capital investment programme.

Publication: Irish Daily STAR
Date: Thursday, June 24 2010
Page: 4
Extract: 1 of 1
Circulation: 97647
Author:
Headline: 500 'new jobs' at airport terminal

---

500 'new jobs' at airport terminal

DUBLIN Airport Authority (DAA) yesterday launched a recruitment drive for 500 new staff at Terminal 2 (T2).

However, Siobhan Moore of the DAA last night told *The Star* that about 80 of the "new jobs" — as per airport chiefs' description — will actually be transfers from within the existing employment structure.

She said: "Some people will be transferred over to T2, but the vast majority will be new employees. Approximately 80 will be transferred."

The DAA said new employees will run all services and facilities catering for 15 million passengers a year when the terminal opens in November.

PERMISSION
Noel Dempsey

Shops

Transport Minister Noel Dempsey gave the go-ahead for the authority to operate the terminal, the DAA said.

About 1,000 staff will work in the new terminal, with 400 employed in shops and food outlets.

Positions will also be available in security, cleaning, customer service and passenger processing.

The DAA added the main construction phase is now effectively complete and it is seeking volunteers for passenger trials later this summer.

THE IRISH Sun

Date 24 June 2010
Page 2

500 jobs at airport

SOME 500 jobs are to be created when the funky new Terminal Two opens at Dublin Airport, it emerged yesterday.

The Dublin Airport Authority announced the new full-time staff will involve passenger services and facilities management.

Positions will include security, cleaning and customer attention.

The figure is on top of 400 previously-announced retail jobs to serve the 15million fliers expected to visit the hub annually.

Recruitment for all 900 posts is to begin via the DAA's website, at daa.ie.

Other facilities at the futuristic-looking T2 include a boarding gate area with parking for up to 19 aircraft.

THE IRISH Sun

Date 29 June 2010
Page 41

LOOK FOUR-WARD

Multinationals bring 600 staff boost

By OWEN CONLON

MORE than 600 new jobs are set to be created here by four different multinational companies.

US financial services firm FCStone will open offices in Dublin within the month, initially creating 25 jobs but with more expected to follow.

American call centre company Stream Global Services is hiring 400 workers, while US recruitment firm Spencer Stuart is looking for 100 new staff.

The Stream Global jobs are the result of a new contract from Microsoft, with the company supplying call centre services to European customers of the Xbox 360 games consoles.

Stream already employs 300 staff at its Santry offices in Dublin. It provides technical support to Eircom's broadband customers and a has a number of other clients including PC makers and software and electronic firms.

Recruitment firm Spencer Stuart is hiring 100 additional personnel to establish a multi-million euro global technology and knowledge centre in Dublin, creating jobs in software and information-technology support.

The developments were welcomed by IDA chief executive Barry O'Leary.

Search

He said: "As a leader in this sector, it provides opportunity for IDA Ireland to attract further investments from other companies in the executive search sector and wider services industry."

Meanwhile, electronics retailer DSG International is to create up to 100 jobs here by the end of the year by restructuring its outlets into "megastores". Up to 50 will be employed at its new outlets in Dublin airport.

It recently opened an electronics store, Dixons Travel, in Terminal One, and plans a second store for Terminal Two.

A further 50 jobs will be created as the company combines PC World and Curry's into a single store trading under a joint brand name.

One is DSG's Blanchardstown outlet, which will open late next month.

DSG Ireland boss Declan Ronayne said: "If they're as successful as we think they'll be, the group will continue to focus on Ireland, creating further jobs."

Welcomed moves . . . IDA's O'Leary

Appendix II- DAA Commentary on Ryanair Differential Pricing Calculation

Annex 1- Assessment and Apportionment of Opex Costs

- Ryanair have declared T1 as 40% redundant based on a passenger split. Majority of these costs are not related directly to passenger numbers and all costs that were to reduce due to reduction in activity have been captured in the Booz report and included in 2009
- There is no basis to include the “redundant” element of T1 in the T2 cost.
- Fails to take account of reduction of staff costs by €20.98m and non staff by €13.1m in the Determination for opex “Existing Facilities Post-T2”.
- The passenger split between T1 and T2 is a dynamic number which will vary over time depending on future traffic. It is therefore cannot be simply set at 60:40.
- For staff costs, all T1 costs in Ryanair analysis, with the exception of “Terminals” are derived from T2 cost as set out in 2009 Determination (T2 cost/40*60). In addition to ignoring the actual costs in T1, this fails to recognises that in 2009 Determination T1/ Existing facilities costs are €20k higher per FTE than that of T2 (€83.69m/1383 v €20.33/508).
- Ryanair have used T2 costs as basis for T1 where it is assumed that the “per passenger Opex in T1 (in use) should not exceed (and may in reality be lower, with a focus on low fares traffic) what has been allowed for T2 on the basis of an assumption that 40% of traffic will use T2 and 60% will remain in T1” (Annex 1 p23 c.). However costs are not directly related to passengers and T2 is a lower cost operation than T1. For example, maintenance costs in T2 will be driven by the efficient design of the new building rather than any apportionment on a per pax basis.
- The “Common” element of each cost – appears to simply contain unallocated amounts left over after costs apportioned to T1 and T2 – no basis provided for this cost category.

Annex 2- Assessment and Apportionment of Commercial Revenues

- This contains a simple allocation of 60% of commercial revenue to T1 even though T2 will have the majority of long haul passengers which are more valuable in terms of commercial revenue. In addition there will to be a greater product offering in T2.
- Property concessions have been included in “common” however many of these relate to terminals. Car hire and banking would be expected to be higher in T2 due to the profile of passenger expected to use T2
- ATI expected to be higher in T2 than in T1 as airlines using T2 more likely to use check in desks facilities.
- Property advertising has been included in the terminals only but this will also have some revenue outside of the terminals e.g. on campus access roads and in car parks.
- Other commercial operations revenue has been included in “common” but much of this revenue relates to terminal e.g. revenue for GNIB, executive lounges etc.

Annex 3 & 4– Assessment and Apportionment of Opex Costs

- There is no basis for apportioning RAB 50% between T1 and common. This does not take into account actual assets and age of assets.
- Passenger figures are not the correct basis for splitting in relation to the T1 portion divided between T1R and T1.
- Pier D is the newest large asset and no account is made for this in either the 50/50 allocation or the 60/40 allocation.

- In Annex 4 where Ryanair restates the capital costs to exclude the unitisation for T2 there appears to be a double count of depreciation as this amount is also included in the "capital financing" amount within the 2009 Determination.
- There is no uplift in the price cap from the removal of unitisation- the existing price caps are just split in proportion to the new cost for T2. There is a lack of symmetry in this approach.

Overall points

- Ryanair 's calculations do not result in the same overall price cap they are simply grossed up to reconcile with the annual price caps (€10.44 for 2011 etc.)
- The table below is a reconstruct of Ryanair's own calculations. It now includes in Terminal 1 the apportionment of the purported redundant part of Terminal 1, ("T1R" per Ryanair). Ryanair's calculations had included T1R in Terminal 2. The table illustrates that without Ryanair's spurious construct of T1R that T1 is more expensive than T2 with a T1 per passenger price cap of €12.74 for 2011 and a T2 per passenger price cap of €6.98 for 2011.

Ryanair Analysis Without "T1R"

Summary of Building blocks		**Total**	**T2**	**T1**	**Common**
Opex		205.31	42.99	93.26	69.06
Commercial Revenues		-122.83	-22.96	-39.45	-60.42
Capital costs		118.80	8.28	55.26	55.26
Required Revenues		**201.29**	**28.30**	**109.08**	**63.91**
Price cap differential					
Forecast Pax		19.89	7.96	11.93	19.89
Required revenues per pax		10.12	3.56	9.14	3.21
T2 revenues per pax	67%	6.77			
T1 revenues per pax	122%	12.35			
		2011	**2012**	**2013**	**2014**
Average price cap per Car	100%	10.44	10.23	10.03	9.83
T2 price cap	**67%**	**6.98**	**6.84**	**6.71**	**6.58**
T1 Price cap	**122%**	**12.74**	**12.49**	**12.24**	**12.00**