DUBLIN AIRPORT
CONSULTATION COMMITTEE

Representing the Needs of Dublin Airport Users

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Mr. Cathal Guiomard
Deputy Commissioner for Aviation Regulation
Commission for Aviation Regulation
3rd Floor
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6th August 2009

Dear Cathal,

DACC SUBMISSION ON THE DRAFT DETERMINATION ON THE MAXIMUM LEVELS OF AIRPORT CHARGES AT DUBLIN AIRPORT 2010-2014

I am attaching the Response of the Dublin Airport Consultation Committee to your Draft Determination on the Maximum Levels of Airport Charges at Dublin Airport.

As you will see from the Response, DACC considers that the information contained in the Draft Determination is inadequate to enable users to make reasoned comment and that there are substantial matters which require further discussion and consultation with users before you are in a position to make an informed Final Determination. DACC expects further consultation meetings to be held, particularly in relation to Opex Costs and Service Quality.

I look forward to hearing from you regarding arrangements for these consultation meetings.

Yours sincerely,

Geoffrey O'Byrne White
Chairman

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RESPONSE TO CP3/2009 –
Draft Determination on Maximum Levels of Airport Charges at Dublin Airport

Introduction

1. The Dublin Airport Consultation Committee (DACC) is the body which represents airlines providing over 95% of Dublin Airport's passenger demand and includes scheduled airlines, charter airlines, cargo operators and handlers.[1] As well as individual member airlines, the membership of DACC includes the International Air Transport Association, which represents the global scheduled airline community. As such, DACC represents both current and prospective users[2] of Dublin Airport and DACC would expect the CAR to attribute substantial weight to this response.

2. The CAR's duties in terms of setting a price cap for Dublin Airport are made clear in its statutory objectives, with the first of these being:

   "to facilitate the <u>efficient and economic development and operation</u> of Dublin Airport which meet the requirements of current and prospective users of Dublin Airport;" (emphasis added)

   and its second statutory objective being:

   "to protect the <u>reasonable interests of current and prospective users</u> of Dublin Airport in relation to Dublin Airport". (emphasis added)

3. Although the CAR is required to enable DAA to operate and develop Dublin Airport in a sustainable and financially viable manner, DACC considers that such a duty can only be considered in the light of having first considered whether the development and operation of the airport meets the efficiency and economy test and meets the requirements of users. It was made clear by the Aviation Appeal Panel in December 2008 that financial viability of the DAA is not an end in itself but is a means by which to ensure efficient and economic development which meets the needs of users is appropriately rewarded:

   "The Panel is concerned that permitting what may be a greatly oversized Terminal 2 does not facilitate the efficient and economic development of Dublin Airport and might give rise to a risk to the financial viability of the DAA………. the Panel is of the view that the risk of oversizing is one which should be borne by the DAA, not by current or prospective users."[3]

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[1] Views communicated by the DACC represent a general perspective and do not necessarily reflect the precise positions of individual members.

[2] It should be noted that the new EU Airport Charges Directive gives a legal definition to the term "airport user" as *"means any natural or legal person responsible for the carriage of passengers, mail and/or freight by air to or from the airport concerned".* In other words, users are defined legally to be airlines.

[3] Decision of the Aviation Appeal Panel on the Appeal of Ryanair, December 2008, paragraphs 8.18 - 8.20.

4. In regulatory terms, economic and efficient development is that which is economically efficient; a concept which has previously been acknowledged by the CAR. This has been further defined in the context of airport regulation by the UK Department for Transport in its review of airport regulation, where it states that:

"To ensure airports provide those airport services demanded by consumers at least cost, we propose that the regulator should have a duty to secure, so far as it is economical to meet them, that all reasonable demands for airport services are met efficiently…………..We would expect these regulated service outcomes, in terms of price, quality and quantity, to be based on consumers' willingness to pay for different price/quality combinations."[4]

5. DACC expects that users' willingness or ability to pay will be a key test of whether the operating costs of Dublin Airport, taking into account capital development requirements, meet the economic efficiency test.

6. The purpose of economic regulation of airports is not simply to set a price cap but is intended, as far as possible, to act as a surrogate for the constraints which would operate on an airport operating in a competitive environment. This was made clear by the CAR in its Issues Paper, CP6/2008:

"In competitive markets firms seek to gain advantage over one another by realising efficiencies. Competition forces companies to employ the most efficient production methods and share the benefits of greater efficiency with their customers through lower prices. Firms have strong incentives to seek more efficient production methods not currently employed by rivals as they can become more profitable at existing market prices, or possibly lower prices. Rivals will seek to realise similar efficiency gains. Market competition will eventually result in the benefits of efficiency being fully shared with customers through lower prices.

Price caps are one way a regulator can seek to create similar incentives for a firm to seek productive efficiencies and later force it to share the benefits of greater efficiencies with its customers through lower prices. As described above, it does this by seeking to cap the firm's prices such that the firm can recover efficiently incurred costs while keeping any additional profits it earns by finding further efficiencies beyond those assumed in the price cap. The regulator then shares the additional efficiencies with the firm's customers when it sets its next price cap by basing the new price cap on the more efficient cost base achieved by the firm."[5]

7. The absence of any effective competitive constraint on Dublin Airport makes it all the more important that the CAR applies that constraint on the behaviour of DAA, as it indicated in CP6/2008, it was the role of the regulator to do. Where airports compete, they are reducing their prices to attract airlines and growth of services, particularly in the current economic circumstances. It is in this way that the interests of passengers are safeguarded. Hence, to the extent that regulation is intended to produce outcomes similar to those which would apply in a competitive market, prices would be expected to fall as a consequence of current market conditions. This is not the case in the Draft Determination, as we discuss later in this submission, indicating that the basis upon which the price cap has been calculated is not delivering an appropriate regulatory outcome.

[4] Reforming the framework for the economic regulation of UK airports, March 2009, paragraph 6.21.
[5] Paragraphs 2.9 and 2.10.

8. DACC is concerned that the CAR does not recognise the primacy of user views set out by the airlines, which have been subordinated in past Determinations to subjective views of passengers and the CAR itself, without reasoned justification. The UK Competition Commission recognised this failing in the UK Civil Aviation Authority (CAA):

"(a) First, the CAA in our view gives insufficient weight to the airline users, tending to differentiate between their interests and those of passengers, and being often non-responsive to airlines' concerns………..CAA appears not to regard Ryanair and easyJet, both successful and profitable airlines, as proxies for their customers……. In our view the CAA is unlikely to be in as good a position to judge the interests of end users as airlines, given the competitive market in which they operate.

(b) Second, while we recognize the constraints imposed on the CAA by the Airports Act, we currently share the concerns of some airlines about the inclination of the CAA to put particular emphasis on the fourth of its objectives, i.e. to impose the minimum restrictions in carrying out its functions;…………."[6].

9. These provisional findings have been confirmed in the CC's Final Report on its BAA airports market investigation[7]. The CC has maintained its provisional finding that economic regulation as applied by the CAA has been a feature which has an adverse effect on competition and proposed remedies to that effect covering both regulation and consultation. DACC is of the view that the CAR is also guilty of the same failures, resulting in the effect of its price cap decisions giving rise to adverse effects.

10. In summary, DACC considers that in setting a price cap for Dublin Airport, the CAR is duty bound to ensure that prices are no higher than is necessary to cover the costs of efficient and economic operations at Dublin Airport to meet the stated requirements of users, as represented principally by the views of airlines, and that a key consideration is setting prices at a level which the market will bear. We go on to expand on these key considerations in the remainder of this submission.

Executive Summary

11. In this Response, DACC highlights the inadequacy of the information presented in the Draft Determination, which makes it difficult for users to comment meaningfully on the proposals contained within it due to the extent of data redaction and lack of clear reasoning. DACC considers that the Draft Determination does not meet the test of Transparency required of a regulator.

12. The CAR set out clearly in 2007 its expectations as to the requirements for consultation between DAA and its airline users in respect of capital development requirements. DAA has failed to provide the required information to demonstrate the business cases for each of the proposed capital developments planned for the period 2010-2014. Nor has there been any consultation regarding operational costs or commercial revenue projections for the period 2010-2014. DACC considers that there will need to be further consultations before the final Determination can be made.

13. Notwithstanding the lack of information, DACC sets out its views on the individual building blocks which make up the proposed price cap in so far as it is able based on the information and explanation made available. Where the CAR does not accept the views of DACC, the onus is on the CAR to make the evidence upon which it relies available to DACC to allow further submissions to be made.

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[6] Ibid, Paragraph 7.38.
[7] 19th March 2009.

14. A fundamental problem with the Draft Determination is the proposed 13% increase in the P_0 price to €8.35. No explanation is given in relation to this calculation, which appears to derive in large part from the CAR failing to strip out current inefficient costs from the operating cost base of Dublin Airport.

15. DACC also considers it unreasonable to rebase the price cap down to the lower passenger projections as this transfers all the risk associated with the current downturn in passenger demand from DAA to its user airlines, at a time when they are already suffering from reduced yields and load factors. The fall in traffic at Dublin Airport is in part a consequence of existing excessive airport charges and users consider that the current economic climate demands a response from the CAR which sees prices fall in the next quinquennium rather than rising if a vicious downward spiral is not to result.

16. Examining the building blocks used by the CAR to set the price cap, DACC considers that the CAR has failed to ensure that the operational costs of Dublin Airport reflect best practice efficiency and specifically the CAR has not taken into account DAA's planned staff and cost reductions of up to €20 million a year.

17. The CAR also makes no assessment of the efficient level of cost increase which might be expected when T2 opens, proposing instead that these costs should be passed through to users with some marginal downward adjustment to the operating costs of T1. This is unacceptable and, based on the experience when a second terminal was opened at Manchester Airport, DACC considers that the increase in opex costs should be contained to no more than 10% overall.

18. DACC considers that the CAR has failed to properly scrutinise DAA's commercial revenue projections and that the assessment of retail income, in particular, is too low given that T1X will have enabled recent falls in retail income per passenger to be recovered. However, examination of the retail and other commercial income projections makes clear that there is no basis for additional capital expenditure to be allowed for revenue generating projects as no revenue uplift is projected.

19. DACC has already submitted proposals to the CAR as to the level of capital expenditure which users consider is required to meet user requirements over the period to 2014. In the first instance, DACC considers that the opening RAB is too high as the CAR has not rigorously followed the principles set out in Annex 1 to the Draft Determination. DACC considers that some €322 million should be stripped out from the opening RAB in relation to redundant or over-specified assets which do not meet the needs of users.

20. In terms of the Capital Investment Programme for the period to 2014, DACC considers that the reasonable requirements of users can be met through a development programme of €66.7 million, in the light of the fact that passenger demand will only recover to 2008 levels by 2014 and there is no need for capacity enhancing investment.

21. DACC does not believe that there will be a requirement for any of the trigger projects within the regulatory period, except possibly the upgraded HBS equipment. In all cases, it does not accept that the CAR can set the precise amounts to be added to the price cap for each trigger project as the cost and scope of work has not been agreed with users for each project. Other than in respect of HBS, DACC does not consider that the triggers proposed by the CAR are appropriate and that, at best, the proposed trigger would initiate a discussion between DAA and its users as to the precise project timing and scope.

22. DACC considers that the cost of capital proposed by the CAR is too high and that a more appropriate figure would be around 6.5%.

23. DACC supports a service quality regime but considers that this should be based on 7% of airport charges revenue being at risk not 4% as proposed by the CAR. DACC believes firmly that the purpose of this regime should be to incentivise performance improvement by DAA not simply to return money to users. As such, DACC proposes a more targeted scheme, based on that adopted at London Stansted Airport, to form the service quality regime.

24. Taking its assessment of the correct building blocks to be applied in setting the price cap, DACC has assessed the opening price cap at 2009 prices as being **€4.28**. In the event of T2 opex being allowed from 2011, the price cap would then fall by **CPI-1.9% to €3.95** per passenger by 2014. On the basis that there is no case for recovering any of the costs associated with T2 from users until demand exceeds 25 mppa or additional runway capacity is provided, the price cap would fall by **CPI-8.1% to €3.05** per passenger by the 2014.

25. On the basis that the CAR is required to set a maximum price cap for the period 2010-2014, DACC considers this would amount to no more than €5 per passenger even allowing for all the trigger projects and T2 opex. DACC does not consider that the CAR has transparently made out the case for a higher price cap in the Draft Determination.

Inadequacy of the Draft Determination

26. At the outset, DACC clearly states for the record that it considers that the information and explanation contained in the Draft Determination are insufficient to allow users to comment meaningfully on the CAR's proposals in respect of charges at Dublin Airport for the period 2010-2014. DACC wrote to the CAR on 17th July 2009 setting out its concerns, particularly in respect of the lack of information and transparency of reasoning in the Draft Determination. Additional information which was required in order to enable users to comment on the proposals was requested to be received by 22nd July 2009 but the CAR has declined to provide any further information and even goes so far, in a letter of 23rd July 2009, as to question the credentials of DACC to speak on behalf of the users of Dublin Airport. DACC includes its correspondence with the CAR at Annex A.

27. The CAR is subject to the general duties imposed on Regulators by the 2004 White Paper on Better Regulation. This sets out a requirement for the work of regulators to be Transparent as follows:

"TRANSPARENCY – have we consulted with stakeholders prior to regulating? Is the regulation in this area clear and accessible to all? Is there good back-up explanatory material?"[8]

28. DACC considers that the Draft Determination fails to meet the requirement for Transparency as set out by the Government as there is inadequate or incomplete information made available to explain the CAR's reasoning and proposals.

[8] Regulating Better, Government White Paper, January 2004, Executive Summary, Principles.

29. The CAR is aware that there has been a lack of effective consultation between DAA and its users. We expand on the expectations for consultation in the next section. However, given that effective consultation did not take place, DACC expected that the Draft Determination would set out transparently the information upon which the CAR proposes to base the Determination. In particular, there has been no consultation at all in respect of operational costs or commercial revenue estimates either at a general level or in relation to the specific costs and benefits deriving from particular capital development proposals. DACC wrote to the CAR on 5th June 2009 requesting consultation in relation to operational costs prior to the Draft Determination being published. There has been no response to this request and the information contained in the Draft Determination and accompanying reports is inadequate to enable users to comment on whether the operational costs proposed reflect the cost effective provision of services to users.

30. Although, belatedly, the CAR chaired a series of consultation meetings regarding the capital investment programme, there remain substantial requests for information made by DACC to DAA <u>and</u> the CAR at these meetings which remain outstanding. We discuss capex issues further below and set out the outstanding requests for information and information promised by either the CAR or DAA which has not been forthcoming in **Annex D**. Without this information, users are denied the opportunity to make a reasoned judgement as to whether particular proposals meet their needs or not.

31. In relation to capital development projects, the lack of information linking commercial revenue projections or opex cost savings to particular projects, which had previously been requested several times by DACC, has particular implications for the extent to which users are able to validate DAA's assertions as to the commercial revenue generating benefits of particular capital projects within the single till or of efficiency savings in opex costs arising from other projects.

32. There are particular issues with the redaction of virtually all data relating to DAA's current costs and revenues in the Draft Determination and accompanying reports as well as DAA's projections. The lack of transparency about the current cost base gives rise to particular concern as the main change in the proposed price cap arises by way of a substantial 13% increase (before inflation) in the P_0 price compared to the existing 2009 price cap of €7.39 per passenger, which users already consider to be excessive and more than the market will bear, as is evidenced by the sharp downturn in traffic at Dublin Airport. The P_0 rise to €8.35 arises from the existing cost and revenue base in 2009, which appears to have been accepted unchallenged by the CAR, and is not as a result of capex or other growth related cost or revenue changes within the regulatory period. At present, the figures appear to be without explanation in the Draft Determination, with no evidence that costs have been scrutinised to ensure that they reflect the cost of efficient operations to meet the requirements of users. We will comment in detail on issues relating to the current operational cost base later in this submission.

33. Users are simply not in a position to submit detailed and informed comments on the CAR's rationale for the building blocks which give rise to the substantial increase in the price cap based on the information disclosed. In particular, DACC requested the following information in order to be able to understand the basis of the CAR's proposal and to comment meaningfully on the Draft Determination:

i. Dublin Airport Regulated Accounts for the year ending December 2008;

ii. DAA Cost and Revenue data for 2009 and projections for future years redacted from tables in the Draft Determination, specifically Tables 7.2, 8.5, 8.8, 8.9, 8.11, 8.13, 8.15;

iii. Assumptions regarding costs and revenues associated with Access to Installation fees about which users were promised transparency[9];

iv. Details of the specific incremental retail revenues projected by DAA arising from T1X, CIP5.013 Retail Refurbishments, CIP 2.015 Tenant Accommodation Piers, and CIP 2.019 Retail Logistics Centre;

v. Cargo demand and revenue forecasts relating to the CIP2.018 Cargo Distribution Centre;

vi. Dublin Airport comparator data omitted from the Indecon/Jacobs Report on opex.

34. In the absence of full and detailed information justifying the specific elements of the building blocks used to calculate the price cap, its proposals are not transparent and are not supported by clear explanatory material. In so far as the CAR rejects any of the specific views set out by DACC in this submission, Section 32(9) requires it to set out in full its specific reasoning for rejecting these views.

35. In the light of the inadequacies of the Draft Determination and specifically in relation to operational costs, DACC expects there to be further rounds of detailed consultations in relation to the CAR's proposals for each of the building blocks prior to the issuing of a final Determination and on the basis of the transparent disclosure of the information upon which the CAR bases its specific price cap proposals.

Consultation

36. Given that the CAR proposes to continue with the RAB based, 'building blocks' approach to regulation, it is essential that the CAR takes steps to redress the identified shortcomings in such an approach. Specifically, the UK Competition Commission made specific criticisms of the impact of RAB based regulation in its Market Investigation into BAA and made clear that it saw effective consultation as one means of mitigating these impacts:

"However, the bias towards increased use of capital created by the RAB-based price regulation may have the undesirable effect of encouraging inefficient investment by the company. It may also create incentives for strategic behaviour by the airport operator to inflate the size of the RAB and may discourage the application of charging structures which would make efficient use of capital."[10]

[9] CN2/2008.
[10] Competition Commission, BAA airports market investigation, March 2009, paragraph 6.18.

"It [RAB based price cap regime] *distorts incentives, in that it provides an incentive for BAA at each regulatory review to make projected capital expenditure and operating expenditure as large as possible"*[11]

"Some of the criticisms mentioned above are inherent in RAB-based regulation, which incentivizes BAA to 'play the regulatory game' – i.e. to invest in order to achieve an allowed return – rather than providing what users necessarily want, in terms of quantity, quality, location and timing of investment."[12]

37. Of specific relevance to the current situation at Dublin is the finding by the CC that:

"The overall environment created by the regulatory process, combined with shorter-term (Q5) market uncertainties at Stansted, seems to have encouraged BAA to take an order of magnitude approach to the negotiation of a CIP budget for investment rather than driving a lean capital efficient investment plan…………………This shows, in our view, the distortion of incentives under a RAB-based system of regulation to include expenditure in the RAB rather than to reduce costs."[13]

38. This finding is now being encapsulated in new UK Government proposals regarding the economic regulation of airports which make clear that there is a primary duty towards consumers, but recognising the role which airlines have in representing those views in most cases and strengthening the airlines' position in relation to consultation. In relation to consultation regarding capital investment (through constructive engagement or otherwise), the UK Government now proposes to:

"give the regulator robust information gathering powers and the powers to distribute information to airlines where this will improve consumer outcomes…. to provide airlines with earlier and more complete information on airports' investment programmes. Good quality information provision is the key to making the process work effectively."[14]

39. The UK Government notes that *"In general we see it as positive for the regulator to take an active role in promoting dialogue between airlines and airport operators on the appropriate design of airport investment programmes".*[15]

40. It is clear that the failings in the traditional system of RAB based regulation where regulators have not taken a robust position on enforcing adequate disclosure of information and proper consultation between the airport operator and its customers, the airlines, have now been recognised. Good regulatory practice is now moving towards a situation whereby the regulator is required to actively participate in the consultation process and to enforce disclosure of adequate information at an early enough stage in the process to ensure that capital investments are brought forward to meet user needs.

[11] Ibid, paragraph 6.20.
[12] Ibid, paragraph 6.22.
[13] Ibid, paragraph 7.46.
[14] Reforming the Framework for the Economic Regulation of Airport, UK Department for Transport, March 2009, paragraph 9.9.
[15] Ibid, paragraph 9.10.

41. DACC makes its specific comments on the lack of consultation and the inadequacies of the information made available both prior to the Draft Determination and in the Draft Determination itself in the light of the expectations for consultation and information disclosure set out by the CAR itself following the last Determination in 2007. In that Determination in 2007, the CAR set out in CP6/2007 that *"if proposed investments in T1 do not meet the needs of current and prospective users, then it will not increase airport charges to fund such projects."*[16] Failure to adhere to this principle by the CAR would represent a breach of regulatory commitments made to the users of Dublin Airport and upon which users have made decisions as to what services to operate from Dublin.

42. The CAR helpfully set out its expectations as to how consultation between DAA and its users would inform future Determinations in CP8/2007. Although the focus of this paper was on consultation in respect of capital expenditure, the guidelines clearly encompassed the importance of consultation in respect of efficiency by which services are provided as well as simply the capital costs of particular development proposals. DACC takes these requirements as the basis for considering whether consultation and information disclosure in the lead up to this Draft Determination has met the required standard.

43. In CP8/2007, the CAR set out a number of expectations as to the level of information which would be disclosed by DAA and which was necessary to allow users to comment meaningfully on proposals put forward by DAA. We repeat salient extracts here:

"Consulting with users prior to investing should help ensure that a capex programme delivers services that users value sufficiently, thus helping to realise allocative efficiency." [Introduction]

"To determine what costs to include in the regulatory asset base (RAB) the Commission will seek evidence that suitable consultation took place when assessing planned capex and, ex post, actual investments not previously considered in the consultation preceding a multi-year price-cap." [Introduction]

"The Commission considers that the better regulatory policy is to reach a situation where the regulatory debate centres on what potential there is for the regulated entities to realise efficiency savings" [Introduction]

"A supplier facing weak competitive constraints does not necessarily have to provide a given level of services at the lowest cost possible. The option of using an alternative supplier if the DAA or IAA do not provide a service at minimum cost is curtailed." [Section 2.1]

"Because competitive constraints on the DAA and IAA are less than in many other sectors of the economy, it is arguably more important that they consult with users to ascertain what investments would be in the interests of their users." [Section 2.1]

"The Commission believes that its primary role should be in determining how allowed costs are remunerated such that the DAA and IAA are incentivised to deliver services as efficiently as possible." [Section 2.2]

"the Commission has therefore indicated to both the DAA and the IAA that at future determinations that they will need to demonstrate that any capex that has either taken place, or is planned, is either motivated by recognised safety or external factors or has the clear support of users" [Section 2.3]

[16] Page 44.

"The Commission envisages the guidelines for capex engagement set out in this document could apply to investment plans submitted for consideration in advance of a price-control period (i.e. CIPs), as well as to investment that takes place within a price control period but which was not initially included in the CIP, i.e. ex post assessments of the RAB roll-forward." [Section 3.1]

"At future price-cap reviews the Commission will expect the DAA and the IAA to provide the following information in support of either an ex ante investment plan or a proposal to roll capex into the RAB ex post:

- *A description of the project, including a project plan that sets out the key stages of the project and any inter-relationship or dependencies with other projects. The project description might also include a full risk assessment, outlining the possible implications of the project for ongoing airport operations, and how it is proposed these will be managed by the regulated company.*

- *An explanation of why the project is required. This could include, but is not limited to: the project driver, a cost-benefit analysis, the business case/IRR for the project (from the perspective of the DAA/IAA) and supporting information such as the demand for the project from airlines and passengers.*

- *The project costs and a justification as to why proposed (or actual, in the case of ex post assessments) project costs represent the best value. This could include information on the source of cost estimates, e.g. tenders or benchmarks used, and an explanation of the criteria used to determine which option was likely to represent the least cost option for the project.*

- *Identification of alternative options considered and why the preferred option is better.*

- *A consideration of any alternative options for the delivery of project outputs, with relevant financial analysis in support of value for money arguments.*

- *Details on how the regulated company consulted with airlines and the specific nature and strength of support for a project from the airlines that will be expected to pay for the investment. The strongest form of commitment might be a long-term contract to use the facility at an agreed price. Alternatively, a letter of understanding or agreement between the users and the regulated companies might suffice.*

- *A summary of any aspects of the investment plan that some or all airlines either have not had the opportunity to comment on or have expressed disagreement, and the regulated companies' rationale for proceeding without reaching agreement on these points with the airline(s).*

This list is suggestive of the information that might be provided, rather than a definitive, exhaustive list. During consultations, the parties may identify some additional information that needs to be shared, or conversely agree that certain material is unnecessary." [Section 3.1]

"To the extent that projects might be expected to affect net operating costs, the information provided to airlines should reflect this fact." [Section 3.2]

"For information regarded as commercially confidential, the Commission will seek reasonable proof that the confidentiality concerns are justified, and that as much of the information as possible was shared subject to preserving commercially sensitive material" [Section 3.2]

"In many instances, the Commission would expect that airlines, while motivated by a desire to maximise returns for their shareholders, will nevertheless have overlapping interests with their passengers in terms of their aspirations for investments at Dublin Airport or by the IAA. Where the regulated company believes that this is not the case, it will be incumbent on it do demonstrate that passengers support an investment, with the consequent implications for charges. Such evidence could, if appropriate, take the form of a passenger survey and empirical analysis of the results. The survey results could then form the basis for a thorough cost-benefit analysis of the project. If the regulated company is to provide a compelling case for a project based on such survey evidence, then it should engage with the Commission and the airlines in drawing up the terms of reference for such a survey" [Section 3.2]

*"Before replacing an asset that has become **obsolete** or is in need of significant maintenance work because it has become run-down there are a number of questions that the regulated entity might discuss with airlines. Most fundamentally, is it worth replacing the asset? Restating the question, how much are users willing to pay to replace the asset? If it will cost more to replace than this sum, then there is no point proceeding with the capex. If users do want the asset replaced, then there should be more detailed discussions about how much it is likely to cost." [Section 3.3]*

*"For projects motivated by a need to respond to increased demand for **capacity**, the primary issue for consultation will be establishing whether the demand projections warrant the expansion. Before making detailed investment plans, the regulated company and the airlines should agree the increment of additional capacity that needs to be provided. This is especially important if the regulated company wants airlines to bear the risk of demand out-turns being below projections." [Section 3.3]*

"The consultation will be unsatisfactory if airlines are presented with a "take-it-or-leave-it" capacity expansion plan with any options for discussion having relatively minor implications for the overall costs of the project." [Section 3.3]

*"Investments to improve the **quality of service** should only proceed if users have had an opportunity to agree that any additional costs are more than compensated for by the improved service." [Section 3.3]*

*"In some instances capex might enhance overall efficiency by **reducing net operating costs**. To demonstrate the cost savings, the regulated company should outline to users what its net operating expenditure is likely to be with and without the asset for the lifetime of that asset and what guarantees it can provide that the investment really will provide savings to users over the lifetime of the asset." [Section 3.3]*

44. It is clear that the CAR recognised the information which should be provided to users to enable effective consultation to take place. It is equally clear, as we will go onto explain, that such information has not been provided, either by DAA directly to users or by the CAR in the Draft Determination. As a consequence, users have no means of testing the assumptions upon which the Draft Determination is based and are substantially handicapped in providing a reasoned justification as to why the specific building blocks upon which the CAR has based the Draft Determination are inappropriate and do not represent efficient operating conditions at Dublin Airport.

45. In the remainder of this submission, DACC will set out its views on the individual building blocks which make up the proposed price cap in so far as it is able based on the information and explanation made available. We note where information is inadequate. <u>Where the CAR does not accept the views of DACC, the onus is on the CAR to make the evidence upon which it relies available to DACC to allow further submissions to be made.</u>

Regulatory Approach

46. The Draft Determination makes clear that the CAR has continued to adopt a building blocks approach to setting the price cap formula, despite the failings set out above, This creates perverse incentives for capital development plans to be inflated by the regulated entity in the lead up to a Determination with a view to maximising its returns. This is particularly the case in the light of the emphasis placed by the CAR on the financial viability of DAA regardless of whether the operation and development of Dublin Airport is efficient and economic and meets the requirements of users.

47. Whilst DACC considers that there may be alternative regulatory approaches which should be explored in future, this would require substantially greater consultation prior to implementation. This submission, hence, concentrates on the proposed building blocks put forward by the CAR and proposes adjustments to ensure that the values meet the requirements of users for an efficient and economic operation at Dublin Airport.

48. The critical building blocks used by the CAR are:

- an estimate of *"efficient future opex"*;
- return on capital;
- depreciation;
- commercial revenues;
- forecast passenger numbers.

49. DACC notes that, based on its assessment of the building blocks, the CAR proposes an opening price cap of €8.35 in 2009 prices, increasing by a formula of CPI+0.15%, assuming that T2 becomes operational in 2011 and taking into account remuneration of the capital costs of T2 on the basis of unitised depreciation. This is not the same as the CPI-3.8% per annum formula indicated at paragraph 3.1 of the Draft Determination, which ignores any costs associated with T2 and appears to have been presented in the Draft Determination to conceal the reality that prices at Dublin Airport are projected to rise substantially over the next five years on the basis of the CAR's actual proposals.

50. Significantly, however, neither of these headline figures used by the CAR take into account the operational costs associated with the opening of T2, which are assumed to be a cost pass through item following the tender being organised by the Department of Transport. Hence, the future price path being proposed by the CAR will lead to an effective real increase in prices (before inflation) far in excess of 0.15% per annum. This is not sustainable in current market conditions and will lead to a substantial further fall in passenger numbers which, in turn, under the mechanisms proposed by the CAR lead to even higher prices. In reality, the Draft Determination would see prices rise by more than 2.5% per annum (before inflation) over the five year period from 2009, as a consequence of the step change in prices proposed for 2010. This is before the impact of opening T2 on opex is taken into account and excludes the impact of any of the trigger projects, albeit that DACC does not consider that these will be required within this regulatory period as we explain later under the capex heading.

51. These price cap proposals are completely at odds with the principles which the CAR, itself sets out in the Draft Determination. The CAR notes at paragraph 4.9 that *"Large fluctuations in prices are not in users' interests, particularly airlines trying to manage their own cash flows."* The proposed increase in prices in year one by 13% is not consistent with this principle.

52. Furthermore, the CAR recognises at paragraph 4.6 the perversity of prices rising at a time of traffic downturn, should a volume correction factor be applied within the regulatory period, and rejects the concept. However, the strict application of a building block approach has precisely this result between regulatory periods. The failure by the CAR to regulate DAA's excessive spending in past Determinations has simply stored up a problem for this Determination in that the CAR proposes a step jump in the price cap precisely at the time when the aviation industry is suffering from its worst ever recession. As a result of resetting the cap to reflect DAA's existing inefficient cost base and lower levels of demand, the CAR is proposing to transfer all the risk associated with the current economic recession from DAA to its airline customers. This asymmetric transfer of risk is simply unacceptable.

53. In practice, DAA earned windfall profits when growth in demand exceeded projections in the early part of the current regulatory period and is being cushioned from any losses now traffic growth has stalled as a consequence of simply resetting the formula. This cannot be right or fair. As passenger numbers using the airport reduce, DAA bears no risk until such time as all potential customers no longer have an ability to pay. Up to that point, users bear all risk through reduced yields and/or reduced load factors which will, in turn, be punished by higher airport charges. This is absurd.

54. We now set out the issues relating to forecast passenger numbers in relation to current market conditions and go onto consider opex (operational cost) issues, commercial revenues and the capital investment (capex) programme below. We go on to recast the price cap calculation, using the Ready Reckoner supplied by the CAR, using DACC's assessment of the correct building blocks to establish a reasonable estimate for the price cap over the period 2010-2014.

Current Market Conditions and Demand Forecasts

55. The current downturn in the market for air travel in Ireland is the most severe ever experienced. The downturn in demand is a result of:

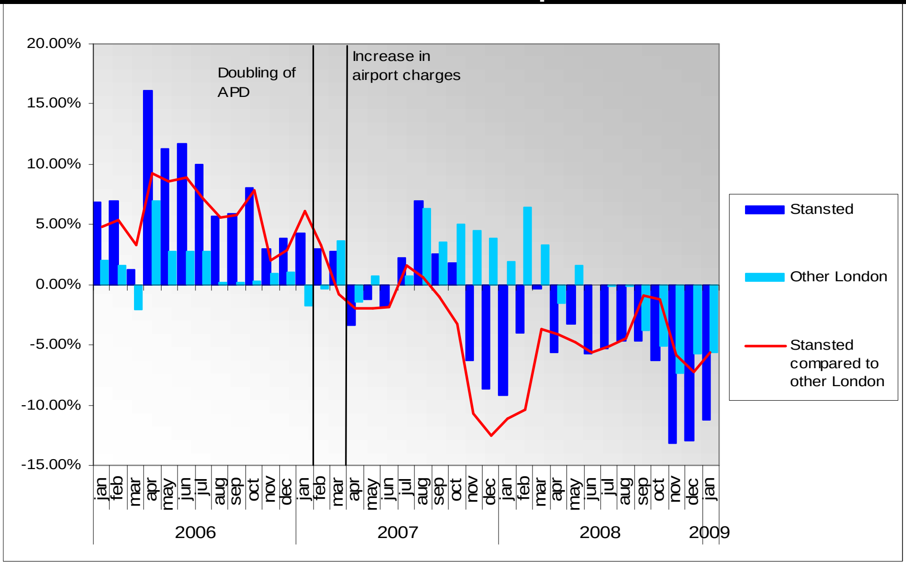
- the economic recession;
- the effect of the air travel tax;
- increases in airport charges at Dublin.

56. The combined effect of these has reduced demand at Dublin Airport by 14-15% over recent months. This reduction in demand is, at least in part, a result of DAA's refusal to reduce its costs and pass on those savings to its airline customers to assist those airlines in coping with the combined impact of the recession and the introduction of the air travel tax. In the circumstances of the current recession, there is a need for prices at the airport to be reduced, in the same way that airlines are reducing fares to stimulate demand. Airlines' ability to pay is reduced when yields are low. The high cost of using Dublin Airport, when coupled with the introduction of the air travel tax, has already resulted in DACC members reducing capacity at Dublin and moving aircraft to higher performing bases outside Ireland. This is damaging to the economic recovery of Ireland in so far is it is reducing the air service connectivity to support the need for business travel or to promote inbound tourism.

57. The Draft Determination asserts, at paragraph 6.8, that there is no evidence that demand at Dublin is price sensitive and that, to the extent that it is, this would indicate that the airport is subject to competitive constraints, lessening the need for regulation. The CAR is wrong on both counts.

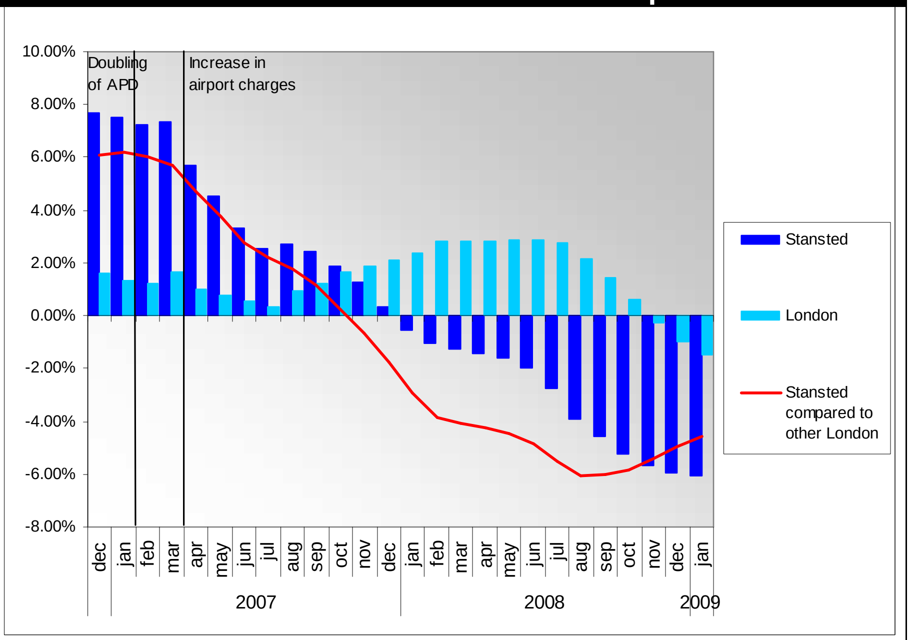
58. DACC has already supplied the CAR with ample evidence of the price sensitivity of demand, particularly in short haul markets, in relation to the impact of increases in airport charges at Stansted in the York Aviation report submitted in March 2009. The circumstances there are highly relevant to what may be expected to happen at Dublin if airlines are faced with substantial increases in airport charges at the opening and throughout the next regulatory period. We repeat the graphs illustrating the impact of increased airport charges on demand growth at Stansted below.

Figure 1: Comparison of Monthly Growth at Stansted with the Other London Airports



Source: CAA Airport Statistics

Figure 2: Comparison of Moving Average Annual Growth at Stansted with the Other London Airports



Source: CAA Airport Statistics

59. The York Aviation report set out the basis of evidence which it used to estimate the price sensitivity of demand, namely a report by Intervistas for IATA[17]. This report sets out a range of air fare elasticities at the route, national and pan-national level. For the purpose of considering Dublin Airport, York Aviation considered that the appropriate elasticities to use were those to the national level, which are smaller than would apply at the individual route level, i.e. demand is more elastic at the individual route level as passengers can switch to other routes.

60. For short haul, intra-European markets, the Intervistas report gives an air fare elasticity of -1.23 and for long-haul transatlantic markets (accepting that there is some non-transatlantic long haul traffic at Dublin) an elasticity of -0.96. These represent an evidence based assessment of the expected elasticity of demand to increases in prices at Dublin Airport. Based on real air fare data from DACC members and weighting the results by the proportion of traffic at Dublin Airport projected by DAA in each market segment, York Aviation estimated the impact on traffic growth of an increase in cost per passenger, such as an increase in airport charges, of €1, €2.50 and €5. The results are set out in **Table 1** below.

Table 1: Anticipated Impact of Increased Airport Charges on Demand at Dublin		
€1	**€2.5**	**€5**
-1.73%	-4.32%	-8.63%
Source: York Aviation		

61. Demand at Dublin Airport is extremely fragile, taking all the current circumstances into account. The CAR has produced its own passenger forecasts using a simple GDP multiplier of 1, which it is claimed is based on an historical regression analysis. The presentation of this work is totally non-transparent in the Draft Determination but, on the basis of the actual performance of Dublin Airport since 2001, the one to one relationship to GDP does not appear correct, as illustrated in **Table 2** below.

Table 2: Comparison of GDP Growth and Passenger Growth at Dublin Airport							
	03	**04**	**05**	**06**	**07**	**08**	**09**
Irish GDP Growth	+7.3%	+6.7%	+8.7%	+9.0%	+7.4%	-4.2%	-9.2%
Dublin Traffic Growth	+5.8%	+8.1%	+7.7%	+14.9%	+9.9%	-0.8%	-15.0%
Difference	+1.5%	-1.4%	+1%	-5.9%	-2.5%	-3.4%	+5.8%

62. In 2006 and 2007, demand growth greatly exceeded GDP growth as a consequence of airlines at Dublin expanding low fare operations. This growth was principally price driven not GDP driven. As costs have increased, the fall in demand far outstrips the fall in GDP. Put bluntly, any further increases in the costs of using Dublin Airport will result in a further fall in demand, even when the economy starts to recover.

63. DACC considers that the CAR's approach of simply using a multiplier of 1 to GDP as a basis for forecasting passenger growth over the period to 2014 is totally unrealistic and leads to forecasts which are inherently too high, particularly once adjustments are made to take account of more recent GDP growth projections and the full year impact of the air travel tax. The CAR needs to recognise and take into account the link between the cost of using Dublin Airport and demand in making its final Determination.

[17] Estimating Air Travel Demand Elasticities, Intervistas, December 2007.

64. The CAR is also wrong to state that if prices rise and demand falls at Dublin this indicates that the Airport is subject to competitive constraints. Charging prices at a level which forces customers out of the market, in this case air services to and from Ireland, is not an indication that the Airport is subject to competitive constraints but is a clear indication of abuse of dominance in circumstances where there is no other airport serving the Greater Dublin area.

65. It is one of the paradoxes of the building blocks form of regulation that the lower the forecast passenger demand for a given level of fixed costs at the airport, the higher the price cap will be. Hence, as DACC has previously warned, the CAR runs the risk of creating a vicious downward spiral at Dublin Airport where demand falls, prices rise and demand falls further. This is not acceptable and would be fundamentally damaging to the recovery of the Irish economy in terms of both business and tourism needs, in contravention of the clear intent of Government aviation policy as set out in the Aviation Action Plan, which stated clearly that:

"a strong network of air links and modern infrastructure as essential requirements for developing our trade and tourism sectors particularly having regard to our island status and peripheral location."[18]

66. In the light of this paradox, DACC considers that the only relevance of the passenger forecast for the period to 2014 is in terms of assessing whether any additional capacity related capital expenditure is required in the period to 2014. Taking all relevant factors into account, and even on DAA's own forecasts, demand in 2014 will only at best return to the levels expected for 2009. Hence, there is no requirement for any growth related capex in the forthcoming determination period.

67. The last Determination in 2007 was based on DAA's passenger demand forecasts of 2006, which were accepted by the CAR as the basis for allowing additional capex within the existing price cap. Hence, the existing Determination for a price cap of €7.39 in 2009 was based on a passenger projection of 23.6 mppa being reached by 2009 (only slightly above the level of demand which DAA actually handled in 2008).[19] This demand expectation in large part underpins the fixed costs of the operation at Dublin Airport and has given rise to the already incurred capex costs within the closing RAB for the last regulatory period.

68. DACC considers that, in order to avoid the inequitable transfer of all the risk associated with the current downturn in demand from DAA to the airlines, there is a strong case that the passenger demand denominator within the price cap formula should be set at a floor level equivalent to the demand projection for the final year of the existing regulatory period, upon which DAA's cost base has been established, i.e. 23.6 mppa. To do otherwise, effectively transfers all the costs arising from DAA's failure to adapt its performance quickly enough to current market conditions onto its airline customers in a manner which will result in a further reduction in demand, over and above that caused by the recession and the air travel tax. It is only right that DAA should absorb its share of the cost of the downturn in demand, not least as this has been exacerbated by its own actions, as the airlines are already suffering from reductions in demand and lower yields. Furthermore, setting a 'floor' on the passengers assumed for price cap setting purposes would effectively incentivise DAA to grow volumes to meet or exceed that target or to cut its operating costs to an efficient level. We base our assessment of the appropriate price cap on this principle.

[18] Ministerial Direction to the CAR 2007.
[19] The original Determination set out in CP3/2005 was based on demand reaching 22.9 mppa in 2009.

69. If the CAR sets the opening cap as it currently proposes, there would be consequences for the level of demand at Dublin Airport. The proposed P_0 increase would result in a further fall in demand of the order of 1.73% against projections, or approximately 400,000 passengers in 2010, over and above the downturn due to general economic factors. Overall, as the price cap rises, particularly once an allowance is made for the costs of operating T2, demand could be lower by as much as 6.9%, or 1.6 million passengers a year in 2014. This would lead to further mechanical increases in the price cap, so continuing the downward spiral. It is essential that this situation is avoided.

Opex

70. The CAR's approach to opex projections for the forthcoming regulatory period relies primarily on the 'bottom-up' analysis provided by Indecon/Jacobs (IJ) in their analysis and report, coupled with selective benchmarking with other European airports. Whilst such an approach is broadly appropriate, there are four issues that cause concern:

- The first concerns the choice of airports against which Dublin has been benchmarked in the IJ report, which tend to be European hub airports operating in regulated monopoly environments, rather than the best performing airports operating in competitive environments. Even so, it is noteworthy that staff costs per passenger at Dublin are above the average of even the relatively unchallenging benchmarks used in the IJ reports;

- The second issue is the benchmarking exercise which, even on IJ's ambitious case, leaves Dublin Airport with passengers per employee towards the bottom end of the range of benchmark airports and operating costs per passenger towards the middle. This represents a continuation of past inefficiencies rather than an efficient outcome. The CAR does not even adopt these ambitious benchmarks. DACC believes that the appropriate benchmarks should be the most efficient airports, not some point in the middle of the range which includes airports which are fundamentally inefficient, i.e. lower operating costs than the ambitious assumptions;

- The third issue is the serious difficulty for users in understanding the way in which the CAR has reached its decisions on projected opex, in the light of the lack of a consistent form of presentation and the absurdly excessive level of redaction from the supporting documents, including the work by Indecon/Jacobs and the DAA's Commentary and Backup submission as provided on the CAR's website;

- The lack of any consultation with users regarding the efficiency of operations at Dublin Airport.

71. For example, it is difficult to be clear on DAA's actual opex performance in the last regulatory period given that no complete analysis is provided by the CAR. We set out in **Table 3** below opex figures from 2007 to 2014. Projections for the period from 2010 to 2014 have been taken from the Draft Determination, but the figures for 2007 to 2009 have had to be assumed by reference to a range of other sources.

Table 3: Estimated Opex and Opex per Passenger								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Opex (m)	€ 185.80	€ 197.30	€ 190.20	€ 184.10	€ 181.90	€ 179.80	€ 182.40	€ 185.50
Pax (m)	23.3	23.5	21	20.7	21.2	21.8	22.7	23.8
Opex per Pax	€ 7.97	€ 8.40	€ 9.06	€ 8.89	€ 8.58	€ 8.25	€ 8.04	€ 7.79
Source: DAA and CAR documents								

72. The 2007 opex figure has been taken from Table 4 (paragraph 5.7) of the CAR's Issues Paper CP6/2008, which also gives a breakdown of the composition of the opex costs for this year, albeit the categories used in that table are inconsistent with other tables elsewhere.

73. The 2008 opex figure has been taken from Annex 5 of the Draft Determination (Table A5.3). However, the breakdown of 2008 opex given in the IJ report (Slide 16), whilst similar to that given in Annex 5 of the Draft Determination, has slightly different numbers. So the total opex for 2008 in the IJ report could be €198.6 million, as shown on Slide 16, or €199.3 million as shown on Slide 17, or €197.3 million, as shown in Annex 5 of the Draft Determination. To add to the confusion, the CAR's Price Cap Spreadsheet Model shows a figure for 2008 of €190.7 million.

74. The 2009 opex figure has been taken from the Draft Determination (Table 7.2 conservative case). However, the DAA's own forecast opex figure for 2009 in the IJ report has been redacted although, from the percentages given in Slide 36, it can be deduced that the DAA's estimate was €209.5 million. This would represent an increase of 6.2% over 2008 and 12.8% over 2007.

75. In the various cases quoted, it is often unclear when the figures quoted relate to DAA overall or to Dublin Airport only, and whether costs are being quoted at outturn levels or have been adjusted for inflation. We understand, from paragraph 7.11 of the Draft Determination that 22% of Head Office costs have been allocated to the other airports, pro-rata to 2008 passenger numbers. However, there is no transparency on this issue and it is unclear how Head Office time related to activities by Aer Rianta International and Dublin Airport City has been apportioned. DACC believes that a lower proportion of Head Office costs should be assigned to Dublin Airport once these activities have been corrected for. On the basis that 10% of Head Office costs related to ARI and Airport City, no more than 70% of Head Office costs should be assigned to Dublin Airport.

76. As a result of all the redactions and lack of clear explanation as to how the CAR's assumptions have been arrived at, it is very hard to see a clear and consistent set of data due to the conflicting numbers and forms of presentation. There is, therefore, an urgent need for users to see a consistent breakdown of DAA's opex for the last regulatory period with an accompanying explanation, and a consistent projection of figures forward to the next regulatory review, again with an accompanying explanation of how these numbers have been arrived at.

77. Although it is difficult to establish the exact levels of opex spent over the last regulatory period, it is nevertheless clear that the trend in opex costs between 2007 and 2009 has been rising, at a time when passenger throughput has been either broadly static or falling. It is therefore clear that DAA has been very slow to respond to the economic downturn and it is still uncertain whether any serious effort has been or is being made by DAA to address its excessive costs. Furthermore, this upwards trend in opex per passenger is completely at odds with the opex efficiency target set by the CAR for DAA over the period 2006-2009 of 1.8% per annum, which has clearly not been delivered. In circumstances were clear targets for opex efficiency were set over the last regulatory period, it is extraordinary that the CAR has not scrutinised in detail why DAA failed to meet those targets. It would appear that IJ have started from the wrong point in considering the scope for further opex efficiencies as they are starting from a point some 10-12% above the level of opex which should have been achieved had regulation delivered the planned efficient outcome.

78. Turning to DAA's Commentary made available with the Draft Determination, DAA admits that at a time when revenue is down, payroll costs for 2009 are budgeted to increase by 6%, which it simply blames on existing wage agreements. DACC would concur with the CAR, paragraph 7.12 of the Draft Determination, that there is no justification for ahead of inflation wage increases to be allowed at a time when most private sector enterprises, including airlines, are imposing wage freezes or seeking wage reductions.

79. Mention is also made in the Commentary of a 'Cost Recovery Plan' but no details are given and it appears that the CAR has simply ignored this plan on the basis that its implementation timescale is not certain, falling back on the more modest projections of the IJ report in the expectation that the CAR will not force through efficiencies. Although DAA has talked of the need for some 400 redundancies (widely reported in the press in May 2009), it is extraordinary that DAA does not see fit to incorporate any targeted savings into its own opex projections, on the basis that it might not get the agreement of its employees! Only a monopoly provider, immune to competitive pressures, could take such a view.

80. The remainder of the DAA's Commentary is almost completely useless in evaluating DAA's historical or projected opex performance, given the excessive level of data redaction. For example, there is no way of verifying the impact of security staff recently transferred to T2 and whether the costs have now been capitalised, or indeed the capitalisation of staff more generally, despite DACC asking for clarity on such issues at the Capex Consultation Meetings. In a report of some 30 pages, there are more than 20 tables that are blacked out, supposedly for reasons of confidentiality. This is clearly absurd. The UK CAA provides a complete range of historical and projected opex data in relation to the airports it regulates. Why should the DAA and the CAR take a different approach? What are the specific grounds for withholding this information from users? By withholding meaningful data, the CAR has deliberately made it virtually impossible for users to comment on whether DAA's operational costs are efficient. This does not meet the test of transparency required for regulatory decisions. There is a complete absence of any information relating opex costs to specific capital projects, despite this being one of the areas of information disclosure which the CAR had previously indicated should be shared with users (see paragraph 43).

81. A similar problem with data redaction applies to the IJ report. Furthermore, to the extent that data is available, for example in relation to security staffing, there are serious concerns regarding the basis of assessing efficiency. A multiplier of 1.6 is recommended by IJ to get from the required number of FTEs to the actual number of staff required, taking into account holidays, sickness and training, although noting that the actual DAA multiplier is lower than this. Based on 10% allowance for leave, a maximum of 4% for absenteeism and 10% for training, this multiplier should be no greater than 1.24. DACC has doubts, therefore, as to whether IJ have been rigorous in their assessment of efficiency, not least as its start point is actual 2008 opex, which did not attain the efficiency targets set in the previous Determination. Hence, it already starts from an inefficient base level. This is unacceptable and not consistent with securing the CAR's statutory objectives in relation to securing the efficient operation of Dublin Airport.

82. Even so, the conclusions of the IJ report are at least clear in stating that staff costs per pax at DAA are above average (Slide 50), although it is not clear from the report how the conservative case and the ambitious case for cost savings have been arrived at. The CAR has taken a midpoint of these estimates in calculating projected opex. DACC believes strongly that no less than the ambitious case should have been taken as the basis for the Determination, rather than a midpoint, especially given the unusually high degree of in-house provision of service at Dublin Airport which is driving costs higher and apparently locking DAA, by its own admission, into high cost wage agreements.

83. The IJ report could also have recommended the outsourcing of services or at the very least some market testing. Until there is greater confidence that the services being provided in-house by DAA are actually providing value for money rather than locking DAA into high cost wage agreements, there is a prima facie case for the more ambitious opex savings to be achieved. DACC considers that the CAR has failed in its duties by not investigating whether the in-house provision by DAA of a wide range of services, such as cleaning which is normally outsourced at airports, represents an efficient operation and, if not, to have corrected the opex estimates to such best practice levels.

84. For example, DACC was told by DAA at the Capex Consultation Meeting on 29th May that planned expenditure on IT services would enable more efficient rostering and a reduction in police overtime, by way of an example, contributing to a reduction in FTEs. The cost savings in police costs alone were cited as a high six figure sum[20]. Taken across the business as a whole, substantial opex savings have been promised from a variety of capital schemes. At the very least, if these cannot be verified the capital expenditure should be disallowed.

85. It is simply unacceptable for the Determination to be based on anything less than DAA's belatedly announced programme of cost reductions, including the planned loss of 400 FTEs and/or cost savings of at least €20 million a year. Notwithstanding the uncertainties regarding the timetable for achieving these reductions, the fact that DAA has identified that such cost savings are desirable and realistic means that this has to be taken as the basis for assessing an efficient operation, as the CAR is required by its statutory objectives to do. We have, therefore adjusted for additional staff reductions up to a total of 400 over 3 years, spread across the categories. Our assessment is conservative in that we have not stripped out inefficiencies existing in the current cost base and which are only stripped out in year 3 and beyond.

[20] Transcript 29th May, Page 128, line 2.

T2 Opex

86. DACC notes with concern that no information is provided at all in the Draft Determination about the operational cost implications of opening T2, which the CAR assumes will be in 2011. Yet it is suggested that this is simply an additional cost which will be passed through to users when the terminal opens. There are two issues which arise in relation to the implications of T2 opex being passed through to users at a time when demand to use Dublin Airport is falling. The first is in relation to the level of costs which it would be reasonable to pass through. The second is in relation to whether it is right to pass on any costs to users if the terminal becomes operational whilst there is still ample spare capacity across the rest of the airport terminal complex.

87. Taking the first issue, whilst DACC recognises the uncertainty about the tendering process, which is outside of the CAR's direct control, it is not acceptable that the costs arising from the tender process should be automatically passed straight through to users of Dublin Airport, on the false assumption that there has been a fair market competition to secure best value. There are a number of significant issues which are material to the extent to which users should have to bear any of the incremental costs, in particular:

- the fact that the tender documentation has been prepared by DAA and that DAA will be allowed to tender for the contract;

- the absence of any transparent mechanism for validating the assumptions made regarding the reduction in existing DAA opex as a consequence of approximately 40% of passengers transferring to the new terminal;

88. DACC considers that either the price cap Determination will need to be reopened in full when the costs of operating T2 are known in order to allow full and transparent scrutiny of the full cost implications to be determined or a definitive cap on costs established now, otherwise the CAR will not have set an upper limit on prices for the forthcoming period as it is required to do under the Act. Unlike other trigger items, which we discuss later, for which the cost implications are known, this is not the case with T2 opex.

89. DACC considers that there are lessons to be learned from previous cases where new terminals have been opened at airports. There is specific evidence available on how the incremental operational cost implications of opening a new terminal were managed at Manchester from the regulatory reports from the UK Monopolies and Mergers Commission[21]. This report sets clearly the <u>actual</u> cost implications arising from opening a new terminal and splitting the traffic across two terminals in circumstances where the airport operating company was set a clear target to minimise the incremental operating cost, and was subject to a price cap regulation regime. We attach relevant extracts at Annex B to this submission.

90. Terminal 2 Phase 1 at Manchester Airport had a functional floor area of 44,600m^2 when it opened in March 1993, similar to the scale of T2 at Dublin advised as required to handle the specified volume of annual passengers by the CAR's own consultants, RR&V[22]. On this basis, the allowable incremental operational costs should be comparable on the basis of efficient operations for an appropriate size of terminal to meet user needs. We set out in **Table 4** the effect of opening the terminal on operational costs per passenger over the Airport as a whole (see Annex B for data in full).

[21] MMC5, published 1997.
[22] Annex 10 to CP6/2007, Report No. 4 Review of DAA Terminal Sizing.

Table 4: Operating Cost per Passenger at Manchester Airport (1990 prices)					
1992/3	1993/4	1994/5	1995/6	1996/7	1997/8
£7.72	£8.02	£7.56	£6.86	£6.88	£6.90
Source: MMC5/York Aviation					

91. As can be seen, after rising in the opening year of the new terminal, operating costs per passenger fell substantially to below the initial level over the quinquennium. Passenger demand grew by 5.5% per annum over the quinquennium but, despite opening the new terminal, opex costs overall grew at a slower rate than passenger numbers. Tables 7.2 in Annex B shows the breakdown of where cost increases arose at outturn prices and we summarise this in **Table 5** at a constant price base.

Table 5: Changes in Total Opex at Manchester Airport by Category (£m 1990 prices)						
	1992/3	1993/4	1994/5	1995/6	1996/7	1997/8
Employees	44.95	42.87	44.81	43.98	42.52	40.50
Premises	16.65	24.94	25.41	24.18	23.10	23.86
Supplies and Services	15.72	15.38	16.91	14.83	14.56	16.64
Transport and Plant	2.03	2.64	2.83	2.74	2.76	3.90
Establishment	11.01	18.93	18.42	14.58	17.07	20.78
Source: MMC5/York Aviation						

92. It is evident that Terminal 2 at Manchester Airport was opened with no increase in staff costs over the airport as a whole, although establishment costs rose as a result of increased expenditure on sales and marketing and retail activity, which was not directly related to the operation of T2. The only substantive area of cost increase which was directly attributable to T2 was the 50% increase in premises costs. DACC considers that when it is appropriate to include the incremental costs of operating T2 in the cost base to be recovered from users, the increase in cost overall should be capped at 50% of premises cost, relating to heating, lighting, estates costs, with no allowance for increases in employee numbers over and above those driven by projected passenger growth. There is insufficient information given in the Draft Determination and supporting documents to calculate this precisely for Dublin Airport but, given that the cost increase at Manchester amounted to around 10% of total opex, this would appear an appropriate allowance.

93. The other issue critical issue is when it is reasonable for the incremental costs of T2 to be charged to users. This applies to both capital and operational costs. DACC notes that the Aviation Appeal Panel made clear that:

"in order to properly assess the proper size of Terminal 2 (and accordingly the appropriate parameter for Box 2) the Commission must first establish and clearly identify the capacity of Terminal 1."[23]

and

"Only having identified the capacity of Terminal 1 can a view be taken as to the appropriate size of Terminal 2 by reference to the needs of the airport and airport users."[24]

[23] Aviation Appeal Panel, Decision on Ryanair Appeal December 2008, paragraph 8.4.
[24] Ibid, paragraph 8.5.

Yet the CAR declined to do this as part of its decision confirming its earlier Determination on the grounds that it did not need to do so to confirm the price cap for the period 2006-2009[25]. This does not, however, absolve the need for the CAR to examine the issue in detail in making its final Determination as to how much and when the capex and opex cost implication of T2 should be charged to users in the next regulatory period. It has simply not examined the issues at all in the Draft Determination, which is a fundamental oversight.

94. As DACC has made clear in previous submissions[26], it is essential that the CAR considers fully the capacity of T1 before reaching decisions regarding when the incremental costs of T2 should be triggered (we deal with the scale of the capital costs later in this submission). Changes in the way in which airlines make use of terminal capacity, in particular greater use of internet and kiosk check-in, has resulted in the bottleneck of check-in and landside circulation at Dublin T1 being eliminated. The principal issue now is the efficiency with which security staff are deployed in peak periods. DACC considers that the capacity of T1 is at least 25 mppa on the basis of the way in which the terminal is currently being used.

95. A further consideration is whether the incremental capacity being provided by T2 can effectively be utilised given the constraint imposed by the existing runway capacity. DACC believes that users will not benefit from the incremental capacity provided by T2 until additional runway capacity is provided. It would be economically inefficient to allow the full cost of T2 to be passed through to passengers at Dublin Airport when there will be no incremental increase in traffic overall as a result of runway constraints.

96. Given that a passenger throughput of 25 mppa will not be reached within the regulatory period nor will a new runway be provided, DACC does not believe that users should be liable for the cost associated with T2 until the 25 mppa threshold number of passengers is reached and additional runway capacity in place, regardless of whether the terminal actually becomes operational. DACC has modelled the impact of deferring the time when the costs of T2 are passed onto users through the Ready Reckoner in calculating what the price cap should be both on the assumption that no costs are passed through or that an efficient level of opex costs are passed through to reflect the direct benefits which passengers will get from using new facilities.

Commercial Revenues

97. The Draft Determination does not set out DAA's claims as to commercial revenue projections, albeit some additional information about projections of car parking income and 'other' commercial revenues was made available part way through the consultation period. It is, hence, impossible to verify assertions about increases in commercial revenues as a consequence of T1X, additional retail refurbishment spending and the tenant accommodation works which the CAR proposes to allow in the period 2010-2014. In no case has a clear IRR or business case been presented for such investments in direct breach of the consultation principles set out by the CAR itself (see paragraph 43 above). At the very least, users expected to see explicit explanation in the Draft Determination to demonstrate that there was a robust business case for each of these 'so-called' commercial revenue enhancing schemes. The redaction of most of the detailed information in the Draft Determination makes it virtually impossible for users to make meaningful comment on whether the estimates are correct due to lack of transparency.

[25] CP2/2009, paragraph 4.57.
[26] York Aviation Report, March 2009, paragraph 5.12.

98. Rather than looking at the validity of individual projections of commercial income growth, the CAR has projected commercial revenues by category as some multiplier of GDP growth. The estimation of these elasticities is totally unclear from Annex 2 to the Draft Determination as source data is not presented. In most cases, the assumed multiplier is based on GDP and directly in line with passenger growth as projected by the CAR (see below) or in some cases as a multiplier of passenger growth. In some cases, the multiplier is less than 1 but for concession retail it is set at 1.8. However, there is no clear linkage demonstrated in such historic data as has been made available between GDP growth and retail income growth in particular, as retail income per passenger was falling at a time of high GDP growth, indicating the extent to which DAA has been underperforming as a result of inefficiencies in its own retail operations, compounded by the diversion of passengers away from retail outlets when Pier C was closed.

99. Although the CAR asserts that where it has made top down projections of commercial income and these differed from DAA's projections it *"has sought to understand why"*[27], nowhere is this transparently set out in the Draft Determination. For example, DAA has indicated that it would expect a 10% uplift to retail revenues to reflect a shift to concession retailing, rather than direct activities[28]. Yet the CAR appears to ignore DAA's plan to do just this and to assume proportionately a continuation of the existing level of direct retailing activity.

100. Using its inappropriate GDP multipliers, commercial revenue per passenger is projected by the CAR to fall from €6.20 in 2009 (the same as DAA earned in 2007) to €6.14 in 2010 before recovering to €6.26 by 2014. This is irrational as it fails to explicitly take into account:

- the full year impact of incremental retail and catering revenues from T1X (to the extent that there are any) as facilities are not yet fully operational;
- the incremental revenue implications of changing to branded outsourced retail outlets, for which the CAR proposes to allow capex;
- incremental income from the addition of 9,000m^2 of additional commercial floor space in T2;
- incremental rental income from refurbished office accommodation, for which the CAR proposes to allow capex.

101. The Ready Reckoner makes clear that no allowance has been made for the transfer of existing direct retailing to concession branded outlets. Either the CAR should disallow the capex costs, including those relating to T2, or it must transparently demonstrate that the incremental commercial revenues deriving from each development exceed the costs in terms of the business case/IRR, which the CAR said had, as a minimum, to be shared with users.

[27] Draft Determination, paragraph 8.4.
[28] Draft Determination, paragraph 8.18.

102. Users were promised that the costs of T1X would only be offset to the extent of *“demonstrated increases in commercial revenues accruing from the project”*. It is not at all clear where the CAR derives the contribution of €3.8 million per annum from T1X which it uses in the Ready Reckoner as the basis for the amount DAA is allowed to recover each year from T1X. The derivation of this estimate needs to be transparently set out by reference to assumed retail income with and without T1X but the Draft Determination contains no evidence or verification of the figures. Even if all of the projected increase in retail income per passenger in the Draft Determination is ascribed to T1X over the period, the average annual figure would only be €2.4m. Hence, there is a shortfall compared to the Draft Determination even if all the increase in retail revenue over the period was assigned to T1X, rather than to reinstating lost income because of DAA’s management of existing retail concessions, which resulted in lower income than had previously been obtained. However this is treated, it would leave no incremental income to justify the €8.8 million that the CAR proposes to allow on retail refurbishment.

103. The CAR’s approach to future commercial revenues makes no allowance for any real increases in commercial revenues arising from projects which were supposedly justified on this basis. Although mathematically, the CAR’s calculation does show a small increase in retail revenue per passenger from 2008 levels, back to the level obtained in 2007, this merely reinstates lost retail and catering income caused by the redirection of a proportion of passengers away from some retail outlets when Pier C was closed. The correct datum for considering incremental retail income should be the 2007 figure, prior to the removal of Pier C when retail income per passenger, according to data in the Ready Reckoner, was €2.89 per passenger. Despite asserted improvements in revenues from a shift to branded retailing and/or efficiencies in cost of sales, retail income per passenger is shown in the Ready Reckoner to only reach €2.70 per passenger by 2014. This cannot be right and, at the very least, the retail income target should be to reinstate income to €2.89 per passenger following the opening of TIX. On the basis of the information which is available in the Draft Determination, T1X does not generate incremental retail revenues, as it merely reinstates them back to the previous level on a per passenger basis and should not be remunerated.

104. On the basis of the commercial income figures supplied, the capital costs of all retail developments, including T2, should be excluded until genuine incremental commercial revenue can be clearly demonstrated. We discuss this further under the capex heading below.

105. DAA has stated that it is expecting substantial interest from prestige retailers for the very large area of commercial space being constructed in T2[29]. Part of the justification for the excessive size of the terminal was the enhanced retail offer as part of a strategy to maximise retail income[30]. Unlike T1, T2 has allegedly been designed from the outset to improve the passenger experience and to offer a balance of retail and catering outlets over two floors. Hence, it is not unreasonable to expect that when T2 opens, there will be a net increase in retail and catering income per passenger. This does not appear to have been considered at all by the CAR. DACC considers that, when T2 becomes operational, there should be a further uplift in retail income per passenger of at least 10% for those passengers using T2, or 4% over the airport as a whole.

[29] Capex Consultation Meeting 22nd April 2009, Transcript page 98, line 8.
[30] External Verifiers Report, BoydCreedSweett 2006, paragraph 6.7.1.

106. In terms of car parking income, DACC is surprised that the CAR has accepted at face value DAA's assertion that the fall in car parking revenue per passenger represents a permanent adjustment and has taken no account of DAA's response of shifting to dynamic pricing to stimulate the market. DACC considers that some allowance should have been made for improved marketing and believes that 2007 would be a more appropriate benchmark for car parking revenue per passenger. This is consistent with users having been told that average short stay car parking rates were €5 higher in February and March 2009 than previously assumed by DAA[31].

107. DACC notes that DAA did not provide any evidence to the CAR regarding the anticipated incremental car parking income which would be earned by the construction of a new Multi-Storey Car Park (paragraph 8.24 of the Draft Determination) and supports the CAR's decision to exclude the capital costs of the project, as we discuss further below.

108. In terms of property income, DACC remains concerned that DAA's high rental levels are driving even operational tenants off-site, including Aer Arann, CityJet and DHL. The justification for the scale of Pier D was in part stated as being to provide ramp accommodation for airlines, yet rents have been set at unrealistically high levels. We discuss the implications of DAA's rental policies on the need for more accommodation below but, overall, the CAR's prudent approach to projecting forward property income growth seems reasonable.

109. The one category within property income where users are particularly concerned related to Access to Installation fees and DAA's practice of charging or attempting to charge separately for these essential facilities, including check-in desks and self service kiosks, outside of the price cap. In CN2/2008, the CAR acknowledged that *"the Commission understands the rationale for the concerns some parties have expressed, and believes that the current relationship between fees charged to groundhandlers and the airport charges regime may not be ideal."* Although DACC considers this issue would be best dealt with by including charges for essential operational facilities within the price cap, it is recognised that legislation will not be forthcoming to change the definition of airport charges in time for this Determination. In the circumstances, in its response to CN2/2008, DACC indicated clearly that its second preference was for DAA to commit to a price path for access to such installations at the time of the Determination. Such a price path is not clearly and transparently set out within the Draft Determination and this is a major failure in the Draft Determination.

110. The CAR also errs in considering only the total revenue from check-in desks in the Draft Determination, noting that revenues are projected to be lower because of the declining use of such desks by airlines. The critical issue for users is the price per desk, otherwise, efficient airlines using less infrastructure are simply penalised by a cost recovery based charging system which simply apportions cost over a smaller number of users. This does not represent efficient and economic operation of Dublin Airport, which should reward not penalise efficiency. Once again, by considering only the total level of revenues which DAA may earn on a cost recovery basis, the CAR is acting to safeguard DAA's revenues rather then ensure that users are paying only for the facilities which they actually want to use. Simply because fewer desks are being used, the price per desk should not be allowed to rise, which would be the consequence of the CAR's revenue 'top up' proposal. DACC does not accept that DAA should be allowed to 'top up' revenues[32] in the event of any shortfall in total revenue

[31] Capex Consultation Meeting 22nd April 2009, DAA presentation on MSCP and Hotel, Slide 7.
[32] Draft Determination, paragraph 8.43.

111. Furthermore, there is the issue of the clawback of any excess revenue earned by DAA since the increase in check-in desk fees to a level higher than was allowed at the time of the previous Determination. DACC considers that the CAR must adjust the price cap downwards by the extent of the over-recovery since 10th March 2008 but the information upon which to make this adjustment has not been transparently disclosed.

112. The CAR raises the question in paragraph 8.17 of the Draft Determination as to whether DAA should be able to proceed with revenue generating investments at its own risk if these are not supported by users, with costs and revenues taken outside the single till. Whilst this is appropriate for non-airport related developments such as Airport City, so long as all the cost implications associated with the project are stripped out from the single till as we discuss below, this is not realistic for commercial activities which are integrally connected to the operation of the Airport, such as car parking or retail activity. Stripping such activities out of the single till could result in DAA prioritising investment in such activities rather than in ensuring that core passenger processing activities are adequately resourced.

Capital Investment Programme

113. The CIP put forward by DAA as a basis for consultation does not provide the information required for effective capex consultation, as set out by the CAR (see paragraph 43). DACC, therefore, expected that the CIP would set out clearly:

- the need for each of the proposed capital expenditure items by reference to an assessment of current market conditions;
- the alternative solutions to meeting any identified requirements with cost implications clearly set out;
- the commercial revenue and operational cost implications of each of the options.

114. DACC expected consultation to take place item by item, with users able to influence both the brief and the preferred solution.

115. Instead, when DAA failed to consult adequately with its users, the CAR arranged a series of Capex Consultation Meetings. At these meetings, DAA generally presented its preferred option with inadequate explanation of the business case for the proposal or any clear elaboration of alternatives.

116. Consequently, DACC wrote to the CAR following a number of the consultation meetings seeking intervention to ensure that DAA made available to users the full business case for each project. Although, through the CAR's interventions, some additional information was forthcoming, this was generally inadequate when measured against the clear requirements for effective consultation with users previously set out by the CAR (see paragraph 43). We attach the following correspondence with the CAR at Annex A:

- Letter to CAR 24th March 2009;
- Letter from CAR 25th March 2009;
- Letter to CAR 17th April 2009;
- Letter to CAR 1st May 2009;
- Letter to CAR 22nd May 2009;
- Letter to CAR 5th June 2009;
- Letter to CAR 17th July 2009;
- Letter from CAR 23rd July 2009;
- Letter to CAR 28th July 2009;
- Letter from CAR 5th August 2009.

117. Furthermore, there has been no consultation or discussion regarding the extent to which items of expenditure during the current regulatory period meet the requirements of users sufficient that they should be allowed into the RAB. Although a reconciliation to the previous CIP was one of the items required by DACC, this was only made available as part of the Draft Determination.

118. Notwithstanding the shortcomings in information disclosure and consultation, DACC sets out below its assessment on a project by project basis, for both existing and planned capex, of the views of users on whether the project or costs should be allowed into either the opening RAB or during the forthcoming regulatory period.

Opening RAB

119. DACC notes with concern that the CAR has not examined the justification for projects individually but has only considered the quantum of capital expenditure under aggregated headings. This approach allows DAA to:

- overspend on some projects without penalty and without any mechanism to ensure that the benefits of the additional spending outweigh the costs;

- defer expenditure on items consulted on and then carry this forward to the next period, meaning that users pay twice in terms of a return on this capital expenditure.

- undertake additional projects not included in the CIP and upon which users were not consulted.

120. DACC notes the framework proposed by the CAR for rolling forward the RAB as set out in Annex 1 to the Draft Determination. We comment below on each of the six scenarios set out:

- *Scenario 1* – DACC recognises that, in theory, allowing the regulated entity to retain the difference between projected costs and actual costs is intended to incentivise the regulated entity to deliver capex more efficiently so that it can retain the benefit of any under-spending during the regulatory period before those savings are passed onto users when the RAB is reset to actual capex at the beginning of the next period. However, there is strong evidence emerging in the UK and now at Dublin that this simply encourages the Airport to 'gold plate' its assessment of future capex and creates a false datum for considering whether investment is efficient.

  DACC considers that, in the absence of adequate user consultation and agreement to the cost of proposals in the CIP, the CAR is not safe to assume that any reductions in cost reflect an efficiency saving and that there is a case for the clawback of excess allowances made at the time of the last Determination. There is also a requirement for the CAR to transparently verify that the outputs have been delivered at less than the target cost. On the basis that this has not been done, DACC considers that DAA should not be allowed to retain the benefit of under-spending in the current regulatory period.

- *Scenario 2* – Where original cost estimates have been exceeded, these should not be allowed unless there is expressly documented user agreement to any changes in specification and clear evidence that these changes in specification gave rise to increased costs. This is not the case for projects within the current regulatory period.

- *Scenario 3* – DACC agrees that where investment is not made, the costs should be clawed back. However, the CAR's approach in aggregating projects under headings and making only net adjustments to the total for each group of projects ignores this important adjustment. We have corrected this below.

- *Scenario 4* – DACC accepts that there may be changes in the requirements of users and that projects may need to be re-specified during a regulatory period. However, the important consideration here is the extent to which users were consulted on the changed specification for the project, which did not occur during the current regulatory period, so DACC considers that there are no projects within this category.

- *Scenario 5* – DACC does not agree that DAA should be rewarded by including capex into the RAB for projects which are not completed and which do not deliver outputs valued by users. The CAR's proposal appears designed to incentivise DAA to spend money regardless of whether the project is required on the basis that it will be remunerated in any event. This is not consistent with the CAR's statutory objectives.

- *Scenario 6* – DACC considers that obsolete assets should be written down to zero in the RAB. Where an asset has not attained its useful life, DAA should cease to earn a return on the cost of that asset from that point forwards. It is not acceptable for users to continue to remunerate a redundant asset which provides no value to them. It is not reasonable to assume that DAA will only make an asset obsolete as a consequence of a new investment if there will be net benefit to users. This needs to be verified through consultation. Can the Commission clarify if that was the case with Pier C (on the basis of which ambiguity we have adjusted the opening RAB accordingly)?

- *Scenario 7* – Where assets are disposed of, DACC believes that the RAB should be reduced by the value of the sale proceeds, regardless of the value of the asset remaining in the RAB at that point. DAA benefits from a capital injection of that amount and should not be allowed to make windfall gains at the expense of users. This applies to recent asset sales such as Great Southern Hotels and shares in Hamburg and Birmingham Airports. Sale of operational assets should be subject to user approval.

121. DACC considers the CAR's scrutiny of the opening RAB against the principles set out in Annex 1 to be inadequate and that the extent to which DAA has been able to accommodate expenditure within the allowed capex is a clear indication of the extent to which the previous CIP was 'gold plated'. Although Annex 3 to the Determination, as corrected by Annex 4, sets our the CAR's reconciliation of DAA's spending against each project heading in CIP 2006-2009, it is not possible to reconcile this to the proposed addition to the opening RAB of €422 million as set out in Table 9.5 of the Draft Determination.

122. DACC has a number of principal concerns relating to projects undertaken over the period 2006-2009, as set out in previous correspondence with the CAR:

- *Pier D* – this pier is oversized relative to user requirements as DAA was informed by users in consultation prior to construction. The fact that there was insufficient time to seek new planning approval and meet the timescale set out in the Aviation Action Plan does not make it legitimate to pass these extra costs onto users. The project fails the CAR's test of having been consulted on and agreed by users and, hence, the allowable project costs should be reduced to those equating to a narrower pier and simplified link which would have met the needs of users and which users would have supported.

- *Area 14* – In the light of reducing demand for check-in desks, DAA has told users that this area will be redundant once T2 becomes operational. The costs should be omitted from the RAB from that date.

- *T1X* – As discussed in paragraph 88, users were promised that this project would only be allowed into the RAB if it could be demonstrated that it was revenue neutral. By the CAR's own admission this is not the case and no evidence has been provided that there is any incremental commercial revenue over historic levels being generated as a result of this project. It should, therefore, be disallowed.

123. We have set out in **Annex C**, DACC's view as to the extent to which changes in capex since the last Determination should be allowed into the RAB. We summarise DACC's assessment of adjustment to the RAB in **Table 6** below. This assessment of adjustments to the opening RAB supersedes that set out in the table attached to DACC's letter of 22nd May 2009, which was prepared before having seen the reconciliation of previous capex to that allowed.

Table 6: Reconciliation of CAR's Adjustment to the Opening RAB to DACC's Proposals (€million)

Category	Capex allowed by CAR	Schemes and Costs Accepted by Users	Difference
Airfield Projects	88.11	75.84	-12.27
Other Capacity Projects	106.40	66.21	-40.19
Pier D	109.07	46.69	-62.38
General Projects	28.6	37.44[33]	+8.48
Runway Project Fees	4.8	4.8	0
New Projects	29.3	0	-29.3
Total			**-135.66**

124. DACC considers that the additional sum set out in Table 6 should be deleted from the opening RAB, over and above the adjustments made by the CAR, with the €16.22 million relating to Area 14 disallowed only after T2 becomes operational.

125. We have not included T1X within the calculation above as we note that although the CAR adds the costs to the RAB at the original estimated cost, recovery of these costs is only allowed in the Ready Reckoner in so far as the CAR considers there to be incremental income. As this additional income has not been transparently demonstrated, these costs should be deleted and have been within DACC's calculations.

126. We deal with T2 related projects below.

[33] Amended according to Annex 4 to the Draft Determination.

127. In addition, the CAR sets out €33.3 million of expenditure on projects which were not within the 2006-2009 CIP and upon which users have not been consulted. Despite promises given at the Capex Consultation Meeting on 29th May[34], no detailed explanation is given regarding these projects and the extent to which users were consulted in the Draft Determination. This includes expanded facilities for GNIB and the Airport Operations Centre. DACC considers that, consistent with the principles it set out in past determinations, the CAR cannot allow such capex. The major item relates to Section 49 costs of €18.59 million. As these relate to T2 and/or the new runway, DACC considers that, in any event, these costs should be deferred for consideration as part of the T2 cost over-runs at the next Determination.

128. We have adjusted the opening RAB in the price cap calculation accordingly but consider that there may also be a case for clawing back the additional return on capital which DAA earned in the current regulatory period for schemes which it has not progressed and for excess contingency allowances made previously. We have adjusted depreciation pro-rata to the lower value of the RAB but there may also be consequential adjustments to depreciation required. DACC is not in a position to estimate these further adjustments. However, there is a fundamental concern regarding the CAR's decision to index depreciation at the time of each Determination as this results in DAA recovering more than the cost of assets over time. Airlines do not index depreciation in their accounts and assets are depreciated over 20 years, not rebased every 5 years. DACC believes that this is inappropriate treatment and to the extent that DAA is benefiting from indexed depreciation, this should be applied to maintaining assets without further additions to the RAB.

T2

129. DACC members believe that the CAR erred in not disallowing 50% of the costs of T2 and associated infrastructure as being over-sized relative to a reasonable assessment of the profile of passenger demand projected to use the terminal. The CAR's own consultants, RR&V made clear that to handle DAA's design capacity of T2 Phase 1 of 11.4 mppa, the terminal could be 40-56% smaller than DAA has constructed[35]. Yet the CAR only placed 27% of the costs into Box 2, to be remunerated if throughput at the Airport exceeds 33 mppa, albeit the Fingal Local Area Plan limits throughput on the Eastern Campus at Dublin Airport to 30 mppa. In doing so, it would appear that the CAR took 13.2 mppa as the design capacity of T2 Phase 1 and allowed the costs relating to this scale of terminal. This would be consistent with an assumption that the capacity of T1 was 20 mppa and the Box 2 threshold defined as 33 mppa.

130. Users also consider that the CAR was irrational in not scaling back the other T2 associated projects pro-rata to its consultant's assessment of the required design parameters as it is the busy hour demand which gives rise to the need for additional landside and airside facilities. Without prejudice to the views already expressed in paragraph 96 above regarding when users should pay for T2, DACC considers that there is no case for allowing more than a ceiling of 60% of DAA's total T2 related project costs into the RAB (on the basis that the CAR's own consultants' assessment of the required size of the terminal as set out above) until such time as T2 requires to handle in excess of 11.4 mppa and having taken the full capacity of T1 into account. DACC believes that once all costs have been reconciled, a further €190-300 million can be omitted from the RAB in Box 1, over and above the deduction allowed for by the CAR to date (as an indicative calculation we have used €240 million in the Ready Reckoner).

[34] Transcript page 58.
[35] Rr&V, Report No. 4 Review of DAA Terminal Sizing, Executive Summary, May 2007.

131. DACC also notes that DAA has already spent €21.51 million towards the cost of the T2 MSCP, yet the CAR proposes not to allow this project into the RAB in the next Determination period. This is inconsistent and suggests that there may be a case for a further excision from the T2 related costs, although we have not made this adjustment at this stage.

132. We have made a number of adjustments relating to the treatment of T2 in the Ready Reckoner, firstly to correct the lower bound passenger threshold to 25 mppa to reflect the view of DACC that the costs of T2 should not be remunerated until a threshold of 25 mppa (consistent with the capacity of T1 and or the provision of additional runway capacity) is reached. Secondly, we have reduced the capital costs allowed in to Box 1 by €240 million.

133. Notwithstanding these adjustments DACC considers that there remain fundamental issues with the scale and timing of costs associated with T2 entering the RAB and that these dwarf any possible issues relating to the reconciliation of actual to planned costs[36], which the CAR has indicated will be deferred to the next review. DACC agrees that issues relating to T2 should be revisited in 2014.

134. In addition to the adjustments set out above, there are four further areas where DACC considers that the opening RAB needs to be adjusted:

- *Pier C* – as set out above, this asset has ceased to be usable for the purpose for which it was designed, namely providing access gates to aircraft, now the structural frame has been subsumed into T2. It therefore has no value to users separate from the value of T2. As such the residual costs of the asset should be deducted from the opening RAB. Based on 41 years of remaining life, we have estimated these costs to be €52.48 million and deducted them from the opening RAB.

- *Great Southern Hotels* – income from the operation of Great Southern Hotels was previously included in the single till, therefore it is logical that the value earned from this disposal should be netted off the opening RAB. On the basis of the previous apportionment of income between Dublin Airport and the other airports, DACC believes some 78.7% of the value of the sale proceeds, some €75.89 million, should be deducted from the opening RAB

- *Proceed from sale of shares in Hamburg and Birmingham Airports* – as with the Great Southern Hotels, the investment in these airports was held within the single till and 78.7% of the value of the sale of shares, some €54.22 million, needs to be deducted from the opening RAB.

- *Land Assets for Dublin Airport City* – DACC assumes that the land proposed to be used for Dublin Airport City is part of existing Dublin Airport assets. Although users have not been informed of the value of the land to be used for Dublin Airport City, a €20 million adjustment to the opening RAB would appear reasonable.

135. Overall, DACC considers that some €322 million needs to be deducted from the opening RAB over and above adjustments made by the CAR, this excludes T1X, adjustments to T2 Box 1 and the cost of Area 14, which is only deducted once T2 becomes operational. In adjusting the price cap calculation using the Ready Reckoner, we have made an approximate adjustment to depreciation.

[36] Draft Determination, paragraph 9.7.

CIP 2010-2014

136. DACC finds it astounding that in the current economic climate, with the urgent need to reduce the costs of operating at Dublin Airport that DAA could even contemplate proposing a capital investment programme over the period 2010-2014 amounting to some €745 million, on top of the previous investment programme of €1.2 billion over the 4 year period 2006-2009. This flies in the face of economic reality. The fact that €353 million of projects was proposed to be triggered, subject to demand, does not take away from the lack of realism in the Capital Investment Programme (CIP) proposed by DAA.

137. DAA did not consult with users prior to the publication of the CIP. Users had made clear that any discussions had to be framed by reference to a business plan for reducing costs and recovering traffic growth at Dublin Airport[37]. Rather the CIP document was published by the CAR prior to the first Capex Consultation Meeting on 18th March and without any consultation with users having taken place.

138. The CIP Document is itself inadequate as it does not provide the information which the CAR had indicated should be provided (see paragraph 43 above) to allow meaningful consultation to take place. Specifically, DAA's proposals were presented without a clear statement of the business need they are designed to meet, the alternatives considered and the full costs and benefits of each of the alternatives. In summary, there was simply no business case justification provided for projects. Without clear explanation of the need for a project and the costs and benefits to users of such a project being undertaken, it is virtually impossible for users to challenge schemes proposed by DAA. This is not effective consultation.

139. In the light of the failings in the CIP document, DACC set out clearly its requirements in terms of additional information project by project through correspondence with the CAR (see Annex A). Despite numerous requests for information at Capex Consultation Meetings and by correspondence following the meetings as set out in Annex A, the CAR has failed to ensure that DAA has provided sufficient information to users to allow them to understand the business case for the majority of capital projects proposed for the period 2010-2014. DAA's has failed to provide sufficient information for meaningful consultation to take place consistent with the CAR's stated requirements as set out in paragraph 29 above.

140. In particular, given that many of the projects relate to replacement of existing assets, DAA has not provided evidence to demonstrate that replacement is more cost effective than ongoing maintenance, although this was promised at the Capex Consultation Meeting on 8th April 2009[38]. On this basis, the business case for carrying out many of the replacement projects has not been transparently made.

141. DACC set out preliminary views on the capex which users considered was required over the period to 2014 by letter to the CAR on 22nd May 2009. It was also made clear where users had insufficient information to be able to comment meaningfully, with the onus being on DAA to demonstrate to users that there was a business case for investment. Except in so far as information became available during the Capex Consultation Meeting on 29th May 2009, no further justification has been provided by DAA, despite promises made at consultation meetings that further information would be provided. Nor does the Draft Determination set out transparently the basis upon which the CAR has decided to allow capital development schemes to enter the RAB in the next regulatory period against the express wish of users.

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[37] Letter to Declan Collier 6th April 2009.
[38] Transcript page 10, line 22.

142. We summarise the requirements of users, as set out on 22nd May, and the proposals of the CAR in **Annex D**. The CAR proposes to allow €198.2 million to enter the RAB in the next regulatory period, with a further €337.8 million of projects subject to triggers. DACC does not consider that the trigger projects will be required at all prior to 2014 (we discuss triggers below) and assesses the user requirements for projects to amount to no more than €67.3 million over the period.

143. We now consider each project in turn in the order set out in the Draft Determination, commenting on the adequacy of information, and whether users consider the project or level of expenditure justified on the basis of information made available, including that within the Draft Determination:

144. Airport Operations

- *CIP8.001 Operations* – DACC considers that, taking into account that passenger demand to use Dublin Airport will not reach 2008 levels until at least 2014, general expenditure on airport development and operations can be contained to €20 million over the period. In the first instance, DACC notes that €5 million of DAA's spending is assumed to be on operational alterations to T2[39]. This is a T2 over-spend and should be dealt with accordingly at the next regulatory period. Other items of expenditure planned by DAA under this heading include Collaborative Decision Making, replacement of CCTVs, airport operational computing systems, which are not supported by users. At the Capex Consultation Meeting on 29th May, it was revealed that Dublin Airport alone has 900 computer terminals for 900 daily logins[40] which, taking into account shift work, would seem to be excessive. Further reductions can therefore be made to the amount of expenditure required and DACC proposes €4 million a year as sufficient given the low volumes of passengers over the regulatory period.

- *CIP8.008 Corporate IT* – the proposed level of expenditure was justified on the basis of large savings in opex costs, referred to in paragraph 70 above and in improving efficiency. None of these claims can be verified by evidence of opex savings. Furthermore, it was confirmed at the Capex Consultation Meeting on 29th May that costs under the heading Corporate IT cover Shannon and Cork as well as Dublin[41]. This does not appear to have been taken into account by Booz & Co[42]. DACC considers that in the absence of demand growth at Dublin and in the light of planned reductions in staff, costs of Corporate IT can be contained to €2 million over the regulatory period.

- *CIP2.017 Hangar Maintenance* – DACC agrees with the CAR that the case for this investment is not made. At the Capex Consultation Meeting on 8th April 2009, DAA failed to provide any evidence that there was demand for these hangars to be refurbished or that there would be incremental commercial income as a result of this expenditure. DAA has failed to provide supporting evidence on the need for this expenditure.

145. The CAR proposes to allow €49 million under this heading whereas DACC considers that €22 million will be sufficient to meet reasonable user requirements in the circumstance where passenger volumes will be below those previously handled and general wear and tear on systems will be less.

[39] Booz & Co Report , Page 47.
[40] Transcript page 139, line 22.
[41] Ibid, page 149, line 22.
[42] Booz & Co Report, Page 48.

146. Airport Infrastructure – Landside Infrastructure

- *CIP 3.035 Internal Secondary Campus Roads Upgrade* – this item was not discussed at any of the Capex Consultation Meetings and no supporting justification has been given meaning that prima facie the costs should be disallowed. DACC considers that the business case for this investment has not been made and the expenditure has to be disallowed following the CAR's consultation guidelines as no supporting justification has been given.

- *CIP3.033 Sealing Bridge Deck etc* – this item was not discussed at any of the Capex Consultation meetings and no supporting justification has been given meaning that prima facie the costs should be disallowed. However, DACC recognises that need to maintain critical structures such as the drop-off roadway. No information was presented regarding alternatives and DACC considers that, in the absence of a specific business case for the proposed level of investment, a reduced specification scheme should be adopted for a cost allowance of €2.5 million.

- *CIP3.012 Taxi Holding Area* – this item was not discussed at any of the Capex Consultation meetings so there has been no consultation with users meaning that prima facie the cost should be disallowed. DAA proposes to add twice as much capacity as it states is required and, if T2 becomes operational, additional taxi rank space will be provided. In the absence of passenger growth at Dublin Airport, there is no justification for this scheme at this time.

- *CIP1.016 Refurbishment of Multistorey Car Park* - this item was not discussed at any of the Capex Consultation Meetings and no supporting justification has been given meaning that prima facie the costs should be disallowed. DACC considers that in the current economic climate and the need to reduce costs this refurbishment scheme can be deferred. In any event, it is not clear that this scheme can be undertaken without undue disruption until the new MSCP is built (see below).

- *CIP3.034 External Roads Upgrade* - this item was not discussed at any of the Capex Consultation Meetings and no supporting justification has been given meaning that prima facie the costs should be disallowed. DACC considers that in the current economic climate and the need to reduce costs this refurbishment scheme can be deferred.

- *CIP3.014 Upgrade Airside/Landside Perimeter Fence* - this item was not discussed at any of the Capex Consultation Meetings and no supporting justification has been given meaning that prima facie the costs should be disallowed. DACC considers that in the current economic climate and the need to reduce costs this refurbishment scheme can be deferred.

- *CIP8.300 Metro and GTC Design Fees* – this item was discussed at the Capex Consultation Meeting on 22nd April 2009. DACC considers that fees relating to the provision of the Metro at the Airport should be met by the Metro and charged to the eventual users of that service. The CAR was asked at that meeting to investigate the legality of the costs associated with the Metro being charged to airport users[43]. There is no evidence provided in the Draft Determination that the CAR has investigated this matter as it promised to do so the costs should be disallowed.

[43] Transcript page 84, line 22.

- *CIP2.008 Maintenance of Listed Buildings* - this item was not discussed at any of the Capex Consultation Meetings and no supporting justification has been given meaning that prima facie the costs should be disallowed. However, DACC recognises that DAA does have legal liabilities in this area and considers that in the current economic climate and the need to reduce costs this item should be subject to a cap on costs at 50% of that proposed by DAA at €250,000.

147. The CAR proposes to allow the full €23 million requested by DAA under this heading without challenge or scrutiny as to whether the expenditure is actually required in the next regulatory period. DACC considers that a minimal care and maintenance program of €3.75 million is sufficient in the light of the downturn in demand.

148. Airport Infrastructure – Plant and Equipment

- *CIP4.017 Upgrade HBS Dublin Airport* – DACC agrees with the CAR that this project should be subject to a trigger, with costs only allowed when European legislation requiring equipment to be upgraded is enacted into Irish law. However, DACC does not accept DAA's estimated cost for this project of €10.8 million as the reductions in the volumes of hold baggage at Dublin Airport, in particular using T1, will mean that fewer machines will be required than included within DAA's cost plan. DACC believes that redundant equipment in Area 14 can be reused after T2 becomes operational. The CAR has acknowledged the potential for fewer machines to be required at paragraph 9.46 of the Draft Determination.

- *CIP4.014 Replace CHP2* – In response to a question from DACC, DAA provided information on 29th April 2009 claiming that the new CHP would reduce energy costs and pay for itself over 4 years[44]. DACC accepts this expenditure subject to the CAR providing transparent verification that the asserted cost savings have been passed through into the opex estimates provided by DAA.

149. DACC broadly concurs with the approach being taken by the CAR under this heading.

150. Airport Infrastructure - Utilities

- *CIP9.024 Fuel Farm Redevelopment* – this project was discussed at the Capex Consultation Meeting on 6th May 2009. It became clear that the asserted benefits from the provision of an Into-Plane facility as part of the development would not be passed through to users by way of reduced costs[45]. DACC agrees with the CAR that the cost of this element of the scheme proposed by DAA should be omitted. Based on the evidence presented by DAA at this meeting, DACC believes that there is no requirement for 3 additional storage tanks and that 2 additional tanks would be sufficient to meet user requirements, as was made clear at the Capex Consultation Meeting on 6th May 2009[46]. DACC, therefore, indicated that an acceptable level of investment to meet users' requirements would be €12 million. DACC also notes that Booz & Co assessed DAA's costs as 8% too high so there may be scope for further cost savings against this €12 million.[47]

[44] 290409 CIP Information for Users, page 16.
[45] Transcript page 114, line 27.
[46] Transcript pages 112 and 113.
[47] Booz & Co Report, page 55.

- *CIP9.019 Cuckoo Culvert Capacity* – this project was discussed at the Capex Consultation Meeting on 29th May 2009. DACC considers that DAA has not made the case that it needs both to upgrade the existing culvert and provide a duplicate new culvert to deal with contaminated run-off. On the basis of information provided at that meeting, DACC considers that the requirement can be adequately dealt with by providing a separation tank at a cost of €2.4 million, based on costs set out in CP9.022, and upgrading the existing culvert at a cost of €5 million, making a total cost allowance for this project of €7.4 million compared to the full €11 million which the CAR proposes to allow.

- *CIP9.022 Airfield Pollution Control* and *CP9.021 Airfield Drainage Upgrade* – these projects were discussed at the Capex Consultation Meeting on 29th May 2009[48]. DAA has not provided sufficient justification that these works are statutorily required and not connected to future development projects such as the Northern Runway or Airport City. DACC considers that these projects are not required at the present time based on the information presented by DAA.

- *CIP9.023 Fuel Hydrant System Ph 1* – this project was discussed at the Capex Consultation Meeting on 6th May 2009. DAA has not provided evidence to support the claimed operational benefits of the scheme nor adequately explained why the investment is not being undertaken by the fuel companies. In fact, it was confirmed at the meeting that the fuel companies had declined to finance this investment[49] (and the increase in fuel tanks) presumably as they do not consider them to be financially viable. DACC does not agree with the CAR that this should be a trigger project and considers that DAA has yet to make out a business case for this investment.

- *CIP9.020 MV Network Renewal* - this item was not discussed at any of the Capex Consultation Meetings but DACC understands that the justification is partly related to the plan for a new control tower. As no business case has been presented for the new control tower, this expenditure should be disallowed.

151. The CAR proposes to allow €41.9 million of DAA's estimated costs of €58.8 million under this heading, with a further €6 million subject to a trigger relating to the provision of a fuel hydrant on Pier E. DACC considers that justifiable expenditure, to meet user needs under this heading, amounts to no more than €19.4 million.

152. Piers and Terminals

- *CIP7.032 T1 Passenger Processing Enhancement* – this project was discussed at the Capex Consultation Meeting on 22nd April 2009. In the light of the reduced demand in T1, particularly following the opening of T2, users were not persuaded of the business case for this project[50]. DAA failed to demonstrate that the asserted opex cost savings were real or that projected increases in retail revenues could be delivered. DACC agrees with the CAR that this project is not required in the forthcoming regulatory period.

- *CIP7.035 Pier B Connectivity* – this project was discussed at the Capex Consultation Meeting on 22nd April 2009. DACC believes that this project was a DAA oversight and should have been part of the T2 Project. The omission of this project as a consequence of errors on the part of DAA means that users should not be liable for the over-spend. The costs of this project should not be allowed.

[48] Transcript page 76.
[49] Transcript page 93, line 26.
[50] Transcript page 131, line 13.

- *CIP7.030 T2 Completion* – DACC considers these costs to be over-spending against the original T2 budget. As such, DACC agrees with the CAR that they should not be allowed in the forthcoming regulatory period.

- *CIP7.018 New Pier Design Fees* – this project was discussed at the Capex Consultation Meeting on 22nd April 2009. DACC requested to see DAA's gating analysis in order that users could consider when there might be a requirement for the provision of further pier capacity at Dublin Airport. Although DAA promised to provide this, no meaningful gating analysis for future years was ever provided to users as part of the consultation process. On the basis of reasonable forecasts of demand, DACC does not consider that this project will be triggered in the forthcoming regulatory period (see comments on triggers below).

- *CIP7.036 T1 Safety Life System* – this project was discussed at the Capex Consultation Meeting on 29th May 2009 and it was confirmed that DAA had not yet prepared a detailed scheme and costs for these works[51]. DACC recognises the need to maintain essential safety systems in T1 but considers that the costs should be contained to a budget of €2.4 million in the forthcoming regulatory period, consistent with the amount proposed to be allowed by the CAR.

153. The CAR proposes to allow €2.4 million into the RAB in the forthcoming regulatory period under this heading and this is supported by users. We discuss triggers below.

154. <u>Revenue Projects - Retail</u>

- *CIP5.013 Retail Refurbishment* – this project was discussed at the Capex Consultation Meeting on 22nd April 2009. DAA provided further information on T1 retail spending linked to past refurbishment schemes on 8th May 2009. It would appear from this data that previous retail refurbishment schemes have yielded no more than €0.26 per passenger and, on this basis, DAA's estimated costs of €16.8 million would not payback over the life of the investment, particularly given the expectation that 40% of passenger demand will transfer to T2. The CAR has not set out transparently the basis upon which it proposes to allow €8.8 million in the next period[52]. Given that the CAR does not project any increase in retail revenue per passenger during the period, it is inconsistent to allow this expenditure. It is not clear that this scheme will generate any incremental spend per passenger over and above that asserted for T1X. In any event, DACC considers that, to the extent this is to allow more branded retailing, the fit out costs would normally be met directly by the retailers. The business case has not been made for any of this investment to be allowed.

[51] Transcript page 172, line 16.
[52] Draft Determination, paragraph 9.54.

155. Revenue Projects - Revenue

- *CIP1.006 MSCP* – this project was discussed at the Capex Consultation Meeting on 22nd April 2009. Further information regarding car parking revenues was provided on 8th May 2009. Based on this further information disclosed, even if DAA achieved 100% occupancy of the car park throughout its life at DAA's average revenue per car parking space, the scheme would not achieve a positive rate of return over its life. Although DAA asserted at the meeting that the combined scheme with the hotel (being funded externally) showed a positive rate of return, insufficient information was made available to users to verify this[53]. In particular, it was not clear whether income from the hotel was intended to be used to enable lower car parking charges or whether it was net incremental. DACC notes that the CAR projects no real increase in car parking revenues per passenger so DACC supports the CAR's decision to exclude the costs of this development from the RAB at the present time.

  However, DACC believes firmly that car parks are part of the airport product and that costs and revenues should be retained within the single till, subject to the business case being made that the expenditure is beneficial to users. DAA has been unable to demonstrate this transparently for this particular project, given the high costs involved, and in the light of the downturn in demand. The costs should be disallowed until the business case is clearly made.

  DACC is also of the view that the costs already allowed for a new MSCP in the 2007 Interim Review should be excluded from the RAB and this would represent a further adjustment to the allowable T2 related costs as indicated in paragraph 116 above.

- *CIP2.018 Cargo Distribution Centre* – this project was not discussed at any of the Capex Consultation Meetings and DAA has not presented any business case for the provision of such a distribution centre. Basic information such as a forecast for cargo tonnage growth is not available for Dublin Airport and no supporting evidence has been provided as to the revenues to be generated by this project. The only justification given for this project appears to be the requirement to relocate cargo activities to make way for other development. In which case, the requirement for this project needs to be assessed by reference to the benefits deriving from the other (unspecified) project unless the business case can be made by reference to incremental revenues exceeding the costs of relocation. DACC believes that this development may be a relocation consequential upon the construction of T2 and that the costs should be considered as a further T2 overspend. In the absence of a specific business case in the terms set out by the CAR (see paragraph 43 above), these costs should be disallowed.

- *CIP2.019 Retail Logistics Centre* - this project was not discussed at any of the Capex Consultation Meetings and DAA has not presented any business case for the provision of such a logistic centre. DACC requested information in relation to incremental retail revenues deriving from this project or operational cost savings so that it could assess the value to users but this information was not provided. On this basis, the business case for this project has not been demonstrated and the costs should be disallowed.

[53] Transcript page 11, line 26.

- *CIP2.014 DAA Office Accommodation, CIP2.015 DAA Tenant Accommodation, CIP2.016 DAA Tenant Accommodation Piers* – these accommodation projects were discussed at the Capex Consultation Meeting on 29th May 2009. In all cases, DAA was unable to provide any estimate of incremental rental income which would be earned as a result of this expenditure. The CAR agreed at this meeting that if the benefit could not be demonstrated then the expenditure should not be allowed[54] but indicated that such information would be set out transparently in the Draft Determination so that users could see the costs and benefits of any capex which was proposed to be allowed[55]. This is clearly not the case as the Draft Determination does not contain any assessment of the business case for individual capital schemes.

  As DACC highlighted at the meeting, tenants are leaving the airport as a consequence of excessive rental levels and available ramp accommodation on Pier D has not been taken up due to excessive rents being sought by DAA. Given the planned reduction in DAA staff numbers, there does not appear any basis for a business case for spending money on DAA's own accommodation and DAA was unable to demonstrate asserted efficiency gains would result in operational cost savings. In the absence of any clear demonstration of either incremental rental income or operational cost savings, the CAR is wrong to allow even part of this expenditure as the business case has not been transparently demonstrated.

156. Overall the CAR proposes to allow €28 million of expenditure on so-called revenue generating projects to enter the RAB in the next regulatory period. DACC considers that, on the evidence made available by both DAA and the CAR, there is no case for any of this expenditure to be allowed into the RAB as the benefits to users have not been transparently set out.

157. The Draft Determination raises the question of whether DAA should be allowed to proceed with some commercial investments at its own risk, with costs and revenues taken outside the single till. In order to evaluate the implications of this, DACC requires information regarding the level at which the price cap would be set on a dual till basis. On the basis of the information currently available, DACC considers that the single till regulatory model should continue to be adopted and projects only proceeded with when it can be clearly demonstrated that the benefits to users outweigh the costs. This should apply to all projects, whether revenue generating or not, which serve the needs of passengers, airlines and other users. This would include any development within the main terminal campus area, including hotels.

158. However, DACC agrees that all costs and revenues associated with Dublin Airport City should be taken outside of the single till as this appears to be pure property speculation. As indicated above, DACC is concerned to ensure that all historic costs, including land and management time are removed from the RAB and historic costs and any recovery of and/or return on these amounts returned to users. The CAR's proposal[56] not to clawback any operating costs incurred over the period 2006-2009 is not acceptable. It has not transparently verified that users have not been charged for time expended on this project.

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[54] Transcript page 22, line 4.
[55] Transcript page 28, line 22.
[56] Draft Determination, paragraph 11.12.

159. Stands and Airfield

- *CIP6.051 North Runway Construction Works and CIP6.018 North Runway Fees* – DACC agrees that, in principle, all works associated with new runway construction should be subject to an appropriate trigger (see below). However, DACC does not accept that the scheme proposed by DAA is the optimum scheme to meet the needs of users. In the first instance, DAA has been unable to substantiate the requirement for a longer runway[57] (3,660m) other than by reference to vague expressions of interest by airlines which presently do not operate to Dublin. DACC cannot see any case for considering a longer runway than that for which DAA has planning approval, resulting in a saving of €60 million on the capital costs of €305 million proposed by DAA.

  Furthermore, based on information disclosed by DAA on 21st May 2009, DACC considers that refurbishment of Runway 11/29 at a cost of €4.5 million would provide sufficient incremental capacity to meet demand for the foreseeable future as it would potentially provide 30 movements per hour additional capacity for smaller aircraft types compared to 43 with the parallel runway option at a cost of €305 million as proposed by DAA. DAA has not demonstrated that reopening Runway 11/29 to increase runway capacity in the short to medium term is not a viable option.

  DACC considers that before any decisions are taken as to which runway development scheme should be implemented, there will need to be substantial consultation with users to demonstrate which is the optimum scheme to meet user requirements, taking account of the projected profile of demand to use Dublin Airport at the time decisions are being taken.

  DACC does not accept that design fees of €4.2 million should be allowed at this stage as the timing of the requirement for detailed design is some years away and therefore should be subject to a composite trigger related to the timing when the runway is required. DACC also considers that the fee costs will be materially below those proposed by DAA or allowed by the CAR if either Runway 11/29 is refurbished or the existing runway proposal is implemented at 3,110m, accepting that there will be some costs incurred in seeking to lift the movement restrictions as part of the planning approval.

- *CIP6.053 Engine Test Facility and CIP6.009 Design Fees* – DACC accepts the requirement for the relocation of the Engine Test Facility in the event of it being determined that construction the North Runway 10/28 is the optimum solution. DACC notes that the CAR proposes to allow only €9.5 million compared to the €13.8 million proposed by DAA. However, DACC considers that further consideration will need to be given to the actual costs when a location and scheme has been chosen. It would be inappropriate to commit to a particular option at this stage, as DAA accepted at the Capex Consultation Meeting of 6th May 2009[58] when it indicated that the location and costs would not be determined until after the expenditure of the design fees. In the light of the uncertainty regarding the timing of the new runway, DACC considers that both the design fees and the actual cost of constructing a new engine test facility should be subject to triggers and disallowed at this stage.

[57] Transcript 6th May 2009, page 46.
[58] Transcript page 24, line 21.

- *CIP6.019 North Runway House Buy Out* – DACC agrees with the CAR that this expenditure should only be allowed subject to a trigger related to the timing of the new north runway. However, the CAR has not explained why any trigger would automatically allow the maximum potential cost of house purchases[59] to enter the RAB. As these properties are not required to enable the runway to be constructed and reflect a voluntary purchase scheme for properties affected by noise from any new runway, there is no case for costs to enter the RAB until such time as the runway configuration is determined and householders actually sell such properties. The CAR does not justify in the Draft Determination why it takes a different view as to the costs to be allowed than its own consultants, Booz & Co, who recommended a maximum allowance of €3.8 million. The CAR's decision to allow €25.4 million to enter the RAB subject to the runway trigger being reached is irrational.

- *CIP2.009 New Control Tower Facilitation Works* – this project was discussed at the Capex Consultation Meeting on 6th May 2009. DAA deferred to IAA in terms of the business case for a new control tower but DACC pointed out that the concern appeared to relate to buildings constructed by DAA which obscured the view to the proposed new runway location[60]. DACC considers that these costs should not be allowed until the need for the new control tower has been clearly set out by IAA and that, in any event, the costs should be triggered related to the new north runway, provided the case has been made at that time.

- *CIP6.017 Overlay Runway 10/28* – at the Capex Consultation Meeting on 8th April 2009. Subsequently users were provided with a copy of the Feasibility Study which set out four options for refurbishing the existing runway. DAA proposed to implement the most expensive of these options as a cost of €23 million to increase the life of the runway by 15-20 years. However, users noted that the remaining life of the existing runway is 4-6 years and that a lower cost option at €7 million would extend the life of the runway by 6-8 years. Given the expectation that a second runway will be provided within this timeframe, and that this would enable full reconstruction with less operational disruption and at a lower cost, users expressed a preference for this lower cost option. Information provided subsequently on 21st May 2009 suggested that continuing the current practice of patching might well be the most cost effective option of all. Nonetheless, DACC is pleased that the CAR has accepted this recommendation from users to proceed with a lower cost overlay solution.

- *CIP6.047 New Apron Development* – this project was discussed at the Capex Consultation Meeting on 6th May 2009. DACC agrees with the CAR that this should be a trigger project, subject to demand. Based on current traffic growth expectations at Dublin over the period to 2014, DACC does not consider that the development will be required. DAA indicated that it has not updated its analysis of stand requirements based on new traffic forecasts[61] so a decision on the scope, cost and timing of this project now would be premature.

[59] Booz & Co Report, page 34.
[60] Transcript page 80, line 25.
[61] Capex Consultation Meeting 22nd April 2009Transcript page 65.

- *CIP6.052 Central Apron Reconstruction Works* – this project was discussed at the Capex Consultation Meeting on 8th April 2009. Users asked for an analysis of the extent of apron repairs and patching which had been undertaken in the area proposed for reconstruction and the level of operational disruption arising in order to understand the risks attaching to undertaking a smaller area of works[62]. Information received on 21st May 2009 suggested that the extent of operational disruption from emergency repair works was relatively low. Hence users believe strongly that the scope of the programme could be reduced in the next regulatory period and the works phased over a longer period, with an appropriate cost allowance being limited to €9 million rather than the €13.8 million which the CAR proposes to allow.

- *CIP6.054 Taxiway Centreline Lights* - this project was discussed at the Capex Consultation Meeting on 29th May 2009. DACC considers that DAA did not set out clearly why this project was required at the present time and is pleased that the CAR has disallowed this expenditure.

- *CIP6.055 B7 Taxiway Overlay* - this project was discussed at the Capex Consultation Meeting on 29th May 2009. Users are not persuaded that a full overlay is immediately required and considers that an interim solution at a cost of €800,000 will suffice until a decision is taken regarding the new North Runway. This would allow a full overlay to be undertaken at a lower cost and with less operational disruption. DACC does not consider that the case for allowing expenditure of €2.8 million has been made.

- *CIP6.056 Apron Road Reconstruction* – this project was not discussed at any Capex Consultation Meeting. Users do not consider that the case has been made for the reconstruction of the whole road system and consider that an allowance of €500,000 is sufficient for the forthcoming regulatory period. The CAR has not set out in the Draft Determination why is considers that €2.8 million should be allowed.

- *CIP6.057 Airfield Generator Replacement* - this project was not discussed at any Capex Consultation Meeting. However, users accept that this project could be safety critical, although it would have assisted if DAA had set out clearly the risk of failure. DACC agrees that a cost of €500,000 should be allowed into the RAB.

160. Overall the CAR proposes to allow €30 million of expenditure in this category to enter the RAB in the forthcoming regulatory period, with a further €314 million subject to triggers. We comment further on triggers below. DACC believes that no more than €17.8 million should be allowed automatically and does not believe that there will be a case for expenditure on trigger projects by 2014, based on current demand projections.

161. DACC believes that DAA has made excessive allowance for project contingency within its CIP and takes comfort that Booz & Co have re-examined these allowances. DACC does not accept that it is reasonable to allow programme contingency on top of project contingency as there should be sufficient contingency allowance across the totality of all projects to allow DAA to manage within the overall project allowances. The fact that DAA managed its previous capital programme overall at below the estimated cost[63] is evidence that there has been padding in the overall costs. DACC accepts that there are some overall programme management and contingency costs, over and above the specific design and management fees allowed project by project. DACC considers that these can be managed within an overall total of 2% of allowed project costs.

[62] Transcript pages 70-72
[63] Draft Determination, Table 9.5.

162. On this basis, DACC assesses that a user driven capital programme at Dublin Airport over the period 2010-2014 would amount to no more than €66.7 million. We have adjusted the Ready Reckoner to reflect that amount.

Project Triggers

163. Project triggers were discussed at the Capex Consultation Meeting on 6th May 2009. As a general principle, DACC believes that the proposed trigger projects have not been fully specified at this stage, such that it would be inappropriate to propose specific additions to the price cap should a trigger be reached. For example, the CAR proposes that €0.07 be added to the price cap when the legal requirement to upgrade HBS in T1 is confirmed. Yet the CAR acknowledges at paragraph 9.46 of the Draft Determination that the scale of costs is not yet known. Hence, it is wrong to set out a precise adjustment to the price cap until the requirement is known and the costs confirmed.

164. In terms of the triggers for projects related to the Northern Runway and New Apron Development, these were extensively discussed at the Capex Consultation Meetingon 6th May 2009. DAA had proposed triggers which were broad brush in nature, such as availability of spare slots and taxi times from push back. Both of these are merely first indications and would not replace a detailed runway capacity analysis to determine when the new runway would be required. This was made clear at the Meeting by DACC[64]. DACC accepted, however, that such triggers could be used as a basis for when detailed discussions should begin between DAA and its users regarding the precise timing and specification of the projects. The CAR proposes to replace DAA's triggers by a simple passenger threshold of 23.5 mppa. DACC considers that this is similarly too broad brush a measure and that reaching that trigger should merely initiate a detailed discussion between DAA and its users informed by a detailed runway capacity analysis. DACC does not consider it appropriate to automatically allow an increase in the price cap at this point, not least as the scope of the project has not been agreed and there may be substantially cheaper alternatives to meeting the requirement to increase runway capacity as explained above.

165. There are similar concerns relating to the trigger proposed for new apron development in that it is not clear on what basis the assessment of 10 spare stands in a peak week will be made. It is possible for there to be less than 10 spare stands in a peak week due aircraft technical problems, overseas ATC issues or other matters not connected with capacity at Dublin Airport. Hence, as with the runway, DACC considers that reaching the trigger as defined by either DAA or the CAR should not trigger allowance of the costs into the RAB but a more detailed discussion between DAA and its users as to the precise timing and scale of project required. As such it would be inappropriate to make a definitive determination as to the amount to be added to the price cap at this stage.

166. In relation to the fuel hydrant, DACC does not consider that the case has been made that users will realise efficiency benefits from the provision of a hydrant on Pier E. This was discussed extensively at the Capex Consultation Meeting on 6th May 2009. Users were promised further information on the business case for this project[65] but this information was not forthcoming in terms of the benefits to users. There should be no automatic trigger related to the costs of this project until the business case for the expenditure has been made to users.

[64] Transcript pages 22-31.
[65] Transcript page 131, line 20.

167. In summary, DACC believes that further discussion will be required to scope the precise triggers for these projects and the scale and cost of project which meets user needs. Therefore, DACC rejects the concept that an increase of €1.08 on the price cap should be triggered automatically as a consequence of secondary measures of the timing when certain capacity enhancements should be required.

168. There is also an issue with the assumption that the CAR makes that allowed (non-triggered) capex will be phased evenly over the 5 years of the regulatory period. Given the decline in traffic at Dublin Airport, it would appear more likely that expenditure will be back loaded towards the end of the period. This would have the effect of further reducing the price cap, although we have not made that adjustment in our calculations.

Cost of Capital and Financing

169. DACC is supportive of the overall methodology used in the Draft Determination to assess the cost of capital. In particular, we consider that the Commission is correct to focus on medium to long-term trends in the data and not to attach undue weight to recent financial market conditions. This is appropriate given the long-term nature of the assets and the regulatory system.

170. However, we consider that the Commission has overstated the degree of risk faced by DAA and has therefore chosen an excessive Beta value that results in a cost of capital that is too high. We would make the following observations regarding the riskiness of DAA.

- The Commission argues that the airport business has become riskier as a result of recent economic conditions (paragraph 9.89). We consider that this effect has been overstated. It is important to distinguish between experiencing a risky event and a change in long-term riskiness. We do not accept that current events have resulted in a change to the long-term riskiness of the airport sector. A change would be confined to the recent and short-lived 'irrational exuberance' of some investors that has now come to an end. This has no impact on regulatory decisions on the cost of capital.

- The Commission refers to the UK Competition Commission decisions on the asset Beta for London airports – covering Heathrow (0.47), Gatwick (0.52) and Stansted (0.61). The Commission has applied the figure of 0.61 for DAA, the same as the figure for Stansted. We contend that Dublin Airport is subject to less risk than Stansted and, in particular, less exposure to competition. The Commission's own analysis shows that Dublin has been less affected by the downturn than Stansted has.

- Overall, although we consider that the UK evidence is relevant we believe that it supports an asset Beta below 0.61 and closer to the assessed asset Beta for Gatwick.

171. We also consider that the real cost of debt of 4.1% is too high and not supported by the full range of available evidence. For example, the data on European corporate bonds used by the Commission, indicates that the real cost of debt of an A-rated issue is currently around 3.2% (para 9.95). As the Commission highlights, this rating is consistent with the rating of DAA's bond. There is no case to support a figure higher than the range allowed for Stansted (3.6% to 3.9%). An appropriate figure for the cost of capital might be closer to 6.5%.

Service Quality and Rebates

172. In the first instance, DACC does not agree with the CAR's rationale for limiting the service quality rebate scheme to only 4% of the price cap as the concept is new for Dublin[66]. A service quality regime was established for the first time at Stansted earlier this year and was based on a rebate of up to 7% of airport charges.

173. DACC has two more fundamental difficulties with the CAR's proposals. Firstly that it relies too heavily on subjective passenger facing measures and secondly that it is not sufficiently targeted to incentivise DAA to improve service quality and deliver better results for users.

174. DACC set out its initial comments on the scope of the SQR regime in its response to CP8/2008. The CAR appears to have paid little heed to the views of users in setting out its proposals. The first, and most fundamental step, is to ensure that there is an appropriate range of service level agreements in place between DAA and its users. This is not the case at present.

175. DACC considers that at least 75% of the value of rebates must relate to hard objective measures designed to incentivise DAA to improve its operational performance. This approach was agreed by the CAA at Stansted[67]. The aim of the SQR scheme should be to deliver higher quality of service rather than to reduce the level of airport charges per se. The costs to the airlines of failures in the quality of service far outweigh the value of potential rebates, for example in the costs of disruption caused by the breakdown in outbound security on 24th July.

176. In terms of passenger facing measures, the two most critical areas are outbound security, leading to the risk of missing a flight or leading to substantial flight delays, and outbound baggage. Other passenger facing measures identified by the CAR are of second order importance. DAA remains concerned at the robustness of the ACI survey as a measure of quality of service at Dublin given the relatively small sample sizes[68] and its reliance on subjective measure such as a "feeling" of safety and security. Hence, DACC does not accept the distinction between passenger facing and airline facing measures and considers that the focus should be on those aspects of an airport's performance which impact on the punctual operation of flights. Those subjective measures identified by the CAR should account for no more than 25% of the rebates, or a maximum of 1.75% of the price cap.

177. In terms of the so-called "airline facing" measures, DACC considers that these should be focussed principally on three areas; outbound security, outbound baggage and contact stand availability, with emphasis placed on outbound security and stand availability. The area where DACC differs from the CAR in respect of the areas to be covered by the SQR is in respect of the substitution of outbound for inbound baggage system availability as it is the former which gives rise to significant inconvenience to passengers in terms of lost baggage and the risk of flight delays.

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[66] Draft Determination, paragraph 5.25.
[67] CAA Economic Regulation of Stansted Airport, 2009-2014, March 2009, paragraphs 7.26-7.30.
[68] ACI specifies a minimum survey size of only 1,400 returned questionnaires per year http://www.airportservicequality.aero/content/survey/main/methodology.html.

178. DACC is unaware of attempts by the Commission to meet with airline users to discuss the service quality regime and reminds the CAR that DACC is the relevant body for such discussions.[69] DACC wishes to make clear that there are no agreed service levels between DAA and its users, merely service levels which DAA has suggested it could meet. These would need to be discussed and agreed before the specific SQR measures in each of the areas could be defined and DACC looks forward to discussing these with the CAR prior to the final Determination.

179. A key principle, however, is that the rebates should be immediate and linked to specific service failures. In this way, DAA will realise an immediate financial impact from operational management failures and, DACC believes, be incentivised to improve its performance in a way which would not be achieved by simple averaging of data over a quarter. This is the basis of the SQR regime agreed at Stansted whereby, for example, a single failure with passenger queuing longer than 30 minutes for security can result in a penalty returnable to the airlines of £15,650, with monthly and annual performance standards also in place. Ceilings are placed on the amount payable on a monthly or an annual basis as a proportion of the airport charges income. DACC would be happy to explain this further to the CAR.

180. In summary, DACC proposes a Service Quality Regime structured as set out in **Table 7** below.

Table 7: DACC Framework for a Service Quality Regime

Service quality measurement	Target	Penalty	
Outbound security	to be agreed with DACC	2%	Structure of single incident penalties to be agreed
Outbound baggage	to be agreed with DACC	1.2%	Structure of single incident penalties to be agreed
Contact stand availability	to be agreed with DACC	2%	Structure of single incident penalties to be agreed
Total quantitative measures		**5.2%**	
Ease of finding your way through the airport	3.7	0.2%	
Flight information screens	3.8	0.2%	
Cleanliness of airport terminal	3.5	0.2%	
Cleanliness of washrooms	3.3	0.2%	
Comfortable waiting/gate area	3.0	0.2%	
Courtesy/helpfulness of airport staff (excluding check-in & security)	3.8	0.2%	
All passengers' overall satisfaction with airport	3.5	0.2%	
Communication/telecommunication/e-facilities	3.1	0.2%	
Feeling of being safe and secure	3.8	0.2%	
Total subjective measures		**1.8%**	

181. DACC looks forward to discussing this further with the CAR prior to the Draft Determination to ensure that the service quality regime is appropriately targeted to deliver an improvement in service quality at Dublin Airport.

[69] Draft Determination, paragraph 5.10.

Implications for the Price Cap

Non Passenger Related Charges

182. DACC considers that including revenue from non-pax related movements into the price cap calculation results in a misspecification of the formula. If cargo movement demand falls, this can lead to yield dilution and an upward adjustment of the price for passengers. DACC considers that, consistent with the treatment in the UK, airport charges revenue from non-passenger related flights should be excluded from the price cap calculation and, if necessary, separate undertakings given that increases in landing fees for cargo aircraft will vary consistent with the cap overall.

Price Cap Compliance

183. DACC supports the proposal for any over-recovery against the cap to be refunded to users within 45 days[70]. However, in terms of the 'K' factor, DACC considers this should be set to return to DAA precisely the amount of total revenue by which it under-recovered in any given year and not simply be taken as the difference between average revenue yield and the cap. The latter approach can result in windfall gains to the regulated entity as, assuming growth in passenger demand over time, the difference between the cap and the actual yield is recovered over a higher number of passengers than in the year in which the shortfall is incurred.

184. DAA considers that the current price cap compliance exercises by the CAR are not transparent as they have not been accompanied by the full publication of DAA's Regulatory Accounts, which are necessary for users to verify the validity of the basis upon which compliance has been calculated.

DACC Recommended Price Cap

185. Based on the adjustments set out in this submission, DACC has used the Ready Reckoner supplied by the CAR to recalculate the price cap for the period 2010-2014. This has been done with and without the impact of T2 opex being charged to users in 2011.

186. In both cases, the opening price cap at 2009 prices would be **€4.28**. In the event of T2 opex being allowed from 2011, the price cap would then fall by **CPI-1.9% to €3.95** per passenger by 2014. On the basis that there is no case for recovering any of the costs associated with T2 from users until demand exceeds 25 mppa or additional runway capacity is provided, the price cap would fall by **CPI-8.1% to €3.05** per passenger by the 2014.

187. As we have already indicated, DACC does not believe that any of the conditions for the trigger projects, except possibly that relating to Hold Baggage Screening with be met during the forthcoming regulatory period. Given the uncertainties attaching to the timing, scope and costs of the trigger projects, DACC does not accept that the total cost of these triggers will amount to the €1.08 which the CAR proposes to allow.

[70] Draft Determination, paragraph 165.

188. However, DACC is mindful of the requirement for the CAR to set a maximum price cap for the period 2010-2014, which its current proposals in the Draft Determination fail to do in not making any assessment of the operational cost implications of T2. DACC considers that it may be appropriate to consider a precautionary price cap, which based on DACC's analysis of all the issues would amount to no more than €5 per passenger, taking account of the likelihood of triggers being reached. In the event that users are not required to contribute to T2 opex until it is efficient for them to do so, the precautionary price cap could be lower of the order of €4 per passenger. DACC does not consider that the CAR has transparently made out the case for a higher price cap in the Draft Determination.

ANNEX A

DACC Correspondence with the CAR

DUBLIN AIRPORT
CONSULTATION COMMITTEE

Representing the Needs of Dublin Airport Users

Chairman: Geoffrey O'Byrne White Tel: 870 0100 Fax: 870 0115
Secretary: David O'Brien Tel: 812 1397 Fax: 812 1213

24th March 2009

Mr. John Spicer
Deputy Commissioner for Aviation Regulation
Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2

Dear John,

Following the meeting arranged last week to commence the process of consultation regarding DAA's Capital Programme for the period 2010-2014, we indicated that the DACC would be submitting a paper which expanded on the presentation given by Louise Congdon, setting out the DACC's views on the need for a full structured consultation process. I have pleasure in submitting this paper in order to inform the process of consultation going forwards.

The significance of this paper should not be underestimated, representing as it does the consensus views of the airline users of Dublin Airport. A considerable amount of effort has gone into ensuring that the paper is truly representative of the position of users. As such, the DACC expects the CAR to seriously consider the recommendations contained therein as to how the process of consultation ought to proceed for the remainder of the period until a final Determination is made. This will require an openness and transparency, which has been lacking from the process to date.

Yours sincerely,

Geoffrey O'Byrne White
Chairman - Dublin Airport Consultation Committee

Attachment -1.

Commission for Aviation Regulation
An Coimisiún um Rialáil Eitlíochta

Mr Geoffrey O'Byrne White
Chairman DACCC
Cityjet
Swords Business Campus
Balheary Road
Swords
Co. Dublin

25 March 2009

Re: DACC letter of 24 March 2009 and accompanying report

Dear Geoffrey

Thank you for your letter of 24 March and the accompanying report by York Aviation on behalf of DACC.

I would like to arrange a meeting with yourself and maybe one or two other representatives from DACC at the earliest available date. Next week, I could attend meetings Wednesday afternoon, Thursday morning or all day Friday. If you could revert with times that suit, I should be grateful.

Yours sincerely,

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John Spicer

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DUBLIN AIRPORT
CONSULTATION COMMITTEE

Representing the Needs of Dublin Airport Users

Chairman: Geoffrey O'Byrne-White Tel: 870 0100 Fax: 870 0115
Secretary: David O'Brien Tel: 812 1397 Fax: 812 1213

16th April 2009

Mr. John Spicer
Deputy Commissioner for Aviation Regulation
Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2

Dear John,

DUBLIN AIRPORT CAPEX CONSULTATION

At last week's meeting, held to discuss, post 2009 capex needs at Dublin Airport, you requested feedback as a matter or urgency on the matters which need to be covered at the next two meetings which the CAR proposes to hold on the matter and the information which the DACC requires from DAA in order to allow meaningful discussion at these meetings.

At the outset, it is important to record that the DACC, representing all the main airline users of Dublin Airport, considers that there is already over-investment in facilities at Dublin Airport and that there is no requirement for substantive capital development over the next regulatory period. Any capex plans should, therefore, be confined to the minimum strictly necessary to maintain essential infrastructure.

This requirement is made all the more essential in the light of the current economic circumstances and, as has already been amply demonstrated, users cannot absorb further increases in the cost of using Dublin Airport. There is a clear regulatory perversity in a circumstance whereby past investment will, under the application of a strict building blocks approach, result in prices rising at a time of falling demand. This is the converse of what would be expected to happen within a competitive market. For this reason, the DACC believes the CAR must also address in depth the other regulatory building blocks, in particular opex, in a similar open and transparent manner. The DACC looks forward to engagement with the CAR on these matters in sufficient time to allow a full dialogue to take place.

Although the DAA sought to portray at last week's meeting that it was not proposing substantial new capital development and that the programme was a care and maintenance programme only, the costs of the non-triggered items proposed by DAA amount to almost €400 million over the regulatory period. 75% of DAA's proposed spend appears to relate to other than care and maintenance items. Neither the figure of €400 million which DAA proposes to spend regardless of growth triggers nor the 75% of €747 million relating to other than care and maintenance items is consistent with this being a do minimum capital programme.

The DACC notes that the third capex consultation meeting, scheduled for 6th May, appears targeted at the 'trigger' projects in Tranche 3 only. This means that at the meeting planned for 22nd April, all other projects will need to be covered in sufficient depth to enable users to form a view on whether the project is strictly essential. This will require substantially more information to be available at the meeting, or preferably in advance of the meeting, to enable a meaningful discussion to take place. It is unlikely that sufficient progress will be made on the full range of projects if the meeting proceeds as last time on the basis of a DAA presentation followed by a question and answer session. To that end, it is imperative that DAA addresses the need to set out in full the business case to users for each project and the options available to minimise expenditure, stating clearly the consequences for levels of service, preferably summarised on a single page but supported by relevant reports and technical evaluations. It would greatly assist progress if this information could be made available by DAA ahead of the meeting.

It is regrettable that, at last week's meeting, DAA still did not appear to have grasped the requirement to provide sufficient information to users to enable alternatives to be evaluated. We await with interest the promised further information in support of *CIP 6.017 Runway 10/28 Overlay Project* and *CIP 6.052 Central Apron Reconstruction Project.* Sufficient time will need to be programmed into one of the future meetings to discuss these projects again once the DACC has had time to consider the information supplied by DAA. To reiterate, the DACC expects DAA to make available the reports which examine the options to meet any identified need and/or to justify its preferred option and to set out clearly and succinctly the business case for the proposed developments by reference to costs and benefits to users. This is an overarching requirement for all projects.

In terms of the meeting planned for 22nd April, the DACC believes that the following projects need to be covered in sufficient depth to allow users to form a view on their requirement and whether any lower cost/higher value options are available which would better meet users' needs. For each project, the options and the costs and benefits to users of each option need to be set out, including any potential operational implications of proceeding or not with the works. This should include, in particular for maintenance items, the specific risks attached to not proceeding with the project. The DAA should set out the business case <u>to users</u> of its preferred option and any alternatives.

Although all projects will need to be covered in sufficient depth to allow users to be able to make meaningful comment, the DACC would suggest the following prioritisation amongst the Tranche 2 and Tranche 3 projects. We start with a group of projects which do not appear to fit within a 'care and maintenance' heading and for which full justification is required as to why they need to be progressed at this time, the scope of works proposed and whether the projects should be triggered.

CIP 7.032 T1 Passenger Processing Enhancements Cost Reduction €16,000,000

In the light of the downturn in demand, the business case to users from this development will need to be clearly set out by reference to projected levels of demand and required levels of service in T1. As requested at the last meeting, capacity analyses of T1 will need to be shared by DAA in order to establish whether there is any need for such enhancements. To the extent that the business case for this expenditure relates to savings in opex costs as indicated by its categorisation, these need to be clearly set out as part of the business case.

CIP 5.013 Retail Refubishments Repair / Replace €16,800,000

The business case for this expenditure needs to be clearly set out in terms of additional retail income within the single till. DAA needs to demonstrate that this expenditure will be revenue enhancing or at least revenue neutral in the single till, over and above the effect of T1X. The business case needs to set out clearly why this expenditure needs to be incurred by DAA or whether there are options for funding by the retailers themselves. Any linkage between this project and CP7.032 needs to be clearly set out.

CIP 7.030 Terminal 2 Completion Capacity €10,000,000

The reason for this cost over-run needs to be clearly explained, including a reconciliation to the already allowed costs, including contingency. The business case for including this expenditure needs to set out clearly any relationship to the timing when T2 becomes operational and the proposed opex costs. First and foremost there needs to be a complete reconciliation of expenditure on T2 to verify the treatment of risk and contingency.

CIP 7.035 Pier B Connectivity Capacity €11,000,000

The requirement for this connectivity is not clearly set out in the CIP and needs to be explained. The business case should set out clearly what alternatives were considered and the costs and benefits to users of the various available alternatives by reference to expected demand levels in the short term and the requirement for T2 passengers to use Pier B.

CIP 1.006 Multi-storey car park Capacity €40,500,000

The business case for this project needs to be clearly set out by reference to projected growth in car parking demand and the level of additional car parking income to be generated. To the extent that there is a linkage to the commercial provision of a hotel, the linkage needs to be transparently demonstrated and the benefits to users, including revenues in the single till, clearly set out.

CIP 2.018 Cargo Distribution Centre Repair / replace €14,300,000

The business case for this project needs to be clearly set out, including its relationship to growth in passenger demand and the timing of further phases of T2 as well as projections of cargo demand growth. What level of income is expected from the facility?

It is assumed that all the above costs will all be treated as T2 related costs in terms of the RAB.

CIP 2.019 Retail Logistics Centre Capacity €3,100,000

The business case for the development needs to be clearly set out in terms of its impact on the single till. The costs and benefits of a DAA implemented option need to be set out in comparison with a joint venture option or any other options. How does the siting of this project fit within the Master Plan?

CIP 2.017 Hangars Maintenance Repair / replace €4,200,000

The business case for this expenditure needs to be set out by reference to the likelihood of tenants being found for the hangars within the regulatory period and the levels of rent to be expected. The pros and cons of alternatives, such as allowing responsibility for repair to pass to tenants need to be clearly set out. Any business case should have regard to the expected life of the hangars in terms of the overall Airport Master Plan.

CIP 3.012 Taxi Holding Area Capacity €4,000,000

The business case for this development needs to be set out by reference to the slow down in passenger growth and the prospective increase in public transport usage. What income will the facility generate? What alternatives were considered?

CIP 8.300 Metro and GTC Design Fees Capacity €2,000,000

What is the timescale for the Metro project? Why are these costs not being borne by the Metro project itself? What is the business case for expenditure by DAA?

The next batch of projects appear to be more appropriately named 'care and maintenance' related. However, insufficient justification was provided for the levels of expenditure involved within the overall presentation of DAA's Asset Management approach and given the need to keep costs to a minimum. Prima facie, the DACC considers that expenditure on such items should be capped to a minimum affordable programme level, with a mechanism by which DAA and its users can agree priorities for expenditure year by year. Hence, it seems appropriate to take these care and maintenance items together within the agenda. To inform the process of setting both the overall level of spend required and the individual priorities, substantially more information is required than has been set out in the CIP, including supporting condition reports where relevant.

CIP 8.001 Airport Operations Repair / replace €40,000,000

Further business case justification is required for each of the elements of this large programme. What is the justification for this expenditure now and how will users benefit?

CIP 8.008 Corporate IT Repair / replace €10,700,000

What is the business case for this expenditure? What are the benefits to users?

CIP 4.017 Upgrade HBS Safety / Compliance €10,800,000

What is the business case for this expenditure? What are the benefits to users? As the need for this project is subject to EU regulation, it should be triggered and not automatically included in the RAB. No justification is given as to why the project would be required in any event.

CIP 9.019 Divert and Increase Cuckoo Culvert capacity Safety / Compliance €11,000,000

The business case for undertaking this investment now needs to be set out.

CIP 7.036 T1 Life Safety Systems upgrade €5,000,000

What alternatives were considered? How does this fit within the asset replacement/maintenance plan? What are the implications of delaying the expenditure?

CIP 6.054 Taxiway C L lights Runway 16 / 34 Safety / Compliance €6,300,000

The business case should, inter alia, set out clearly the benefits of this project in terms of runway movement rate under single runway operations.

CIP 6.055 B7 Taxiway Overlay Repair / replace €3,000,000

What is the business case for proceeding with this work now and what are the risks of delaying the repair? What are the cost implications of night time working? What savings could be made if this work was deferred until extended working hours could be made available with a second runway? What level of operational disruption will arise as a result of night time closures?

CIP 1.016 Refurbishment of existing MSCP Repair / replace €3,000,000

The timing of this project is clearly linked to the timing of the new MSCP. The relationship needs to be explicitly set out by reference to the level of disruption to the existing car park and the overall need for spaces to accommodate demand. The business case for this project has not been clearly set out.

CIP 6.056 Apron Road Reconstruction Repair / replace €1,800,000

The analysis of options should set out, inter alia, whether repair and maintenance options considered as an alternative to full reconstruction.

CIP 4.014 Replace CHP 2 Repair / replace €3,300,000

What is the business case for this expenditure? What are the benefits to users?

CIP 9.020 MV Network Renewal Works A Repair / replace €2,500,000

What alternatives were considered? How does this fit within the asset replacement/maintenance plan?

CIP 9.021 Airfield Drainage upgrade (3km) Capacity €3,000,000

The business case for undertaking this investment now needs to be set out.

CIP 9.022 Airfield Pollution Control Safety / Compliance €7,500,000

The business case for undertaking this investment now needs to be set out.

CIP 3.014 Upgrade Airside / Landside Perimeter Fence Safety / Compliance €2,000,000

The business case for undertaking this investment now needs to be set out.

CIP 3.033 Repairs to Departures Road Repair / replace €4,300,000

What level of operational disruption will arise with this project and what are the implications for users? What alternatives were considered? How has value for money been established?

CIP 3.034 External Roads upgrade Repair / replace €2,200,000

The business case for undertaking this investment now needs to be set out. Does the level of wear justify further expenditure at the proposed date?

CIP 3.035 Internal Secondary Campus Roads upgrade Repair / replace €5,000,000

The business case for undertaking this investment now needs to be set out. What will be the operational disruption whilst work is carried out?

CIP 2.014 DAA Office Accommodation Repair / replace €2,500,000

What is the business case for this expenditure? What are the benefits to users? How does the timing of the proposed staff relocations relate to other elements of the capital programme? Costs for relocations associated with other capital projects should be assessed as part of the business case for those projects.

CIP 2.015 DAA Tenant Accommodation Cost Reduction €5,000,000

Why is fit out not charged to tenants? What are the implications for the single till of these works? Why is expenditure planned when there are no known tenants for accommodation, such as that being vacated by SR Technics? A clearer statement of need is required.

CIP 6.057 Airfield Generators Replacement Repair / replace €500,000

It is difficult for users to comment on the need for such replacements but in the absence of an asset renewal/maintenance programme, it is difficult to comment further. What alternatives were considered to avoid this expenditure?

CIP 2.008 Maintenance of listed buildings Safety / Compliance €500,000

Accepting that there is a legal requirement to maintain listed buildings, the value for money of this project has not been established.

CIP 2.016 Refurbishment of airside property Capacity €3,000,000

No explanation is given of the demand for such airside commercial property to justify the expenditure. What is the business case for this expenditure in terms of benefits to users within the single till?

In addition, there is the general issue regarding the appropriate level of cost to allow for Contingency and Programme Management. DAA needs to justify its proposals in this regard (*CIP 8.100 and CIP 8.200)* in relation to the overall programme. Within this, DAA needs to make clear the basis for capitalisation of programme management costs as well as justifying the overall level of programme contingency and management fees, as distinct from project specific contingency and fee elements.

In terms of the meeting on 6th May, at which you have indicated a plan to discuss Tranche 3 projects, the DACC would suggest grouping under this heading other projects which DAA has categorised as either operational or service quality projects but which the DACC considers fit more appropriately with these triggered projects, particularly the new runway, principally because they are directly linked. We have indicated where these projects should fit as appropriate below.

The DACC starts from the premise that it is unlikely that these triggered facilities will be required at all during the next regulatory period. However, as was identified at the meeting, runway capacity remains the critical limiting element in terms of the overall capacity of the Airport to accommodate growth, once economic conditions are right. It will be important, therefore, to explore fully the options available to increase runway capacity using the existing infrastructure prior to construction of a new runway. If it is concluded that a new runway is required to accommodate demand over the medium to long term, then there will need to be consider the options for development, including whether a business case exists for the construction at the outset of a runway of longer length than the existing runway. The minimum information required in respect of the runway project is as set out below (see also the DACC report):

CIP 6.051 North Runway Capacity €305 million

The options for runway development should be set out, including making better use of existing runway infrastructure, setting out the costs and benefits to users of different options, including the length of the runway. The business case should make clear the timing of need in relation to growth in hourly or annual movements or other service quality triggers.

CIP 2.009 Control Tower Facilitation works Capacity €1,400,000

The need for a new control tower is not clear but would appear to be related to the provision of a new runway. It is unclear why DAA is proposing to fund any element of this and the business case to users needs to be set out in terms of runway capacity and other service quality benefits.

CIP 6.009 Engine Testing Facility fees only Safety / Compliance €400,000
CIP 6.053 Engine Testing Facility Safety/Compliance €13.8 million

These projects appear to be part of the runway project and should be included within the business case for that development unless DAA is able to adduce any separate business case for the relocation of this facility.

CIP 6.019 North Runway House Buy-Out Capacity €8,000,000

This is also clearly part of the runway project. DAA needs to set out clearly the business case for acquiring properties ahead of a commitment to construct the new runway. In the absence of such a justification, the DACC does not believe there is a case for acquiring properties ahead of a commitment to proceed with the new runway and unconnected to the business case for the runway.

CIP 6.018 North Runway Fees Capacity €4,200,000

The timing of this expenditure ought to relate to the timing when the runway is going to be constructed and subject to a trigger.

CIP 6.047 New Apron Development Capacity €22.7 million

Given the availability of spare stand capacity currently and in the light of declining traffic, the need for this project is unclear. DAA needs set out transparently when it would expect additional stand capacity to be required by reference to gating charts derived from the latest demand forecasts and to set out clearly the additional capacity to be provided by the addition of an apron area. It was confirmed at the meeting on 8th April, that additional stand capacity would not be required even in the event of stand closures for reconstruction works.

CIP 9.024 Fuel Farm Development Capacity €28,800,000

The business case for this development being undertaken by DAA needs to be clearly set out. What are the costs and benefits of the alternative of the facility being provided by the fuel companies. What is the trigger by way of increased movements which determines when such additional capacity will be required?

CIP 9.023 Fuel Hydrant System phase 2 Cost Reduction €6.0 million

The business case for this development needs to be clearly set out, including consideration of alternatives, such as provision by the fuel companies. Once the business case has been set out, it will be possible to judge when such expenditure might be triggered, if there is a case for the expenditure to be undertaken by DAA.

CIP 7.018 New Pier Design Fees Capacity €7,000,000

Given the slow down in demand growth, this expenditure would appear more suitable to a demand trigger. Any business case for such expenditure needs to be made by reference to a projection as to when additional pier capacity will be required.

Enabling Programme Management €5.0 million

It is not clear what this comprises in this case, nor the extent to which costs are internal or external. On what basis are DAA staff costs capitalised? How can users be assured there is no double counting of staff costs already covered by opex? To what extent are these costs being incurred ahead of the overall expenditure being triggered.

The DACC also wishes to ensure that there is sufficient time at one of the meetings to discuss the proposed Airport City Development, in particular in its relationship to the existing asset base and in the use of resources, whether opex or capex, for which users are paying.

Yours sincerely,

Geoffrey O'Byrne-White
Chairman

DUBLIN AIRPORT CONSULTATION COMMITTEE

Representing the Needs of Dublin Airport Users

Chairman: Geoffrey O'Byrne White Tel: 870 0100 Fax: 870 0115
Secretary: David O'Brien Tel: 812 1397 Fax: 812 1213

1st May 2009

Mr. John Spicer
Deputy Commissioner for Aviation Regulation
Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2

Dear John,

It is clear from the last Capex meeting on 22nd April that the proposed timelines for issuing a Draft Determination are too tight. The Draft Determination needs to be delayed to allow time for the issues relating to capex needs to be discussed fully. This will be dependent on DAA supplying the required information in a timely fashion ahead of meetings then allowing ample time for each of the more major projects to be discussed (and not imposing an arbitrary time cut off of 5 o'clock each time).

Furthermore from a Capex point of view, there are elements in the starting RAB that need to be discussed. For example, Pier C has now been written off. Also the DAA have indicated that Area 14 will no longer be used once Terminal 2 opens yet the costs associated with this area are still in the RAB.

As Capex is just one of the building blocks used to get to the Draft Determination, we expect engagement in relation to Opex, Commercial Revenues and Construction Costs <u>before</u> the Draft Determination is published and not just after.

With regard to triggers, our view is that all non-maintenance items should be subject to triggers. Without the aforementioned information from DAA, it is not possible for us to indicate what those triggers should be. For example it is impossible to decide on a trigger for pavement reconstruction without any indication as to how often the pavement has failed, what is the likely risk that the pavement will fail and what options there are to put off the works, particularly as new contact stands are due to be opened in the next 12 months.

With regard to the additional specific information needed, I have attached a detailed Appendix which outlines the additional information we need

Yours sincerely,

Geoffrey O'Byrne White
Chairman - Dublin Airport Consultation Committee

Outstanding Information required from DAA

Projects discussed on 8.4.09

The DACC is still awaiting specific information in relation to projects discussed at the meeting 8th April, specifically:

6.017 Runway 10/28 Overlay

The Report on Options was promised.

In addition, the costs of the project as now proposed need to be reconciled back to the original estimate for the works in the previous CIP of €13.646. Why have costs escalated by 69%?

6.052 Central Apron Reconstruction

The report on apron failures and the extent of disruption to operations caused in 2008.

Options for a more targeted programme.

Gating charts showing stand demand over the period 2010 to 2014 based on current forecasts. If these are not available, the most recent gating charts should be supplied (users were told on 4th July that a refresh exercise was being done as part of the master planning work), setting out clearly the passenger forecasts upon which they were based and DAA's assumptions as to the likely changes arising from the new lower forecasts. To preserve any commercial confidentiality, information as to assumed flight destination can be removed so long as the size of aircraft and preferably assumed carrier.

Could DAA confirm that these works have in fact commenced adjacent to Pier A?

Projects discussed on 22.4.09

1.006 Multistorey Car Park and Hotel

The basic information which the DACC had expected to receive by way of a Business Case was:

Historic Car Park Occupancy by reference to spaces available over time and Forecast Occupancy, broken down between short stay parking, medium stay parking (if separately identified) and long stay parking. In the light of the comment in the presentation that the scheme is designed to reinstate spaces back to 2005 levels, the historic data should go back to before 2005, say 2002. The car parking occupancy forecasts should also make clear which passenger forecasts they are based on. Occupancy should be expressed in terms of peak occupancy number relative to spaces available in each car park and average % occupancy.

The DACC would have expected to see the details behind the IRR and NPV calculation set out, preferably in an Excel spreadsheet, with assumptions made clear, so that the DACC can test the sensitivity of the alleged contribution to the single till to changing assumptions. This would also include assumptions about changes in car parking tariffs, i.e. the calculation was done on the basis of current tariffs; those rising by x% per annum in real terms; or falling by y% per annum as was inferred in the presentation. The extent of contribution from the hotel should also be made as clear as possible, within the limits of commercial confidentiality.

Given that the costs of the scheme have risen from a total of €27.45 million in the previous CIP, and already in the RAB, to a total of €63.1 million set out in the latest CIP, the presentation of options needs to clearly set out the costs and benefits (including revenues) of the original scheme, as already allowed for, at today's prices compared to the costs and benefits of the larger scheme with 2,162 spaces on the basis of the car park only being constructed, then demonstrating the impact of constructing concurrently with the hotel on both costs and benefits (including revenues). This should clearly justify why an additional €40.5 million is required in the period 2010-2014, when sufficient funds have already been allowed into the RAB to fund the provision of a multi-storey car park to meet a passenger demand forecast which will now not be achieved within the 2010 to 2014 period.

Additional questions deriving from the presentation:

Where are the Car Hire Ready and Return Cars located presently? What additional income will be received from the Car Hire companies for this improved level of service, after the effects of any change in passenger volume has been stripped out (e.g. on a per passenger basis). How does expected revenue per space from the 456 car hire spaces compare with revenue per space for passenger parking?

What evidence does DAA have that reduced car parking charges increase demand for airline services?

7.035 Pier B Connectivity Capacity

The need for the facility needs to be demonstrated by reference to the extent of bussing which would be required over the period to 2014 if it was not provided. This should be by reference to illustrative gating charts for 2014, setting out clearly the passenger forecasts it is based on. As above, if gating charts are based on previous forecasts, DAA should set out clearly what forecast they were based on and the assumptions it is now making about changes in the light of new lower forecasts.

Is connectivity from Pier E to T1 arrivals also made possible by these works?

The programme needs to be clarified in the light of the confusion as to whether planning approval is to be sought in June or start on site.

Additional questions deriving from the presentation:

Further detail should be given on the various options identified in the presentation including illustrations and the costs and benefits, for example by way of the Assessment matrix discussed on slide 9, so that users can for a view on the options in the event that a need is demonstrated. To what extent were lower cost options involving less elevated walkway considered.

If the project was deemed necessary, could terminal transfer facilities be centralised to reduced operating costs?

7.018 Pier Design Fees

Previous gating analysis (as per 4th July presentation) predicted a shortfall of 12 stands in 2009, yet a surplus of 14 is now being stated for 2008. This highlights the importance of a transparent gating analysis, showing clearly the current and predicted demand for contact gates and residual demand accommodated on remote gates.

To inform consideration of this item, the proportion of passengers departing and arriving from each pier and remotely should be provided, with a future prediction, derived from gating analysis for 2014 and 2018.

Clarification of current fee rates required.

8.300 Metro Design Fees

The CAR should clarify why DAA cannot charge Metro passengers directly for these costs.

In relation to fees and programme management costs more generally, further information is still outstanding in relation to DAA's capitalisation policy for its own project costs.

5.013 Retail Refurbishments

Information is required which sets out clearly the implications on net retail/catering income per passenger in the single till (not gross sales) with and without these refurbishment works.

Historical evidence should be supplied of the impact on net retail/catering income per passenger of previous refurbishments. It is noted that this expenditure line was valued at only €1 million per annum in the previous CIP. Further explanation is required to confirm which items of expenditure were actually incurred in the current regulatory period and their effect.

A spreadsheet should be supplied which clearly shows the value for money of the proposed investment by reference to the projected changes in spend per passenger and the projected passenger numbers within Terminal 1, setting out clearly the overall airport passenger forecast upon which this is based.

There needs to be clarification as to the impact on the proposed revenue from this development if the proposal to relocate T1 passenger processing is not pursued.

It is noted that the incremental retail income per passenger of €990,000 for 550m^2 of additional space suggests a yield of around €1,800 per m^2. With costs for retail refurbishment of €1,500 to €3,000 per m^2 for existing space for which incremental revenues would be expected to be less compared to do nothing, this would suggest that the retail refurbishment scheme would be NPV negative.

7.032 T1 Passenger Processing Enhancement

DACC members made clear that they did not see any requirement for this development, noting that if passenger volumes in T1 are going to be 60% of the previous levels once T2 opens and in the light of revised projections of future passenger growth, opex cost savings could be achieved by consolidating into one of the existing security zones. The scheme should, therefore, be withdrawn from the current CIP.

If DAA seeks to bring forward the proposal at a later date when passenger volumes using T1 approach historic levels, then it will need to set out in substantially greater detail the costs and benefits of each option, including the information shown on Slide 11 for its preferred option. No explanation has been given of the Assessment matrix and how the scores and weightings were derived.

2.019 Retail Logistics Centre

When will the information relating to this item be provided and when is the item now scheduled for discussion? As with item 5.013, the information required for this project should set out clearly the impact of this project on retail and catering income within the single till. Any alternatives and their implications should be clearly set out.

Projects to be discussed on 6.5.09

This note seeks to further clarify the level of detail in the information which DACC requires to enable it to consider projects within the proposed CIP properly. To avoid further delays to the process, it will be important that DAA supplies information to an equivalent level of detail for all remaining projects. DACC expects to receive such information by 29th April so that it can advise the CAR of which items should be prioritised for discussion at the next meetings and if any further information needs to be provided to inform that discussion.

24.4.09

Note on Triggers

The DACC has already indicated that a much wider range of projects should be triggered than were included in DAA's original Tranche 3. In the letter of 16th April, we indicated some additional projects which should be logically be grouped with those projects already included in Tranche 3 and subject to the same or related triggers in principle.

The DACC may also recommend other projects as being subject to triggers once further information is available from DAA.

The DACC has already set out some preliminary views on triggers in the Report submitted to the CAR. As requested by the CAR, we comment here only in relation to the already identified groups of projects for which triggers are proposed.

Runway Related Projects

This would include CIP 6.051, 2.009 (Control Tower Facilitation), CIP 6.009 & CIP 6.053 (Engine Testing Facility), CIP 6.019 (House Buy-out) CIP 6.018 (Fees)

To the extent that some of these projects need to be commenced ahead of the actual construction of the runway, the trigger may need to be advanced but they should be set by reference to the predicted time when the new runway will be needed. The DACC does not accept the premise that design fees or house purchases should commence until such time as the target date for the new runway has been established.

However, the trigger proposed for the new Engine Testing Facility by DAA, namely that *"Construction of an Engine Testing Facility will commence when North Runway construction commences, and/or the majority of airlines request a new engine testing facility"* is acceptable in principle (note: this does not imply acceptance of the costs).

The DACC does not agree with the triggers proposed by DAA:

<u>Runway Trigger 1</u>

The proposal to use a measure based on total time from pushback to airborne is unacceptable as it this time is not a true measure of runway related delay. The data will also potentially include delays on the taxiways caused by apron congestion, or other aircraft pushing back, as well as flow management delays due to en route congestion where these are taken at the holding point rather than on stand.

Based on the proposed trigger, the need for the new runway would have been triggered in December 2008, on the basis of the data set out in the CIP. This is clearly nonsense.

Runway Trigger 2

A trigger based on initial airline bids for slots is not acceptable as airline slot bids are not a reliable indicator of actual demand, as evidence from this year shows.

The more usual approach to assessing when additional runway capacity will be required would be by developing an indicative busy day schedule[1], derived from the passenger forecast for a future year and testing this within NATS HERMES model to assess whether the 10 minute delay criterion would be breached to the extent that the provision of additional runway capacity would be required. In this way, the timing of the need for the new runway can be tied back to the overall forecast of demand and the interrelationship with the capacity of other airport facilities.

As discussed at the meeting on 8th April, the DACC would expect that the HERMES model, which presently only takes into consideration Runway 10/28, to also take account of the capacity of Runway 16/34 as part of the consideration of triggers. DACC would expect to be involved in discussions with NATS regarding the modelling and sensitivity testing.

The trigger should be on the basis of agreement between DAA and DAC to a NATS analysis which demonstrates that demand, on the basis of agreed forecasts, will result in runway delays materially exceeding 10 minutes in the peak and that there are no further cost effective measures available to enhance the capacity offered by the existing runways.

New Apron Development

Again it would be preferable for the trigger for apron development to be set by reference to the forward passenger projections and the same busy day timetable as used for runway capacity analysis. Gating analysis should be used to predict when a shortfall of overall or contact stands will arise. This analysis can also be used to form the basis of a trigger for additional pier provision.

A measure based on actual stand occupancy in a peak week would run the risk of double counting the need for a buffer, which would normally be estimated on the basis of planned demand for stands, allowing for a buffer for normal operational delays. Using actual stand occupancy might inadvertently include periods of exceptional slot delay unrelated to Dublin Airport, delays related to other operational problems at the Airport (such as runway capacity delay, terminal related delays) meaning resources would be wrongly directed to an apron shortfall when the capacity shortfall is elsewhere, or to other exceptional circumstances such airline technical issues. These would all be legitimate reasons why the stand buffer would be eaten into and not of themselves reason to build more stands.

[1] The DACC would expect to be involved in agreeing the parameters of such a schedule.

Fuel Hydrant System and Fuel Farm

The DACC's comments on triggers are made without prejudice to the view that further consideration needs to be given as to whether it is cost effective for DAA to provide such facilities or whether they are best provided and funded by the fuel companies themselves.

The trigger proposed by DAA for the hydrant development is too vague. It is impossible to be more specific regarding a trigger without further information as to the relative cost of tankerage as opposed to hydrant/bowser supply and what is meant by provision of fuel by tanker becoming impractical.

24.4.09

DUBLIN AIRPORT
CONSULTATION COMMITTEE

Representing the Needs of Dublin Airport Users

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5th June 2009

Mr. John Spicer
Deputy Commissioner for Aviation Regulation
Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2

Dear John,

DUBLIN AIRPORT CAPEX CONSULTATION

Following last Friday's meeting, the DACC has revised its proposed capex requirements schedule in the light of additional information belatedly disclosed by DAA by way of unit costs. As a result the DACC is able to make a more accurate estimate of the cost of alternative options that, ironically, are now lower than originally estimated.

As you know, it had been hoped that this schedule of user requirements could form the basis of the discussions between DACC, the CAR and DAA but it now appears that there is insufficient time left in the process for this to take place before the Draft Determination. At the present time there remains a substantial gulf between DAA and its users on the level of capital expenditure that is required and affordable given the current downturn in traffic at Dublin Airport. This will need to be addressed through further facilitated meetings before the final Determination.

Over and above the issue of determining what capex is required in the next regulatory period, there is the separate issue of the extent to which proposed capex represents an addition to the RAB. At the meeting, it was confirmed that very few of the proposed projects add to capacity, unsurprisingly given the downturn in traffic. Given the policy adopted by the CAR that depreciation be indexed within the price cap determination, it is clear that users have already paid for the replacement costs of existing assets. Therefore, it is the clear view of the DACC that projects, which are simply maintaining existing assets, should not be added to the RAB as users have already funded the cost of these projects and have adjusted table accordingly.

A major concern of the DACC is that where DAA asserts that the justification for a project is a saving in opex or an increase in commercial revenues, no information has been supplied to enable users to consider the overall benefit of a project within the single till, with the exception of the figure of €5-10 million in airport police overtime savings arising from an element of the proposed IT investment, no details have been given for other projects where cost savings are claimed. It is important for users to see transparently the link between the cost of a project being added to the RAB and a saving feeding through to opex costs that can be verified. The same applies to asserted commercial revenue benefits.

Opex costs remain a major concern, not least to ensure that savings are realised in existing opex costs to match the current imperatives of the market and in line with DAA's recent announcements about staff cuts. The main concern relates to the potential step change in opex as a consequence of the opening of T2, about which users have no transparency and which could be the major component in leading to step change in airport charges for the 2010-2014 period. The DACC considers that there must be full consultation on opex cost issues, including T2, as stated in previous correspondence. We look forward to hearing how you propose to facilitate such consultation as a matter of urgency.

Yours sincerely,

Geoffrey O'Byrne-White
Chairman

DUBLIN AIRPORT
CONSULTATION COMMITTEE

Representing the Needs of Dublin Airport Users

Chairman: Geoffrey O'Byrne-White Tel: 870 0100 Fax: 870 0115
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Mr. Cathal Guiomard
Commissioner for Aviation Regulation
Commission for Aviation Regulation
3rd Floor
Alexandra House
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Dublin 2

17th June 2009

Dear Cathal,

REVIEW OF DUBLIN AIRPORT CHARGES 2010-2014

DACC has undertaken an initial review of your Draft Determination and accompanying documentation, including the additional supporting documents and amended Draft Determination issued on Monday of last week.

Bluntly, the Draft Determination and its accompanying documentation provide insufficient information to enable users to participate properly in the consultation process. The consultation does not meet the standards of openness and transparency required of a regulator. DACC reserves the right to challenge the validity of the consultation process on the basis of the inadequacy of the information provided.

In the absence of effective consultation between DAA and its users, DACC had expected significantly greater transparency in the Draft Determination concerning not just the capital expenditure proposals which had been the subject of the series of consultation meetings but also the justification for any estimates of opex and commercial revenues over the next regulatory period, sufficient for users to comment on the reasonableness of any assessment. The Draft Determination raises the question of whether DAA should be allowed to proceed with some commercial investments at its own risk, with costs and revenues taken outside the single till. In order to evaluate the implications of this, DACC requires information regarding the level at which the price cap would be set on a dual till basis.

Specifically, DACC has still received no reply to its letter of 5th June to John Spicer, in which I made clear that users would expect the commercial revenue and/or opex implications to be clearly set out for each relevant capex project. This letter also contained a request from DACC to the CAR for full consultation in relation to opex prior to the publication of the Draft Determination, as there has been no engagement between users and the CAR's consultants in contrast with the practice adopted by the UK CAA and Competition Commission during price cap reviews.

In relation to capital development projects, the lack of information linking commercial revenue projections or opex cost savings to particular projects, which had previously been requested several times by DACC, has particular implications for the extent to which users are able to validate DAA's assertions as to the commercial revenue generating benefits of particular capital projects within the single till or of efficiency savings in opex costs arising from other projects.

There are particular issues with the redaction of virtually all data relating to DAA's current costs and revenues in the Draft Determination and accompanying reports as well as DAA's projections. Specifically, the opex cost projections produced by Indecon/Jacobs appear to be based on <u>increased</u> staff costs in 2009, which is at odds with DAA's statement of 12th May that it will seek 400 redundancies as part of a cost reduction programme. It is unclear how this cost reduction has been factored into the price cap calculation.

The lack of transparency about the current cost base gives rise to particular concern as the main change in the proposed price cap arises by way of a substantial P_0 increase to €16.70 per departing passenger in 2010, which relates to the existing cost and revenue base in 2009 and is not as a result of capex or other growth related cost or revenue changes within the regulatory period. It is essential that there is full transparency as to how this step change in the price cap has arisen so that users can comment on the justification for the building blocks which give rise to the substantial increase in the price cap. Based on the information disclosed so far, DACC's provisional view than there can be no justification for a price cap any higher than €12 per departing passenger.

In particular, the following information is required as a matter of urgency to enable DACC to respond by the deadline of 7th August:

Dublin Airport Regulated Accounts for the year ending December 2008;

DAA Cost and Revenue data for 2009 and projections for future years redacted from tables in the Draft Determination, specifically Tables 7.2, 8.5, 8.8, 8.9, 8.11, 8.13, 8.15;

Assumptions regarding costs and revenues associated with ATI fees about which users were promised transparency;

Details of the specific incremental retail revenues projected by DAA arising from T1X, CIP5.013 Retail Refurbishments, CIP 2.015 Tenant Accommodation Piers, and CIP 2.019 Retail Logistics Centre;

Cargo demand and revenue forecasts relating to the CIP2.018 Cargo Distribution Centre;

Dublin Airport comparator data omitted from the Indecon/Jacobs Report on opex.

In the absence of the above data, the reports and Draft Determination are virtually impossible to make sense of, with figures seemingly plucked from thin air. It is difficult to see how you can expect users to make reasoned comments and to justify their views when basic data and information is withheld from them.

It appears to DACC that, in omitting basic information from the Draft Determination, the CAR is condoning DAA's practice of withholding vital information to users and in failing to adequately consult. The failure to ensure sufficient information to enable users to understand the basis of the price cap proposed does not meet the standard of consultation required of a public body responsible for making such a critical determination which will impact on the future development of the air transport industry in Ireland for the next 5 years.

We request all outstanding information no later than 22nd July in order that DACC can prepare its response to the Draft Determination.

Geoffrey O'Byrne-White
Chairman

Commission for Aviation Regulation
An Coimisiún um Rialáil Eitlíochta

23 July 2009.

Mr. Geoffrey O'Byrne White
Chairman, DACCC
Cityjet
Swrods Business Campus
Balheary Road
Swords
Co. Dublin

Dear Geoffrey

I refer to your letter dated 17 June 2009 (received by this Office on 17 July 2009) to the Commissioner, who is currently on leave. In his absence I provide the Commission's response to the matters raised.

First, for the avoidance of any future confusion and in the interests of the Commission's role, you are requested to confirm all the current members of DACC that you are representing in submitting this letter. This should set out the names of all the users that have agreed to you raising these specific matters on their behalf. This matter is of importance to the Commission as we have in the past (and continue to) received correspondence, submissions and even as you are aware, a statutory appeal from both the entity known as DACC *and* the main users at Dublin Airport. As it is neither necessary nor appropriate that any user(s) should work in parallel streams or create an unnecessary administrative burden for a regulator, you are asked to clarify this matter for the record. It is important that a public body knows from whom views – which it is expected to take into account – are received. I await therefore your co-operation in this matter.

In relation to other matters raised, as has always been the Commission's stance, it is not considered appropriate for the Commission to engage in bilateral discussions throughout the public consultation process on matters best addressed by means of a formal response to the draft Determination, due no later than 5pm 7 August 2009. Consequently, there are a number of points raised in your letter which are not addressed in this response.

Much of your letter makes a claim familiar from DACC that there is not enough information. In this case, you claim that the draft Determination does not provide enough information to allow DACC to participate promptly in a consultation process. However, your letter provides little or no evidence to support such a contention. For example, you assert that you need assumptions regarding costs and revenues associated with ATI fees, but provide no rationale why DACC would be unable to comment on a draft Determination concerning airport charges (and not ATI fees) absent this information.

Regarding your requests for specific information, I believe that much of the information you request is already available or known to DACC – either through its participation in the post-2009 capex discussions hosted by the Commission in March to May of this year, or presented in the draft Determination and accompanying materials. For example: revenue from ATI fees and the Commission's proposed treatment of such; DAA's expectations for growth in cargo demand over the next regulatory period; and DAA's expected incremental revenue/opex saving (where any is

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asserted) from T1X, CIP5.013 Retail Refurbishments, CIP2.015 Tenant Accommodation and CIP4.014 CHP plant.

As regards clarifying whether and how the DAA's own purported "cost reduction programme" has been factored into proposals in the Draft Determination, the simple answer is that it has not. As far as I am aware, there is no confirmed information on such a programme in the public domain, and no information on such a programme has been provided by the DAA to the Commission. I refer you to page 4 of the DAA submission on opex (published on the Commission's website) which states that *"Given the uncertainty around securing agreement on the Cost Recovery Plan a target cost saving amount has not been included in the financial projections"*.

The Commission is therefore of the view that the draft Determination provides more than sufficient information for all parties, including DACC, to participate fully and constructively in the consultation process. Aer Lingus and Ryanair (both of whom are DACC members) have previously been able to respond to draft Determinations without sight of any information from regulatory accounts. This time, relevant extracts from the regulatory accounts for 2007 and 2008 are in the public domain. More generally, the current draft Determination provides more information than was the case in either 2001 or 2005.

It is only because of the draft Determination's transparency that DACC is able to identify data for some series that have been redacted. Consequently, DACC is in a position in our view to provide thoughts on what a reasonable value (or range of values) would be for such series, along with supporting evidence. If DACC is unable to provide such comments, I fail to see how publishing forecasts from the DAA would help DACC provide constructive comments – on what basis would DACC be able to comment whether a number was reasonable or not if DACC itself has no evidence concerning what a reasonable value would be? Rather than taking the stance of demanding more and more information from other parties, I encourage DACC to take the opportunity the draft Determination offers by submitting a substantive response that provides information about DACC's thinking on the various issues along with supporting evidence. Such an approach would be consistent with the views expressed by the main users at Dublin airport regarding the weighting which a regulator should attach to user interests.

You refer to earlier correspondence that DACC sent to me on 5 June 2009. That letter set out DACC's revised thinking on capex needs at the airport and sought an opportunity to consult with the Commission on what opex allowances to include in the determination. The Commission reviewed DACC's revised submission on capex needs prior to publishing its draft Determination. The draft Determination also sets out the Commission's proposals relating to opex allowances and affords all parties, including DACC, an opportunity to engage in consultation on this matter. Therefore no formal response to the letter of 5 June 2009 was issued as the draft Determination provided an opportunity for DACC to comment on opex allowances at the airport. The Commission will consider your views when received.

I also add that you will be aware that the Commission has previously invited DACC to set out its thinking on opex on many occasions, dating back to the publication of the Issues Paper in October 2008. On receipt of a (late) response from DACC to the Issues Paper, in January 2009 the Commission invited DACC to meet to discuss its thinking. The Commission also afforded DACC later opportunities to discuss opex (see my letter of 8 May). It must be appreciated that if DACC earnestly wishes to be involved in consultation, it has to assume responsibility for organising itself such that it is able to take advantage of the opportunities to engage with the Commission when they present themselves, recognising resource and timetabling realities.

The opportunity is now open to DACC to provide a detailed and constructive response to the draft Determination, with supporting evidence. The Commission hopes to receive such a response from DACC.

Yours sincerely,

John Spicer
Head of Economic Affairs

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CONSULTATION COMMITTEE

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Mr John Spicer
Head of Economic Affairs
Commission for Aviation Regulation
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28th July 2009

Dear John

Thank you for your response to my letter of 17th July (dated 17th June in error) to the Commissioner, who is "on leave".

While, ordinarily, it might be unreasonable to disturb the Commissioner on his holidays, current circumstances demand his full attention; we face an economic crisis (in the wider economy and in aviation), the CAR is poised to make its five yearly determination and airlines have been provided with insufficient information to comment on the CAR's draft determination.

Instead of responding directly to our legitimate requests for information, which you acknowledge as "familiar", the CAR only now questions the bona fides of a group with whom you have corresponded and met with on many occasions and which delivers over 90% of traffic at Dublin Airport. As you are well aware, the DACC, whose Executive Committee includes Aer Lingus, CityJet and Ryanair, develops and presents consensus airline views and does not preclude individual members expressing their own views. You may be certain that our consensus position more than represents "the generality of users". Our letter of 17th July has been copied to all airlines as has this letter.

I note your confirmation that the CAR has not factored DAA's much publicised Cost Recovery Programme into the determination on the extraordinary basis that the DAA is uncertain about its delivery. Your suggestion that airline users should develop an airport opex projection from first principles in the absence of unjustifiably redacted data is absurd. To describe airline requests for the necessary information as a "stance" betrays a worrying prejudice by the CAR. Simply because you, in the absence of the Commissioner, "fail to see", or "consider inappropriate" the views of users does not excuse you from responding to these clearly stated requirements and reasonable requests.

Airline users, individually and collectively through the DACC, will of course, provide a response to the Draft Determination which will have been unnecessarily handicapped by your refusal to facilitate opex consultation or to provide information and explanations as requested.

I appreciate that you might not wish to disturb the Commissioner on his holidays, however as your response is wholly inadequate, his direct involvement is necessary at this crucial time.   Please ensure the Commissioner is aware of this letter and provide him with a copy of our letter of 17th July so that he might respond authoritatively and directly.

Yours sincerely

Geoffrey O'Byrne White
Chairman - DACC

Commission for Aviation Regulation
An Coimisiún um Rialáil Eitlíochta

Mr. Geoffrey O'Byrne White
DACC Chairman and CEO Cityjet Ltd
Swords Business Campus
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5 August 2009

Re: DACC letter of 28 July to John Spicer

Dear Geoffrey,

I am in receipt of your letter to John Spicer of 28 July last.

In relation to the issue we raise as to the identity of the individual users on whose behalf you submit comments, you misunderstand our question. The *bona fides* of the DACC group or its right to submit views was not questioned in any way, you were simply asked to provide in a transparent manner, the names of the particular users voicing those views.

The involvement of DACC in the process to date has been welcome but it is not appropriate that it be opaque. As set-out in footnote 12 of the Commission's October 2008 Issues Paper, we understand the DACC membership to comprise the following companies/organisations: Aer Lingus, AOC, Aviance, British Airways, bmi, Cityjet, DAUC, FedEx, the Irish Association of International Express Carriers (IAIEC), the International Air Transport Association (IATA), Lufthansa, Ryanair, SAS, Servisair and Sky Handling Partners (SHP). You might confirm whether this list of your members is correct, and should there be a different set of airport users supporting a letter on a future occasion, you should identify the users who support the views set out. In relation to the inclusion of IATA, I would be grateful if you would clarify whether IATA represent those of its users at Dublin Airport not otherwise represented.

As noted in the letter of 23 July, the Commission is of the view that the draft Determination provides more than sufficient information for all parties, including DACC, to participate fully and constructively in the current consultation process. However, regarding specific points raised in your letter of 17 July, where you requested six pieces of information:

- *DAA's 2008 regulated accounts* – as noted in John Spicer's letter to you of 23 July, the Commission has published extracts from the DAA's regulated accounts since 2007. It is not my intention to provide further information at this stage on that aspect.

- *Redacted DAA cost and revenue data for 2009 and projections for future years* – the Commission redacted this information from the report on the basis of the DAA's presentation of such as commercially confidential. It is not my intention to release further information at this stage.

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- *Costs and revenues associated with ATI fees* – paragraph 8.44 of the Draft Determination states that *"revenues from ATI fees will be between €1.5m and €1.7m per annum"*. As regards costs, I refer you to paragraph 1.3 of CP1/2008 (March 2008), which sets out check-in desk costs relating to the DAA's last application for increased ATI fees. More generally, I would point out that the proposals in the Draft Determination on ATI fees relate to the issues associated with the interaction between such fees and the price cap (as set out in CN2/2008, March 2008). If, at some point in the future, the DAA does seek approval for a change to its ATI fees, I would be open to considering your requests for information at that stage.

- *Incremental revenues projected by the DAA for specific projects* - T1X, €3.8m (Table 3.1 in the Draft Determination, and the spreadsheet model); Retail Refurbishments, the Commission's understanding from the discussions at the capex meetings that took place in March to May of this year is that the DAA does not attribute any incremental commercial revenues to this project, and similarly for Tenant Accommodations and the Retail Logistics Centre.

- Cargo demand and revenue forecasts - again, the information from the DAA, as presented to both the Commission and users at the capex meeting on 8 April 2009, is that its working assumption at the time is that there would be no growth in cargo in the period.

- Dublin airport comparator data in the Indecon/Jacobs report – I am unsure as to your question here. The data on comparators is in the Indecon/Jacobs report. The report identifies the comparator airports as *Airport 1, 2 etc.* The Commission understands from its consultants that the reason for this is that such information has been provided by other airports in confidence and the labelling of the airports as in the report is in order to preserve such.

I look forward to receiving the DACC response to the Draft Determination.

Yours,

Cathal Guiomard

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Cathal Guiomard

ANNEX B

Extracts from Monopolies and Mergers Commission Report on the Economic Regulation of Manchester Airport plc

MONOPOLIES AND MERGERS COMMISSION

Manchester Airport plc

A report on the economic regulation of Manchester Airport plc

MMC 5

PRICE £20.00

TABLE 7.2 **MA's cash operating expenditure in Q2**

£ million (out-turn prices)

	Actual 1992/93	*Actual 1993/94*	*Actual 1994/95*	*Actual 1995/96*	*Actual 1996/97*	*Budget 1997/98*
Employee						
Headquarters	5.0	7.6	8.1	6.7	8.4	6.7
Airfield	8.0	7.7	8.2	9.0	9.2	9.7
Commercial	2.3	3.2	3.4	4.1	4.0	4.3
Terminals	16.0	17.1	18.4	19.6	20.3	21.1
Apron services	3.3	0.0	0.0	0.0	0.0	0.0
RHSL	12.7	11.4	11.9	11.3	7.6	7.7
Early retirements	0.0	0.0	0.4	0.4	0.6	0.0
Pension cost provision	1.2	0.2	0.2	0.2	0.7	0.3
Total employee expenditure	48.6	47.1	50.6	51.3	50.8	49.9
Premises						
General	12.5	20.9	22.1	21.4	19.4	21.3
Land rental	5.5	6.5	6.6	6.8	8.3	8.1
Total premises expenditure	18.0	27.4	28.7	28.2	27.6	29.4
Supplies and services						
Greater Manchester Police (GMP)	5.0	5.3	6.1	6.5	6.5	6.6
Other	12.0	11.5	13.1	10.8	10.9	14.0
Total supplies and services	17.0	16.9	19.1	17.3	17.4	20.5
Transport and plant						
Total transport and plant	2.2	2.9	3.2	3.2	3.3	4.8
Establishment						
Total establishment (excluding RHSL)	11.9	20.8	20.8	17.0	20.4	25.6
RHSL	0.8	0.4	0.4	1.0	1.0	1.1
Total cash operating expenditure	98.5	115.5	122.9	118.0	120.6	131.3

Source: MA financial model.

TABLE 7.3 **MA's 1991 forecast of cash operating expenditure for Q2**

£ million (out-turn prices)

	Forecast 1992/93	*Forecast 1993/94*	*Forecast 1994/95*	*Forecast 1995/96*	*Forecast 1996/97*	*Forecast 1997/98*	*Forecast Q2 total*
Employee							
General	17.7	20.2	21.8	23.7	25.8	28.0	119.5
Fire	2.6	2.8	3.0	3.2	3.4	3.7	16.1
Security	11.2	14.9	16.0	18.0	19.4	20.8	89.1
Handling	3.4	0.0	0.0	0.0	0.0	0.0	0.0
RHSL	9.5	7.5	8.6	9.6	10.9	11.8	48.4
Total employee costs	44.2	45.3	49.3	54.6	59.5	64.4	273.1
Premises							
General	16.5	26.3	28.4	30.7	33.2	36.0	154.6
Land rental	6.6	8.0	8.0	8.0	13.5	13.5	51.0
Total premises	23.1	34.3	36.4	38.7	46.7	49.5	205.6
Supplies and services							
GMP	5.3	8.4	9.1	10.8	12.6	14.6	55.5
Other	11.3	13.2	13.3	14.3	15.4	16.5	72.7
Total supplies and services	16.6	21.6	22.4	25.1	28.0	31.1	128.2
Transport and plant							
Total transport and plant	2.1	3.5	4.1	4.4	4.8	4.2	21.0
Establishment							
RHSL direct costs	3.6	3.3	3.7	4.0	4.4	4.7	20.1
General	11.4	10.7	10.8	11.9	12.7	14.5	60.6
Total establishment	15.1	14.0	14.5	15.9	17.1	19.2	80.7
Total	101.1	118.7	126.7	138.7	156.1	168.4	708.6

Source: MA financial model.

7.4. The variances of actual from forecast are shown in Table 7.4. For Q2 as a whole and for the totals for each year they are shown in percentage terms as well as absolute terms.

TABLE 7.4 **MA's actual expenditure less forecast expenditure, Q2**

							£ million	*Total Q2 variance as % of total forecast*
	1992/93	*1993/94*	*1994/95*	*1995/96*	*1996/97*	*1997/98**	*Total*	
Employee	4.4	1.8	1.3	(3.3)	(8.7)	(14.5)	(23.4)	(8.6)
Premises	(5.1)	(6.9)	(7.7)	(10.5)	(19.0)	(20.1)	(64.2)	(31.2)
Supplies and services	0.4	(4.7)	(3.3)	(7.8)	(10.6)	(10.6)	(37.0)	(28.9)
Transport and plant	0.1	(0.7)	(0.9)	(1.2)	(1.5)	0.6	(3.7)	(17.6)
Establishments	0.5	10.1	10.0	5.1	7.7	11.1	44.0	72.6
RHSL direct costs	(2.8)	(2.9)	(3.3)	(3.0)	(3.4)	(3.6)	(16.2)	(80.1)
Total costs	(2.5)	(3.3)	(3.8)	(20.7)	(35.5)	(37.1)	(100.4)	(14.2)
Total variance as a percentage of forecast	(2.5)	(2.8)	(3.0)	(14.9)	(22.7)	(22.0)	(14.2)	

Source: MA financial model.

*Projected.

7.5. As might be expected, errors of estimation increased over the period, from £3.3 million (3 per cent) in the first year of Q2 to £37 million (24 per cent) in 1996/97. Within this underspend, employee costs, premises costs and supplies and services costs all showed increasing underspend in the later years.

7.6. The main exception to the overall picture of underspend was establishment costs, which were overspent throughout Q2, compared to the projection.

7.7. Two specific causes of variance need to be taken into account. First, the financial model results were expressed in out-turn prices and hence relied on estimates of inflation indices (specifically, the RPI). Secondly, the model projected costs on the basis of assumed changes in passenger numbers. To the extent that forecasts of either the RPI or passenger numbers turned out to be inaccurate, out-turn costs would be expected to vary from projected costs.

7.8. First, we consider the effects of inflation. In preparing its forecasts for Q2, MA used a financial model which calculated costs at 1990 prices. The model then presented its results in current price terms by applying a constant inflation rate which was assumed to be 7 per cent. At the time the model did not have the facility to use inflation rates that varied from year to year. Table 7.5 shows forecast operating costs at 1990 prices.

TABLE 7.5 **MA's 1991 forecast of cash operating expenditure at constant 1990 prices**

			Forecast			*£ million*
	1992/93	*1993/94*	*1994/95*	*1995/96*	*1996/97*	*1997/98*
Employees						
Total employee	40.4	38.7	39.4	40.7	41.5	42.0
Premises						
General	15.0	22.5	22.7	22.9	23.2	23.5
Land rental	6.0	6.8	6.4	6.0	9.4	8.8
Total premises	21.0	29.3	29.1	28.9	32.6	32.3
Supplies and services						
Supplies and services (excluding GMP)	10.4	11.2	10.6	10.7	10.7	10.8
GMP	4.8	7.2	7.3	8.1	8.8	9.5
Total supplies and services	15.2	18.4	17.9	18.7	19.5	20.3
Transport and plant						
Total transport and plant	1.9	3.0	3.3	3.3	3.3	2.8
Establishment						
RHSL	3.3	2.8	2.9	3.0	3.1	3.1
General	10.5	9.1	8.7	8.8	8.9	9.4
Total establishment	13.8	12.0	11.6	11.8	11.9	12.5
Total cash operating expenditure	92.3	101.4	101.3	103.4	108.8	109.9

Source: MMC based on MA financial model.

7.19. MA pointed out that it had made no provision for compensation payments under Part 1 of the Land Compensation Act 1973 in respect of Terminal 2, although it had received claims to the value of £23.3 million by April 1997. A test case was likely to be referred to the Lands Tribunal. Claims were also expected in respect of Runway 2 and MA had made some provision in its future plans. Any payments made would be treated as operating expenditure. MA asked us to consider an adjustment mechanism within the formula, which would take effect if the liability for payments in respect of either Terminal 2 or Runway 2 during Q3 should be significantly higher than the amount provided for. It suggested that the mechanism might take the form of a 'pass-through' in the formula.

Costs per passenger

7.20. Table 7.10 shows costs per passenger for 1992/93 to 1997/98, compared with MA's forecast at the time of the 1992 MMC report, both at out-turn prices and constant 1990 prices.

TABLE 7.10 **Actual and forecast cash costs per passenger for Q2**

£

	1992/93	*1993/94*	*1994/95*	*1995/96*	*1996/97*	*1997/98*
Out-turn prices						
Actual	8.34	8.81	8.53	8.00	8.23	8.50*
Forecast	9.11	9.97	9.75	9.98	10.54	10.59
1990 prices						
Actual	7.72	8.02	7.56	6.86	6.88	6.90*
Forecast	8.33	8.55	7.81	7.45	7.33	6.92

Source: MMC calculations based on MA financial model.

*Projected.

MA's proposed operating expenditure for Q3

7.21. For its financial planning for Q3, MA used a model which calculated future operating expenditure on the basis of elasticities, as described in paragraph 7.11. We noted that all the improvements in costs per passenger were the result of the economies of scale represented by these elasticities and there were no additional productivity gains (that is, if it had been assumed that there was to be no growth in passenger numbers, there would have been no reduction in costs per passenger). For our examination of MA's projected operating expenditure, we used model M766, dated 11 April 1997. The levels of passenger numbers assumed in model M766 are shown in Table 9.9 and discussed in paragraph 9.34. MA assumed RPI inflation of 4 per cent a year.

7.22. Table 7.11 shows MA's operating expenditure forecast for the years 1997/98 to 2001/02. Further details are given in Appendix 7.1.

TABLE 7.11 **MA's projected cash operating expenditure for Q3**

£ million (out-turn prices)

	Actual 1996/97	*Budget 1997/98*	*Forecast 1998/99*	*Forecast 1999/2000*	*Forecast 2000/01*	*Forecast 2001/02*	*Forecast 2002/03*
Employee costs	50.8	49.9	53.0	56.2	59.9	64.8	69.7
Premises	27.6	29.4	32.0	33.1	36.2	44.1	46.0
Supplies and services	17.4	20.5	20.6	21.3	22.8	27.4	28.6
Transport and plant	3.3	4.8	5.0	5.4	5.7	6.1	6.6
Establishments	20.4	25.6	28.8	23.1	31.6	27.7	29.3
RHSL	1.0	1.1	1.2	1.3	1.4	1.6	1.8
Total cash operating expenditure	120.6	131.3	140.6	140.4	157.5	171.7	182.0

Source: MA.

ANNEX C

Adjustments to the Opening RAB

DACC Commentary on Proposed Additions to RAB 2006-2009 (excluding T1X and T2 related Projects)

Code	Airfield Project	Allowed	Outturn	Difference	DACC Comments	DACC Allowance
CIP6.026	South Apron Infill Phase 5B	5.87	10.70	4.83	Cost overrun not specifically justified included in programme contingency	5.87
CIP6.030	Taxiway P2 bypass for Phase 6 – MIKE 2	7.89	11.35	3.46	Cost overrun not specifically justified included in programme contingency	7.89
CIP6.039	North Apron Infill Phase 5 E	14.59	17.30	2.71	Cost overrun not specifically justified included in programme contingency	14.59
CIP6.042	Overlay Taxiway B4/B5/B6	5.00	6.16	1.16	Cost overrun not specifically justified included in programme contingency	5.00
CIP6.006	Apron Recon Nth Side Pier A	4.44	4.54	0.10	Cost overrun not specifically justified included in programme contingency	4.44
CIP6.038	Central Apron Infill Phase 5 D	0.01	-	- 0.01	Project not undertaken	-
CIP6.040	Met Relocation	0.48	0.32	- 0.16	Cost overrun not specifically justified included in programme contingency	0.32
CIP6.028	Refurbishment Taxiway H2	1.62	1.41	- 0.21	Cost overrun not specifically justified included in programme contingency	1.41
CIP6.017	Overlay runway 10/28	0.59	0.32	- 0.27	Costs include design of high cost option not required by users.	0.32
CIP6.043	Remedial works and diversion to support 6.035	6.59	-	- 6.59	Project not undertaken	-

CIP6.047	Apron 5A - 65,000m2	8.65	0.32	- 8.33	Project not undertaken	0.32
CIP6.035	Aircraft Stands Phase 6A,B &C (GA)	51.14	35.68	- 15.46	Cost overrun not specifically justified included in programme contingency	35.68
	TOTAL	**106.89**	**88.11**	**- 18.77**		**75.84**

Code	Other Project	Allowed	Outturn	Difference	DACC Comments	DACC Allowance
CIP9.018	Boiler House Replacement/District Heating	2.16	5.08	2.92	Cost overrun not specifically justified included in programme contingency	2.16
CIP5.013	Retail Refurbishments	4.37	6.16	1.79	Cost overrun not justified by improved retail performance	4.37
CIP9.016	Voice & Data Comms Corridors	2.92	3.46	0.54	Cost overrun not specifically justified included in programme contingency	2.92
CIP6.014	Ground Power Pier B	0.90	1.19	0.29	Cost overrun not specifically justified included in programme contingency	0.90
CIP6.033	Water Monitoring Equipment	0.26	0.54	0.28	Cost overrun not specifically justified included in programme contingency	0.26
CIP2.010	Refurbish West end Cloghran Hse	0.11	0.22	0.11	Cost overrun not specifically justified included in programme contingency	0.11
CIP4.008	Rapid Intervention Fire Tender.(RIFT)	0.51	0.54	0.03	-	0.51
CIP4.011	Refurbish & Replace PT 14&15 Lifts	0.43	0.43	-	-	0.43
CIP4.006	Escalator 6	0.22	0.22	-	-	0.22
CIP5.015	Holiday Shop Revamp	0.12	0.11	- 0.01	-	0.11

CIP4.015	Replacement 2 Lifts PT17_PT18	0.13	0.11	- 0.02	-	0.11
CIP5.025	Perfumery Revamp	0.35	0.32	- 0.02	-	0.32
CIP5.017	Vehicles Warehouse Centre	0.02	-	- 0.02	Project not undertaken	-
CIP5.008	Pier A Breakroom	0.02	-	- 0.02	Project not undertaken	-
CIP3.022	Upgrade Castlemoate House Phase 1	0.25	0.22	- 0.03	-	0.22
CIP3.015	External Roads	1.34	1.30	- 0.04	-	1.30
CIP6.005	Airfield Lighting Control System	0.80	0.76	- 0.04	-	0.76
CIP5.002	CCTV Commercial	0.04	-	- 0.04	Project not undertaken	-
CIP4.010	Refurbishment A Complex Lifts	0.40	0.32	- 0.08	Excess cost allowed	0.32
CIP1.008	MSCP Upgrade Phase 1	0.84	0.76	- 0.09	Excess cost allowed	0.76
CIP6.004	Airfield Equipment Upgrade	0.30	0.22	- 0.09	Excess cost allowed	0.22
CIP5.034	Retail - local projects	0.74	0.65	- 0.09	Excess cost allowed	0.65
CIP5.012	Pier B Travel Value Refurbishment	1.72	1.62	- 0.10	Excess cost allowed	1.62
CIP5.035	Mezz Catering Dublin	0.11	-	- 0.11	Project not undertaken	-
CIP5.018	Street Intersection	1.65	1.51	- 0.14	Excess cost allowed	1.51
CIP6.012	Air Monitoring System	0.41	0.22	- 0.19	Excess cost allowed	0.22
CIP4.003	Baggage Reclaim Carousels	1.30	1.08	- 0.22	Excess cost allowed	1.08
CIP2.007	Office accommodation	1.08	0.86	- 0.22	Excess cost allowed	0.86

CIP3.014	Remaining Perimeter Fence	0.78	0.43	- 0.35	Excess cost allowed	0.43
CIP1.001	Additional works Harristown Car Park	0.36	-	- 0.36	Project not undertaken	-
CIP6.025	Repl Centreline Lights 10/28	0.43	-	- 0.43	Project not undertaken	-
CIP3.028	Waste Recycling Units	0.59	-	- 0.59	Project not undertaken	-
CIP6.045	Cargo - Shortterm Solutions	0.61	-	- 0.61	Project not undertaken	-
CIP4.016	Replacement of Standby Generator at Main Terminal	0.81	-	- 0.81	Project not undertaken	-
CIP8.004	M&E Maintenance	1.56	1.56	-	-	1.56
CIP6.029	Taxiway Centreline Lighting	1.70	-	- 1.70	Project not undertaken	-
CIP4.013	Repl Air-Handling Syst Pier B	2.57	0.32	- 2.25	Excess cost allowed	0.32
CIP8.007	Fire	2.95	2.95	-	-	2.95
CIP8.006	Airport Police & Security	3.24	3.24	-	-	3.24
CIP8.005	Airside operations	7.00	7.00	-	-	7.00
	TOTAL	**46.09**	**28.65**	**- 2.71**		**37.44**

Code	Other Capacity Projects	Allowed	Outturn	Difference	DACC Comments	DACC Allowance
CIP8.008	IT / AITT	23.05	24.90	1.85	Cost overrun not specifically justified, including airport operations system not required by users and not consulted on	23.05

CIP7.025	Central Immigration - Pier A&D	7.78	10.27	2.49	Cost overrun not specifically justified included in programme contingency	7.78
CIP1.012	3000 Additional Spaces Harristown Ph 1	2.51	4.11	1.60	Cost overrun not specifically justified included in programme contingency	2.51
CIP6.037	Runway 10/28 Stopbars	1.81	2.84	1.03	Cost overrun not specifically justified included in programme contingency	1.810
CIP1.003	Convert Site Compound to staff Car Park	0.18	0.65	0.46	Cost overrun not specifically justified included in programme contingency	0.18
CIP7.034	Area 14	16.22	16.65	0.43	Area redundant once T2 operational should be removed from the RAB	-
CIP1.007	Passenger Links (travelator to Atrium)	1.07	1.30	0.22	Cost overrun not specifically justified included in programme contingency	1.07
CIP3.012	New Taxi Holding Area	0.11	0.32	0.22	Cost overrun not specifically justified included in programme contingency	0.11
CIP1.002	Car Parking Equipment	3.23	3.24	0.02	-	3.230
CIP5.005	Landlord provision to Book Stores	0.14	0.11	- 0.03	Excess cost allowed	0.11
CIP5.009	Pier A New Bar	0.05	-	- 0.05	Project not undertaken	-
CIP4.007	New Chiller BOI Departures Flr.	0.22	0.11	- 0.11	Excess cost allowed	0.11
CIP1.009	Upgde Eastlands To Planning Compliance	0.15	-	- 0.15	Project not undertaken	-
CIP6.041	MV Alteration	3.32	3.14	- 0.19	Project not undertaken	3.14
CIP5.001	Landside Restaurant	1.91	1.62	- 0.28	Project not undertaken	1.62

CIP1.013	2500 Additional Spaces Harristown Ph 2	2.57	2.27	- 0.30	Excess cost allowed	2.27
CIP1.011	Upgde Eastlands To Permanent Status	5.22	4.76	- 0.46	Excess cost allowed	4.76
CIP7.001	Airbridge #2	0.72	0.22	- 0.51	Excess cost allowed	0.22
CIP3.032	Temporary Passenger Waiting Area	0.54	-	- 0.54	Project not undertaken	-
CIP7.023	Executive Jet Terminal - West	0.54	-	- 0.54	Project not undertaken	-
CIP5.036	External Retail Delivery Facility -Excludes sortation equipment	5.41	-	- 5.41	Project not undertaken	-
CIP8.003	Airport Development	24.66	16.24	- 8.42	Cost include airport operations control centre not required by users and additional €2 million not justified or consulted on	14.24
	TOTAL	**101.40**	**107.46**	**6.06**		**66.21**

Code	Pier D	Allowed	Outturn	Difference	DACC Comments	DACC Allowance
	Pier D	93.37	124.90	31.60	Scale of development and cost not supported by users. Allow 50% only	- 46.69
	TOTAL	**93.37**	**124.90**	**31.60**		**- 46.69**

Code	Runway Fees	Allowed	Outturn	Difference	DACC Comments	DACC Allowance
CIP6.018	Parallel Runway Fees	8.04	4.76	- 3.29	Project overpriced	- 3.29
	TOTAL	**8.04**	**4.76**	**- 3.29**		**- 3.29**

ANNEX D

DACC User Capex Requirements 2010-2014

Dublin Airport Capex Requirements 2010-2014

Ref	Description	DAA Driver	DAA Cost	DACC Categorisation	User Requirements	Maintenance covered by Indexed Depreciation	Trigger	DACC Comment	Log of Requests for Info from DAA during April and May	Allowed by CAR	
				S - Support for investment proceeding as envisaged SR -Support for investment, subject to some changes O - Opposition to the investment OP- Opposition to investment as currently presented or subject to trigger						Not triggered	Triggered
	Stands and airfield										
CIP2.009	Control Tower Facilitation Works	Capacity	€ 1,400,000	OP	€ 0		Yes	**Not Justified.** Either capacity related if linked to provision of a new runway or only required if higher buildings are built by the DAA. CAR to check with IAA when required - Trigger dependent.	Information on justification for Control Tower Project sought by letter to CAR 16.4.09. DAA declined to provide and referred to IAA. **Not Provided.**		€ 1,400,000
CIP6.047	New Apron Development	Capacity	€ 22,700,000	OP	€ 0		Yes	**Not required in period.** New apron north of Pier D, not needed in next 5 years as demand unlikely to be greater than 2008 levels.	Gating analysis to support timing of need requested by letter to CAR 16.4.09 and at meeting 6.5.09. Information received 21.5.09 being analysed. **Inadequate Information Provided.**		€ 22,700,000
CIP6.009	Engine Testing Facility fees only	Safety/ Compliance	€ 400,000	OP	€ 0		Yes	**Not required in period.** Associated with new runway should be triggered. DACC open to discussion on triggers.	Information provided at meeting 6.5.09	€ 200,000	
CIP6.017	Overlay Runway 10/28	Repair/ Replace	€ 23,000,000	SR	€ 7,000,000	Yes	No	**Overpriced.** The current runway's remaining life is 4-6 years. By spending €7m (alternative 1 from DAA report), it will extend the life by 10 years. The new runway will be opened then and it will be cheaper to do more substantial work (No night time working required).	Trade off between costs of repair under a do minimum option and details of cost and impact of slab replacements requested in meeting 8.4.09 and by letter to CAR 16.4.09. **Inadequate Information Provided.**	€ 7,000,000	
CIP6.018	North Runway Fees	Capacity	€ 4,200,000	OP	€ 0		Yes	**Not Justified.** Not required in period due to downturn in demand. Costs of new application should be lower if the same 3,110m runway. Costs associated with new runway should be triggered. DACC open to discussion on triggers.	Justification for proposed new longer runway scheme requested at meeting 6.5.09. **Inadequate Information Provided.**	€ 4,200,000	
CIP6.019	North Runway house buy-out	Capacity	€ 8,000,000	OP	€ 0		Yes	**Not Justified.** Costs should be lower assuming 3,110m runway but nil if runway 11/29. Associated with new runway should be triggered. DACC open to discussion on triggers.			€ 25,400,000
CIP6.051	North Runway Construction works	Capacity	€ 305,000,000	OP	€ 0		Yes	**Not Justified.** Need for new runway should be triggered. The longer 3,660m runway is not required. If 3,110m then DAA state cost is €70 million less at €255 million. DACC preference for reinstatement of 11/29 at a cost of €4.5-5m (information disclosed 21.5.09) as adequate to meet needs of users.			€ 255,000,000
CIP6.052	Central apron reconstruction	Repair/ Replace	€ 15,000,000	SR	€ 9,000,000	Yes	No	**Overpriced/Not Justified.** Further info required to verify extent of apron requiring urgent repairs. The quantity of reconstruction propsed by DAA is excessive. An allowance of €9m is a generous considering current economic climate.	Information requested regarding historic slab replacements as a basis for determining future spend requested at meeting 8.4.09. Information received 21.5.09 being analysed. **Inadequate Information Provided.**	€ 13,800,000	
CIP6.053	Engine Testing Facility		€ 13,800,000	OP	€ 0		Yes	**Not required in period**. The is related to the new runway and should be subject to a trigger. Users accept that this needs to be moved but do not accept cost estimate at this stage.	Information provided at meeting 6.5.09		€ 9,500,000

Ref	Description	DAA Driver	DAA Cost	DACC Categorisation	User Requirements	Maintenance covered by Indexed Depreciation	Trigger	DACC Comment	Log of Requests for Info from DAA during April and May	Allowed by CAR	
CIP6.054	Taxiway C L lights and associated stop bars on runway 16/34	Safety/Compliance	€ 6,300,000	O	€ 0		No	**Not Justified.** ICAO Recommendation only, it is not mandatory or essential in the current economic climate. Should be deferred until affordable.	Justification for project requested by letter to CAR 16.4.09. **Not Provided.**	€ 0	
CIP6.055	B7 Taxiway Overlay	Repair/ Replace	€ 3,000,000	O	€ 800,000	Yes	No	**Not required in period.** Useful life of this asset was 4-5 years and will be extended due to downturn in traffic. Option 3 will extend life by 5-6 years and is sufficient until new runway is in place when full repair can be undertaken at lower cost with daytime working.	Information on options provided at meeting 29.5.09	€ 2,800,000	
CIP6.056	Apron Road Reconstruction	Repair/ Replace	€ 1,800,000	SR	€ 500,000	Yes	No	**Not justified.** Case not made for whole road to be replaced, given some areas have been replaced already. Reduced scope of work proposed reflecting current economic climate.	Costs and risks associated with lower cost alternatives requested by letter to CAR 16.4.09. **Not Provided.**	€ 1,800,000	
CIP6.057	Airfield Generator replacement	Repair/ Replace	€ 500,000	S	€ 500,000	Yes	No	Accepted (however risk of failure not clearly set out)	Information about alternatives and costs requested by letter to CAR 16.4.09. **Not Provided**	€ 500,000	
	Sub-Total		**€ 405,100,000**		**€ 17,800,000**					**€ 30,300,000**	**€ 314,000,000**
	Piers and Terminals										
CIP7.018	New Pier Design Fees	Capacity	€ 7,000,000	OP	€ 0		Yes	**Not required in period/Not Justified.** Given downturn in traffic, extension to pier not required in period. Need for design expenditure should be triggered. Fees should be based on pier to be extended, which will depend on user requirements.	Gating analysis requested at meeting 22.4.09 to ascertain timing of requirement. Information received 21.5.09 being analysed. **Inadequate Information Provided.**		€ 7,000,000
CIP7.030	Terminal 2 Completion - CIP declared	Capacity	€ 10,000,000	O	€ 0		No	**DAA Liability.** Total T2 cost is greater than CIP 2006/9 (allowing for inflation) which is a cost overrun at DAA's risk. No justification for additional expenditure to be incurred in 2010.	Reconciliation of project costs to budget requested by letter to CAR 16.4.09. **Not Provided**	€ 0	
CIP7.032	T1 Passenger Processing Enhancements	Cost Reduction	€ 16,000,000	O	€ 0		No	**Not required.** Would result in unacceptable passenger walking distances and risk of flight delays. Existing security areas adequate for reduced passenger volumes. Commercial revenue and opex benefits not proven.	Basis of asserted incremental revenues and opex cost savings requested at meeting 22.4.09. **Not Provided.**	€ 0	
CIP7.035	Pier B Connectivity		€ 11,000,000	O	€ 0		No	**DAA Liability.** T2 Cost overrun and DAA liability as omitted from project in error. Users should not pay additionally.	Gating analysis requested at meeting 22.4.09 to ascertain timing of requirement. Information received 21.5.09 being analysed. **Inadequate Information Provided.**	€ 0	
CIP7.036	T1 Life Safety Safety (*sic*) System Upgrade	Safety/Compliance	€ 5,000,000	O	€ 2,400,000		No	**Not Justified.** Cost allowance too high in current market circumstances. DAA has not yet prepared detailed costs. DACC propose phased implementation to reflect affordability with a reduced cost allowed in the period based on historic spend.	Costs and benefits of alternatives requested by letter to CAR 16.4.09. Information provided at meeting 29.5.09 did not provide sufficient cost justification.	€ 2,400,000	
	Sub-Total		**€ 49,000,000**		**€ 2,400,000**					**€ 2,400,000**	**€ 7,000,000**

Ref	Description	DAA Driver	DAA Cost	DACC Categorisation	User Requirements	Maintenance covered by Indexed Depreciation	Trigger	DACC Comment	Log of Requests for Info from DAA during April and May	Allowed by CAR
	Airport Infrastructure									
	Airport Operations									
CIP2.017	Hangar Maintenance	Repair/ Replace	€ 4,200,000	O	€ 0	Yes	No	**Not required.** Ryanair has asked to purchase this hanger. The repairs will not be required if the DAA sell it. DAA to indicate if they are going to sell or not and exclude this item if so. If no tenant is interested then no need for expenditure. Is an estimate of income in Commercial Revenues?	Income estimates in the current market requested at meeting 8.4.09. **Not Provided.**	€ 0
CIP8.001	Operations	Repair/ Replace	€ 40,000,000	SR	€ 20,000,000	Yes	No	**Overpriced/Not Justified.** Replacement of AOS systems, CCTV upgrade, Enhancement of airport comms ducting, Integration Broker, Replace PA system - specific reasoning set out for only €12.6m. There appears to be some double counting of items with IT&T, airfield maintenance, fire etc. Previous spend cannot be reconciled to previous CIP. In current economic circumstances, suggest pro-rata allowance of €4 m per annum for all. AOS System not supported by users at present.	Justification of costs requested by letter to CAR 16.4.09. **Inadequate Information Provided.**	€ 40,000,000
CIP8.008	Corporate IT	Repair/ Replace	€ 10,700,000	SR	€ 2,000,000	Yes	No	**Overpriced/Not Justified.** €21.3m allowed in previous RAB but DAA said they only spent €9.8m. Remove unspent €11.5 million from opening RAB and allow €2m due to economic climate unless asserted cost and efficiency savings, such as the reduction of €5m in airport police overtime, can be verified as net beneficial to the single till. Increase of 6% in staffing unacceptable in current econimic climate. Excess provision of 700 PCs for Dublin Airport. Corporate IT costs need to be apportioned to Shannon and Cork.	Justification of costs requested by letter to CAR 16.4.09. Information provided at meeting 29.5.09 only set out partial information about potential benefits.	€ 9,000,000
	Landside Infrastructure									
CIP1.016	Refurbishment of existing MSCP - Blockas A,B &C	Repair/ Replace	€ 3,000,000	OP	€ 0	Yes	Yes	**Not Required.** This is not critical in currect economic circumstances. It would cause too much disruption before new MSCP is opened in any event.	Information on relationship of project to new MSCP requested by letter to CAR 16.4.09. **Not Provided.**	€ 3,000,000
CIP2.008	Maintenance of listed properties	Safety/Compliance	€ 500,000	SR	€ 250,000	Yes	No	**Overpriced.** Given the current economic climate the full amount of expenditure in CIP is not substantiated, a lower level is more appropriate excluding refurbishment - refurbishment not safety.	Clear statement of requirement and cost justification requested by letter to CAR 16.4.09. **Not Provided.**	€ 500,000.00
CIP3.012	New Taxi Holding area	Capacity	€ 4,000,000	OP	€ 0		No	**Not Justified.** The current capacity is 140. DAA say that there is additional demand for 160 vehicles. DAA want capacity to be 450 which does not relate to demand and there will be less need for additional holding area once the new rank on T2 opens so the case has not been made.	Justification for project requested by letter to CAR 16.4.09. **Not Provided.**	€ 4,000,000
CIP3.014	Upgrade Airside / Landside Perimeter Fence	Safety/Compliance	€ 2,000,000	SR	€ 1,000,000	Yes	No	**Overpriced.** €720,960 allowed in previous CIP out of total project estimate of €2m. DAA said only €517,529 spent. Allow remainder of €1m to complete works. Full amount not required as some works are related to trigger projects which have been deferred.	Justification for project requested by letter to CAR 16.4.09. **Not Provided.**	€ 2,000,000
CIP3.033	Repairs to Departures Road - Sealing bridge deck, repairs & resurfacing.	Repair/ Replace	€ 4,300,000	SR	€ 2,500,000	Yes	No	**Overpriced.** Airlines accept work needs to be done but should be lower cost option in the curret economic circumstances.	Costs for alternatives requested by letter to CAR 16.4.09. **Not Provided.**	€ 4,300,000
CIP3.034	External Roads upgrade	Repair/ Replace	€ 2,200,000	OP	€ 0	Yes	No	**Not Justified.** Not critical in currect economic circumstances, defer.	Justification for the scale of project requested by letter 16.4.09. **Not Provided.**	€ 2,200,000

Ref	Description	DAA Driver	DAA Cost	DACC Categorisation	User Requirements	Maintenance covered by Indexed Depreciation	Trigger	DACC Comment	Log of Requests for Info from DAA during April and May	Allowed by CAR	
CIP3.035	Internal Secondary Campus Roads upgrade	Repair/ Replace	€ 5,000,000	OP	€ 0	Yes	No	**Not Justified.** Not critical in currect economic circumstances, defer.	Justification for the scale of project requested by letter 16.4.09. **Not Provided.**	€ 5,000,000	
CIP8.300	Metro and GTC Design Fees	Capacity	€ 2,000,000	O	€ 0		No	**Not Required.** These fees should be paid by Metro, DACC asked the CAR to check whether these can be passed back to Metro	CAR asked to establish whether costs can be passed to Metro by letter 16.4.09. **Not Provided.**	€ 2,000,000	
	Plant & equipment										
CIP4.014	Replace CHP 2	Repair/ Replace	€ 3,300,000	SR	€ 3,300,000	Yes	No	Accepted but DAA requested to provide energy cost savings data to demonstrate benefits will be passed through into Opex.	Information to verify asserted Opex cost savings requested by letter to CAR 16.4.09. **Not Provided.**	€ 3,300,000	
CIP4.017	Upgrade HBS Dublin	Safety/Compliance	€ 10,800,000	SR	€ 0		Yes	**Not Justified/Overpriced.** Only required if new EU directive, not yet passed so should be triggered. Cost and options not justified.	Information requested to support proposed scope of project and costs by letter to CAR 16.4.09. **Inadequate Information Provided.**		€ 10,800,000
	Utilities										
CIP9.019	Divert and Increase Cuckoo Culvert capacity	Safety/Compliance	€ 11,000,000	SR	€ 7,400,000		No	**Overpriced.** Airlines agree that this issue should be dealt with on the basis of upgrading the existing culvert (€2.4m) and installing separation tank (CIP9.022) (€5m). Local Area Plan links drainage works to the achievement of a 30 mppa airport so other works can be deferred.	Information requested on costs of alternative options by letter to CAR 16.4.09. No information provided on options at meeting 29.4.09.	€ 11,000,000	
CIP9.020	MV Network Renewal Works A	Repair/ Replace	€ 2,500,000	OP	€ 0	Yes	Yes	**Not Justified.** Linked to re-location of contol tower above, works potentially abortive.	Detail of alternatives, including trade off with maintenance, requested by letter to CAR 16.4.09. **Not Provided.**	€ 2,500,000	
CIP9.021	Airfield Drainage upgrade (3km)	Capacity	€ 3,000,000	OP	€ 0			**Not Justified/Overpriced.** Work is not a priority in current economic climate. Local Area Plan links drainage works to the achievement of a 30 mppa airport so can be deferred.	Detail of alternatives, including trade off with maintenance, requested by letter to CAR 16.4.09. Insufficient information on cost trade-offs **Not Provided.**	€ 3,000,000	
CIP9.022	Airfield Pollution Control	Safety/Compliance	€ 7,500,000	SR	€ 0			**Not Justified/Overpriced.** Works should be phased to within affordability limits see CIP9.019 above. Local Area Plan links drainage works to the achievement of a 30 mppa airport so other works can be deferred.	Detail of alternatives, including trade off with maintenance, requested by letter to CAR 16.4.09. **Not Provided.**	€ 7,500,000	
CIP9.023	Fuel Hydrant System phase 1		€ 6,000,000	OP	€ 0			**Not required.** Not likely to be required given downturn in demand	Justification for this project by reference to use of stands on Pier E requested by letter to CAR 16.4.09. **Not Provided.**		€ 6,000,000
CIP9.024	Fuel Farm Redevelopment	Capacity	€ 28,800,000	SR	€ 12,000,000		No	**Overpriced.** Users agree that 2 additional tanks are required to increase the no of days storage fuel on site, however, the "into-plane" filling points are not required as the cost savings will not be passed to airlines.	Operational cost savings to fuel companies requested at meeting 6.5.09. Information supplied 21.5.09 would suggest airside intoplane facility would not pay back in 50 years even if full savings passed through to airlines.	€ 17,900,000	
	Sub-Total		**€ 150,800,000**		**€ 48,450,000**					**€ 117,200,000**	**€ 16,800,000**

Ref	Description	DAA Driver	DAA Cost	DACC Categorisation	User Requirements	Maintenance covered by Indexed Depreciation	Trigger	DACC Comment	Log of Requests for Info from DAA during April and May	Allowed by CAR	
	Revenue Projects										
CIP5.013	Retail Refurbishments	Repair/ Replace	€ 16,800,000	O	€ 0		No	**Not Justified/DAA Liability.** Based on previous DAA refurbishments which appear on DAA figures to have generated incremental retail income of c.€0.26 per passenger, scheme would not generate a positive payback over the 5 year life given the transfer of c.40% of passengers to T2.	Details of anticipated incremental revenues per passenger requested by letter to CAR 1.5.09. **Inadequate Information Provided.**	€ 8,800,000	
CIP1.006	MSCP	Capacity	€ 40,500,000	O	€ 0		Yes	**Not Justified.** Given downturn in passenger numbers, there is no short term need for additional car parking spaces. Taking DAA's average revenue per space, the scheme would not generate a positive return over the life of the project even if all spaces were occupied from day 1, which does not seem likely in the current market. Should be deferred until demand warrants and reduced in scale/cost to achieve a positive return.	Detailed car parking and income projections requested by letter to CAR 1.5.09. **Not Provided.**	€ 0	
CIP2.014	DAA Office Accommodation	Repair/ Replace	€ 2,500,000	O	€ 0	Yes	No	**Not Justified.** DAA are making 400 staff redundant - there should be surplus accomodation available - not a clear requirement for new tenant accommodation (see CIP2.015).	Justification for expenditure requested by letter to CAR 16.4.09. **Not Provided.**	€ 0	
CIP2.015	DAA Tenant Accomodation	Cost Reduction	€ 5,000,000	O	€ 0	Yes	No	**Not Justified.** Major tenants such as DHL, CityJet and Aer Arann have moved off-site because of excessive rentals. No information supplied about expected take up of accommodation or potential tenants. DAA has not made a proper case for this in current economic and market circumstances.	Justification for expenditure requested by letter to CAR 16.4.09. **Not Provided.**	€ 0	
CIP2.016	DAA Tenant Accomodation - Piers _ GSH		€ 3,000,000	O	€ 0	Yes		**Not Justified.** What tenants require this accomodation, given excessive rents? Some tenants have moved out. DAA has not made a proper case for this.	Justification for expenditure requested by letter to CAR 16.4.09. **Not Provided.**	€ 3,000,000	
CIP2.018	Cargo Distribution Centre	Repair/ Replace	€ 14,300,000	O	€ 0		No	**Not Justified/DAA Liability.** Not clear if this is T2 enabling works due to Pier E taking cargo apron. No cargo forecasts have been presented to justify this expenditure. Case not made in current economic climate	Justification for project by reference to T2 and to cargo demand projections requested by letter to CAR 16.4.09. **Not Provided.**	€ 13,100,000	
CIP2.019	Retail Logistics Centre	Capacity	€ 3,100,000	O	€ 0		No	**Not Justified.** The case, by way of incremental retail income or opex cost savings, has not made for this expenditure in current economic climate.	Costs and benefits of alternatives requested by letter to CAR 16.4.09. **Not Provided.**	€ 3,100,000	
	Sub-Total		**€ 85,200,000**		**€ 0**					**€ 28,000,000**	**€ 0**

Ref	Description	DAA Driver	DAA Cost	DACC Categorisation	User Requirements	Maintenance covered by Indexed Depreciation	Trigger	DACC Comment	Log of Requests for Info from DAA during April and May	Allowed by CAR	
	Programme Delivery										
	Reduction in project contingency allowed				-€ 3,432,500			Given reduced scale of programme and defined nature of the projects, reduce project contingency allowances by 5%. CAR to check mathematical errors in calculation of project by project contingency allowance, e.g. the claimed 18% for HBS.	Justification for project and programme contingency requested by letter to CAR 16.4.09. **Not Provided.**		
CIP8.100	Programme Contingency	Capacity	€ 27,000,000	O	€ 0		No	Omit. Double counting of project contingency.		€ 15,800,000	
CIP8.200	Programme Management (DL)	Capacity	€ 30,000,000	O	€ 1,492,175		No	Reduced programme should be capable of management at 2% of estimated costs. There should be no double counting of fees included within each project. Capitalisation of DAA staff costs needs to be made clear so as to ensure no double counting with Opex.	Justification for programme management costs, in particular capitalisation of staff costs, requested by letter to CAR 16.4.09. **Not Provided.**	€ 4,500,000	
	Sub-Total		**€ 57,000,000**		**-€ 1,940,325**					**€ 20,300,000**	
	Grand Total		**€ 747,100,000**		**€ 66,709,675**					**€ 198,200,000**	**€ 337,800,000**