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Mr John Spicer
Head of Economic Affairs,
Commission for Aviation Regulation,
3rd Floor Alexandra House,
Earlsfort Terrace
Dublin 2

RE: Cityjet Submission Commission Paper 1/2010

Dear John,

Further to the recent decisions of the Appeal Panels and your request for submission from interested parties, please find enclosed response from Cityjet to the Appeals allowed by the Appeals panels:

- ✓ **Over-specification of T2**

Cityjet position is that the size of the retail space size is an issue for the DAA. If the area is too large, this is for the commercial risk of the DAA and not for the Airlines users. Overall the CAR should be consistent in this point with T1X and should only allow to off-set direct and indirect overheads for the T2 Space against the demonstrated incremental revenues of this area. Any excess is disallowed against ongoing Opex for the Airport.

- ✓ **Differential Pricing**

Cityjet supports the concept of differential pricing in relation to the terminals that can be used and the level of services required at Dublin Airport. This fundamental concept must be adopted by the CAR. In order to allow this, the factors to be taken into consideration on this are:

1. Opex of Terminal 2
2. Apportion common operating costs between Terminal 1 and Terminal 2 on a consistent allocation method
3. Split Commercial Revenues between Terminal 1 and Terminal 2
4. Reconcile Deprecation between both facilities to ensure consistency

The overall concept here is that T2 should bear the full costs of its use not just the incremental costs. The key principle for Terminal 1 users is that Terminal 1 pricing should not be higher than the Terminal 1 Price Cap if Terminal 2 was not opened.

✓ **Terminal 1X Incremental Revenues and Remuneration**

The Cityjet position on this issue is how the incremental impact of Terminal 1X is measured in ensuring that any revenues taken into account in the price cap calculation are genuinely incremental to those revenues per passenger earned prior to DAA embarking on the airport redevelopment programme which gave rise to the closure of Pier C and the need for replacement retail facilities in T1X. The key indicator that Cityjet would support in this area is that the key revenue test on this should be the increase in revenue with the Terminal 1X facility compared to the period before Pier C closed in December 2007. This provides a benchmark against which the CAR can test the impact of T1X on commercial revenues and the extent to which any capital expenditure should be allowed into the RAB.
To support this, please find extract from the DACC submission from August 2009, CP3/2009:

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 9,000m2 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.

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. 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. 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.

- ✓ **An error in the treatment of PRM Revenues in the calculation of the Price Cap**

Cityjet does not support that the PRM charges were double counted as we do not agree with the fact that this charge is included in the other revenues. The other revenues figures in the CAR determination are constant over the 5 years and this would not be the case if the PRM revenues @33 Cents per passenger were included as the forecast traffic is not constant and would result in an increase on the amount of this other commercial revenue figure if it had been included within the calculation.

- ✓ **An error in the treatment of inflation in reconciliation of CIP 2006-09 outturn costs**

Cityjet agrees with the CAR in its treatment of inflation.

- ✓ **Disallowance of €15.3 million in respect of Pier D costs and disallowance of temporary forward lounge ("TFL") costs of €6.2million and Pier D fit-out costs of €1.2million**

Cityjet agrees with the CAR that these costs should be disallowed in its determination. The principle that was established in the 2007 Interim Determination that users at Dublin Airport should be consultated about cost overruns and this clearly did not occur and therefore are correctly not allowed. Cityjet believes that the CAR was correct in its reconciliation of Pier D related costs as set out in Table 9.2 of the Draft Determination.

Yours sincerely

Hugh Rodgers

Hugh Rodgers
GM Corporate Affairs