Maximum Levels of Airport Charges

at Dublin Airport

Price cap for 2009

Commission Paper 7/2008

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1. Introduction

1.1 This Paper reports a price cap at Dublin Airport for 2009, according to the formulae set out in the Commission's Varied Determination, published on 22 June 2006.[1] The calculation of the price cap for the next regulatory year is derived by amending the current year's cap for the following:

- Inflation in the current year as measured by the consumer price index;

- An 'X-factor' of 4% which includes annual improvements in efficiency;

- The difference in the previous regulatory year between the Commission's actual and budgeted costs and expenses per passenger, as recovered through the airport charges; and,

- The degree of over or under recovery of charges by the DAA in the previous regulatory year.

1.2 The average per passenger airport charges in 2009 shall not exceed €7.39, a figure that has been adjusted to return the over-collection of charges in 2007 to users. This represents a €0.01 increase from the 2008 cap of €7.38.

1.3 Additionally any airport charges levied in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport in 2009 should not exceed €18.21 per tonne.

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[1] Commission for Aviation Regulation "*Commission Paper CP5/2006, Decision of the Commission further to a Referral by the 2006 Aviation Appeal Panel*", 22 June 2006. See www.aviationreg.ie.

2.   The price cap in 2007

2.1   The Commission's 2006 varied determination was specified such that next year's price cap depends on the degree of over or under recovery of charges by the DAA last year. So the 2009 price cap depends in part on the revenues collected by the DAA in 2007 and the price cap for that year.

2.2   The Commission compared the 2007 price cap with the DAA's pricing, following the receipt of actual revenue and passenger volume information. The 2006 price cap was €6.39.

2.3   The DAA provided the Commission with detailed information in respect of the revenues collected in 2007 in respect of each of its airport charges as well as total passenger that used Dublin Airport that year.

2.4   According to the information received the DAA's average revenue per passenger yielded by way of airport charges levied at Dublin airport was €6.83 per passenger. It did not levy an airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin airport. The average revenue per passenger in 2007 of €6.83 was €0.43 above the price cap of €6.39.

2.5   During the year the DAA shifted the balance of aircraft parking charges at Dublin Airport from remote stands to contact stands, making remote stands cheaper in relative terms. According to the DAA this was an effort to incentivise greater use of remote over contact stands. However, revenues from contact stands nonetheless increased as a proportion of the total parking revenues during 2007 relative to 2006, which was not anticipated at the time that the prices were set. The stronger growth in contact stand revenues meant that the airside revenue per passenger was increased, pushing up the achieved revenue yields per passenger.

2.6   The over-collection in 2007 will be returned to users, with interest, in 2009 through a 'K-term' in the 2009 price cap formula.

3. The 2009 price cap

3.1 To calculate a price cap for the 12 months beginning 1 January 2009 in accordance with the formulae set out in the Varied 2006 Determination, the following information are required:

- The price cap for 2007 of €6.39; [2]

- The actual average per passenger airport charge yielded by the DAA at Dublin Airport in 2007 of €6.83;

- The percentage change in the Consumer Price Index between October 2007 and October 2008 of 4.00%; [3]

- The 'X-factor' of 4%; [4]

- The Commission's budgeted cost that was recoverable through airport charges in 2007 of €1,700,000;

- The Commission's actual cost that was recoverable through airport charges in 2007 of €1,896,482; and,

- The average interest rate on three-month commercial paper issued by the National Treasury Management Agency between December 2006 and November 2007 of 3.91%, and between December 2007 and November 2008 3.72%.

3.2 Use of the information above in conjunction with the price cap formula set out in Annex I of the 2006 varied determination [page 50] allows the computation of the regulatory requirements on the DAA in respect of airport charges for 2009, as follows:

- The average revenue per passenger yielded by way of airport charges levied at Dublin airport should not exceed €7.39; and,

- An airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport should not exceed €18.21.

3.3 The calculation of these caps is set out in detail in Chapter 4 below.

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[2] Commission for Aviation Regulation "*Commission Paper 10/2007, Price caps for 2008*" December 2008. See www.aviationreg.ie.

[3] The index that was used was the *Consumer Price Index by Commodity Group, Statistic and Month, all items* - available from the CSO website www.cso.ie.

[4] See footnote 1 above

4.   Price cap formulae and calculation

4.1   For the regulatory period 1 January to 31 December 2009 the DAA shall ensure that the average revenue per passenger yielded by way of airport charges levied at Dublin Airport shall not exceed:

$$Y_{09}^{Dub} = YU_{09}^{Dub} + W_{07}^{Dub} + K_{07}^{Dub}$$

$$= 7.86 + 0.01 - 0.47$$

$$= €7.39$$

4.2 YU_{09}^{Dub} is the unadjusted maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2009 and is calculated using the following formula;

$$YU_{09}^{Dub} = YU_{08}^{Dub} \times \left(1 + \frac{\Delta CPI_{08} - X_{09}^{Dub}}{100}\right)$$

$$= €7.28 \times \left(1 + \frac{4.00 + 4}{100}\right)$$

$$= €7.86, \text{ where:}$$

- YU_{08}^{Dub} is the unadjusted maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2008, as set out in the Commission's 2007 Annual Compliance Statement; [5]

- ΔCPI_{08} = 4.00 is the percentage change (whether of a positive or negative value) in the Consumer Price Index between that published in October 2007 and October 2008;

- $X_{09}^{Dub} = -4$, as defined in the Commission's 2006 varied determination. [6]

4.3 W_{07}^{Dub} is the difference, adjusted to allow for interest payments and recovered on a per passenger basis over a forecast of 2008 passengers, between the Commission's audited costs and expenses and forecast (or modelled) costs and expenses for 2007 that are recoverable through airport charges levied at Dublin Airport. The W_{07}^{Dub} term is calculated according to the following formula:

$$W_{07}^{Dub} = \left(E_{07}^{Dub*} - E_{07}^{Dub}\right) \times \left(\frac{1}{T_{09f}^{Dub}}\right) \times \left(1 + \frac{I_{07}}{100}\right) \times \left(1 + \frac{I_{08}}{100}\right)$$

$$= (1,896,482 - 1,700,000) \times \left(\frac{1}{22,947,301}\right) \times \left(1 + \frac{3.91}{100}\right) \times \left(1 + \frac{3.72}{100}\right)$$

$$= €0.01, \text{ where:}$$

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[5]   See footnote 2 above
[6]   See footnote 1 above

- E_{07}^{Dub*} = €1,896,482 is the Commission's actual costs and expenses, in the period 1 January to 31 December 2007, that are recoverable through airport charges levied at Dublin Airport;

- E_{07}^{Dub} = €1,700,000 is the Commission's forecast (or modelled) costs and expenses, in the period 1 January to 31 December 2007, that are recoverable through airport charges levied at Dublin Airport;

- T_{09f}^{Dub} = 22,947,301 is the number of passengers forecast (at the time of the 2005 Determination) to use Dublin Airport during the period 1 January to 31 December 2009;

- I_{07} = 3.91 is the average of the rate (expressed as an annual percentage interest rate) on three-month commercial paper issued between December 2006 and November 2007 by the National Treasury Management Agency (NTMA); and,

- I_{08} = 3.72 is the average of the rate (expressed as an annual percentage interest rate) on three-month commercial paper issued between December 2007 and November 2008 by the National Treasury Management Agency (NTMA).

4.4 K_{07}^{Dub} is the correction per passenger to be made in the regulatory year 1 January to 31 December 2009 as a result of the over-collection of airport charges by the DAA during the regulatory year 1 January to 31 December 2007, and is derived from the following formula:

$$K_{07}^{Dub} = \left(Y_{07}^{Dub} - Y_{07}^{*Dub}\right) \times \left(\frac{T_{07}^{Dub}}{T_{09f}^{Dub}}\right) \times \left(1 + \frac{I_{07}}{100}\right) \times \left(1 + \frac{I_{08}}{100}\right)$$

$$= (6.39 - 6.83) \times \left(\frac{23,287,438}{22,947,301}\right) \times \left(1 + \frac{3.91}{100}\right) \times \left(1 + \frac{3.72}{100}\right)$$

= - €0.47 where:

- Y_{07}^{Dub} = €6.39 is the maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2007, as set out in the Commission's 2006 annual statement CP11/2006;

- Y_{07}^{*Dub} = €6.83 is the actual average revenue per passenger from airport charges levied at Dublin Airport in the regulatory period 1 January to 31 December 2007;

- T_{07}^{Dub} = 23,287,438 is the number of passengers that used Dublin Airport during the period 1 January to 31 December 2007; and

- T_{09f}^{Dub} = 22,947,301 is the number of passengers forecast (at the time of the 2005 Determination) to use Dublin Airport during the period 1 January to 31 December 2009.

4.5 In the regulatory period 1 January to 31 December 2009, the airport authority shall not levy an airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport that exceeds:

$$C_{09}^{Dub} = C_{08}^{Dub} \times \left(1 + \frac{\Delta CPI_{08} - X_{09}^{Dub}}{100}\right)$$

$$= 16.86 \times \left(1 + \frac{4.00 + 4}{100}\right)$$

$$= €18.21, \text{ where:}$$

- C_{08}^{Dub} is the maximum charge per tonne that can be levied in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport during the regulatory period 1 January to 31 December 2008, as set out in the Commission's 2007 annual statement, CP10/2007. [7]

4.6 The setting of this maximum charge does not constitute approval of charges in respect of cargo handling under the European Communities (Access to the Groundhandling Market at Community Airports) Regulations, 1998 (S.I. No. 505 of 1998).

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[7] See footnote 2 above

Annex – DAA average revenue per passenger 2007

Revenue	(€, 2007)
Airbridge Hire	961,075
Aircraft Parking	11,906,348
Airport Security Charge	8,125,281
Passenger Service Charge	76,500,868
Runway Movement Revenue	61,481,279
Total Revenues	**158,974,864**
Passengers	**23,287,438**
Average Revenue per Passenger	6.83

Table 1: Dublin Airport average revenue per passenger 2007

Source: Dublin Airport Authority