



Defining the Regulatory Till

Commission Paper 4/2010

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Commission for Aviation Regulation
3rd Floor, Alexandra House
Earlsfort Terrace
Dublin 2
Ireland
Tel: +353 1 6611700
Fax: +353 1 6611269
E-mail: info@aviationreg.ie

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1. Introduction

- 1.1 In making its recent Determination governing airport charges at Dublin airport, the Commission for Aviation Regulation committed to review whether there was merit in changing from the current use of single-till regulation.¹ This paper seeks to commence just such a review.
- 1.2 There has long been a debate concerning whether regulation of airport charges should be set with reference to a single-till framework or a dual-till framework. The former has regard to all costs and revenues at an airport, whereas the latter focuses solely on costs associated with providing the services for which the charges are regulated. For the benefit of any readers unfamiliar with this debate, section 2 of this paper summarises the distinction between a single and dual till.
- 1.3 During the recent Determination, there were occasions when questions were raised about whether the current single till regulatory regime at Dublin airport was appropriate. In responding to the draft Determination, Ryanair argued that airport charges were subsidising non-aeronautical services and suggested that the Commission should adopt a dual-till approach.² Prior to this, in meetings to discuss future investment plans at Dublin airport, the Commission became aware that in some instances the debate between the DAA and users centred on whether a given investment would generate sufficient commercial revenues to cover the costs. Where users were more pessimistic about the business case for an investment than the DAA, the existing single-till environment did not readily lend itself to a solution where the DAA could “back its judgement” by undertaking the investment and bearing all the risks (upside and downside) that the project would prove as profitable as the DAA expected. Instead, the Commission had to adjudicate and either allow the costs of the investment into the regulatory asset base (the RAB) and require users to bear the risks (upside and downside) that revenues would cover the costs, or not make an allowance for the investment.
- 1.4 This paper seeks to prompt a debate about whether and how the Commission might change from its current use of a single till when regulating airport charges. A policy change affecting how the regulatory till is defined could have significant implications for future Determinations. No decision has been taken on whether such a change should be made. At this stage, the Commission is keen to hear from parties about what issues need to be considered when thinking about altering the current regulatory till, and how such work might be conducted most constructively. The Commission is keen that at the time of the next Determination it will be in a position to alter the current regulatory till, should it conclude that such a change would better allow it to meet its statutory objectives. It also wants to consult throughout the process with stakeholders, allowing them sufficient time to understand and comment on how possible changes might be made to the regulatory approach with regard to the choice of a regulatory till.
- 1.5 Section 3 lists some of the arguments advanced in favour of the single or dual till approach to airport regulation. Parties are invited to identify other relevant arguments and suggest which are most relevant for Dublin airport (or identify further work that is required prior to reaching a conclusion). Section 4 describes the current costs and revenues included in the regulatory till used by the Commission to make a determination for Dublin airport, as well as at some other airports. Comments are invited on whether and how the regulatory till at Dublin airport might change, including possible guiding principles that might be used to define a revised regulatory till. Section 5 outlines the next steps and provides

¹ Page 22, Commission for Aviation Regulation (2009) “Determination on Maximum Levels of Airport Charges at Dublin Airport”, CP4/2009, www.aviationreg.ie.

² Section 3, Ryanair (2009) “Submission to the Commission for Aviation Regulation on Airport Charges Draft Decision Paper”, www.aviationreg.ie.

details on how parties might respond to this consultation paper. Annex 1 contains a brief summary of how the regulatory till has been defined at some airports in other jurisdictions.

2. Overview of Single and Dual Tills

- 2.6 This section provides a brief, stylized description of single- and dual-till regulation for any readers unfamiliar with these concepts.
- 2.7 The Commission has to date used a single till when regulating airport charges at Dublin airport, but there are examples of airport regulators favouring a dual-till approach (see the Annex for some examples). A survey in Europe for Airports Council International (ACI) found that 42% of airports adopted a single-till approach while 29% adopted a dual-till approach (the remaining airports were described as using a hybrid approach).³ The European Commission's recent directive on airport charges does not mandate either a single or dual till approach, allowing Member States and their regulators to choose.
- 2.8 The distinction between the two approaches arises because typically airports generate revenues from a range of sources, only some of which may be regulated. For example, the determinations that the Commission makes for Dublin airport only cover airport charges, defined as charges for runway landing and take-off, aircraft parking, the use of an air bridge, and passenger processing. Yet the DAA receives revenues from car parking, retailing, renting property, and a range of other activities, as well as from airport charges. It is the treatment of these additional revenues that distinguishes the single and dual-till approaches.

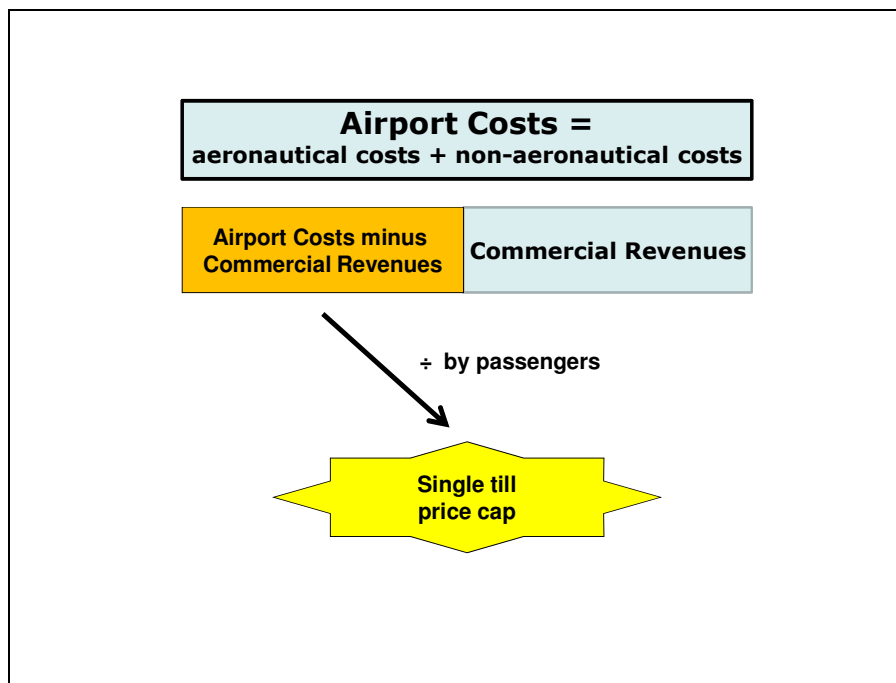


Figure 2.1: Deriving a Per Passenger Price Cap using the Single Till

- 2.9 A single regulatory till seeks to have regard to all costs and revenues at an airport. It includes the overall level of costs required to provide all services at the airport, not just those services for which charges are regulated. It also has regard to the revenues received from non-regulated services. The level of regulated charges will be set sufficient to recover all the airport costs after netting off revenues collected from non-regulated services. The revenues from non-regulated services are often referred to as “commercial revenues”.

³ Page 32, SH&E (2007) “Capital Needs and Regulatory Oversight Arrangements: a Survey of European Airports,” www.aci-europe.org.

2.10 As the name suggests, a dual-till approach involves two separate tills. The regulatory till will typically only include the costs associated with providing those services for which charges are regulated. All other costs (and revenues from unregulated activities) are assigned to another till. Consequently, the level of regulated charges is set to be sufficient to recover the costs associated with providing those services to which the charges relate. The revenues and costs of unregulated activities at the airport do not affect the regulated charge.

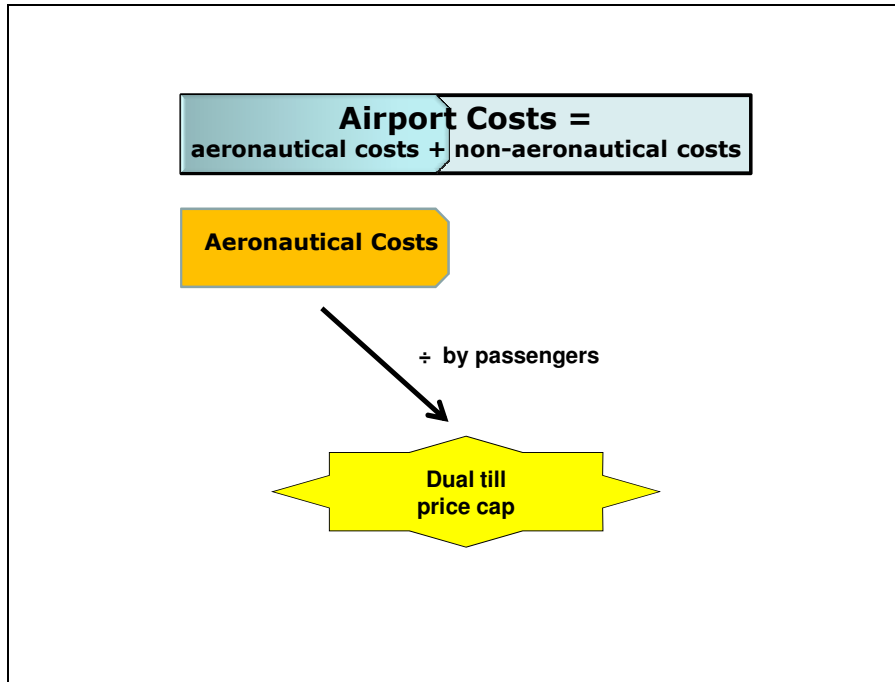


Figure 2.2: Deriving a Per Passenger Price Cap using the Dual Till

- 2.11 In the US, the approaches to setting airport charges are sometimes referred to as residual and compensatory. The residual approach corresponds to a single-till approach, requiring airlines to pay the costs of running the airport net of any commercial and other non-airline sources of revenue, i.e. the residual costs. In contrast, the compensatory approach requires airlines to pay the costs allocated to the facilities and services that the airlines use. This would be similar to a dual-till approach.
- 2.12 The different approaches yield different outcomes except in the special case where revenues from non-regulated activities exactly equal the cost of those services. The conventional wisdom has been that a single-till approach to regulating airport charges results in lower charges than a dual-till approach would. Traditionally airlines have advocated single-till regulation and airports dual-till regulation.

3. Merits of Single-Till and Dual-Till Regulation

3.13 This section seeks to summarise, without judgment, many of the arguments advanced by supporters of single-till and dual-till regulation. The relative strength of these competing arguments is something on which parties responding to this consultation paper may wish to comment, in particular their relevance for regulation of airport charges at Dublin airport. It might be possible that alternative regulatory responses, rather than the choice of regulatory till, could realise some of the advantages sometimes attributed to either the single or dual till.

Single till	Dual till
Airport charges may be lower	More efficient airports
Airlines benefit from bringing passengers to the airport	Airlines do not have to underwrite investments in non-aeronautical activities
Encourages more passengers and airlines to use the airport	Encourages competition in the airport's commercial activities
Greater utilisation of airports with spare capacity	More efficient use of slots at capacity constrained airports
Reduces incentives to undertake excessive commercial activities	Reduces incentives for "gold-plated" investments in commercial activities
Easy to administer	Easier to estimate cost of capital
Avoids certain forms of regulatory gaming that might arise with a dual till	Reduces scope of the airport's business that the regulator has to scrutinise
Reduces incentive to circumvent price cap by introducing new charges	More stable airport charges

Table 3.1: Arguments for the Single and Dual Tills

3.14 The table above summarises some of the main arguments advanced by proponents of the two approaches. Responses to this consultation paper might alert the Commission if there are other important arguments in favour of the single-till or dual-till regulation of airport charges.

Merits of Single-Till Regulation

3.15 *Airport charges may be lower.* The greater the commercial revenues earned by the airport authority, the lower the level of charges required to pay for the services corresponding to airport charges under a single-till arrangement. If the airport achieves high profitability on its commercial activities, then switching to a dual-till approach may lead to an increase in airport charges.

3.16 *Airlines benefit from bringing passengers to the airport.* Some of the commercial revenues earned by airports will be correlated to the number of passengers using that airport, for example revenues from retailing and car parking. Proponents of a single till sometimes argue that the airlines bring the passengers to the airport, so should enjoy a share of the revenues accruing at the airport from these passengers coming to the airport. A single till may facilitate such an arrangement, with commercial revenues "subsidising" airport charges.

3.17 *Encourages more passengers and airlines to use the airport.* If there are demand complementarities between aeronautical and commercial activities at an airport,

there may be an efficiency argument in favour of a single-till approach. The provider of commercial revenues at the airport may earn high locational rents from being based at the airport. Using these rents to keep airport charges lower may result in more use of aeronautical services at the airport, the primary purpose of the facility.

- 3.18 *Greater utilisation of airports with spare capacity.* For an uncongested airport, encouraging greater activity at the airport through lower airport charges may enhance overall welfare. A number of academic papers have suggested that single-till regulation is preferable for uncongested airports.⁴ Congestion levels and the ease of progressing through the essential processes such as check-in and security will influence the dwell time that passengers spend in the retail areas at an airport. Where additional passengers do not give rise to congestion, using commercial revenues to subsidise airport charges will allow more passengers to utilise the airport and make use of existing facilities.
- 3.19 *Reduced incentive for airports to undertake excessive commercial activities.* Since any profits generated from commercial activities are offset against the airport charges that the airport operator can levy, a single-till arrangement may reduce the incentive to use as much available space as possible for commercial activities. Under a single-till regulation, the regulator has regard to the overall level of profits the airport operator is able to generate. In contrast, in a dual-till setting the airport operator gets to retain any profits generated from commercial activities, so may have an incentive to devote more of the available space at the airport to commercial activities. For example, seating areas for passengers may be sacrificed in favour of more space for shops and restaurants.
- 3.20 *Easy to administer.* The single till does not require a cost allocation exercise, identifying which costs arise providing aeronautical services and which costs are incurred providing non-aeronautical services. This was a reason given by the Commission in 2001 when it decided not to adopt dual-till regulation: it would have required detailed cost-allocation information from the airport operator which was not available at that time. While there are activities at an airport where it is relatively straightforward to determine whether the activity is aeronautical or commercial, supporters of a single till argue that there are many costs common to both aeronautical and commercial services for which an allocation of the costs in a dual-till setting requires arbitrary judgments for which there is no sound economic basis. An example offered might be a walkway to a pier for which passengers pass through a number of retail outlets: should the costs associated with heating, lighting and cleaning that area be assigned to the aeronautical or commercial till, since the area needs to be heated, lit and cleaned for the purposes of passengers walking to their boarding gate and for the purposes of maintaining the retail space?
- 3.21 *Avoids certain forms of regulatory gaming that might arise with a dual till.* The arguments about whether to allocate costs to the regulated till or not, aside from potentially increasing the administrative burden associated with regulation, might also give rise to the scope for some forms of regulatory gaming. For its commercial activities, the airport will have an incentive to seek to pass off the costs as necessary to provide the regulated services. It may seek to have the costs of a new pier included in the regulatory till, but over time use more and more of the space in that pier for non-regulated activities for which it retains all the revenues. In pursuing new commercial ventures, the project may be designed in a manner to permit the airport to include as much of the costs as possible in

⁴ See Czerny, A (2006) "Price cap regulation of airports: single till versus dual till", *Journal of Regulatory Economics* 30, pages 85-97 or Lu, CC and RI Pagliarai (2004) "Evaluating the potential impact of alternative airport pricing approaches on social welfare", *Transportation Research E* 40, pages 1-17.

the regulatory till, e.g. designing a new shopping space that can simultaneously be presented as providing circulation space for passengers.

- 3.22 *Reduces incentive to circumvent price cap by introducing new charges.* It is possible for airports to introduce new charges at airports, only some of which may be subject to regulation. The boundary between a charge that is regulated and not regulated may at times seem arbitrary. An airline user may feel that it has to pay the fee whether or not it is formally included in the definition of a regulated airport charge. Under a dual till, if the airport identifies a charge it can levy on the airlines which is not subject to regulation it will constitute a revenue stream that contributes indefinitely to the profits of the airport. In contrast, under the single till the revenues from such charges will ultimately be considered when the regulator next sets a cap on the level of airport charges: the extra revenues from such a new charge on airlines will ultimately result in a lower cap on the regulated charges that airlines have to pay to the airport.

Merits of Dual-Till Regulation

- 3.23 *More efficient airports.* A dual-till regime removes any distortion to investment decisions that might arise when regulated airport charges depend in part on returns from non-aeronautical activities. The airport retains all the profits generated from investments in non-aeronautical activities. It has an incentive to be innovative and seek to identify new commercial opportunities, since it retains any profits that such investments generates. One academic study found that airports subject to dual-till regulation were more productive, in terms of output for a given level of operating expenditure and capital costs, than airports subject to single-till regulation.⁵ It is also argued that airports already have an incentive to take into account any relationship between airport charges and demand for unregulated activities at the airport. A single-till approach is not necessary to get the airport to internalise the effects of airport charges on demand for other services provided by the airport.⁶ To the extent that airport demand is inelastic, higher airport charges merely redistribute profits from the airlines to the airport rather than reducing the quantity demanded or overall welfare.
- 3.24 *Airlines do not have to underwrite investments in non-aeronautical activities.* Under a dual-till arrangement, the success or failure of a commercial venture undertaken by the airport operator does not affect the level of airport charges that airlines must pay.
- 3.25 *Encourages competition in the airport's commercial activities.* Under a single-till arrangement, the airlines benefit from lower airport charges if the airport is able to generate profits from its non-aeronautical services. The interests of users of these services conflicts with the interests of airlines keen to secure lower airport charges, since any competition in providing such services may result in lower commercial revenues for the airport operator and consequently higher airport charges. A dual-till regime would mean that competition in the provision of long-term car parking spaces, for example, would have no implications for the level of airport charges. The merits of competition in these non-aeronautical services could be promoted without worrying about how it might affect the airport charges airlines have to pay.
- 3.26 *More efficient use of slots at capacity-constrained airport.* Higher airport charges at slot-constrained airports may encourage airlines to make more efficient use of those slots. In deciding whether or not to use a slot, the airline will be subject to a

⁵ See Oum, T, A Zhang, and Y Zhang (2004) "Alternative forms of economic regulation and their efficiency implications for airports", *Journal of Transport Economics and Policy* 38, pages 217-246.

⁶ See Starkie, David (2008) *Aviation Markets: Studies in Competition and Regulatory Reform*, Aldershot: Ashgate Publishing Limited.

charge that reflects the costs of using that slot under dual-till regulation. In a single-till regime, the airline will not pay for all of the costs associated with that slot because the charges will be set having regard to profits generated by non-commercial activities. At congested airports, the single till has been criticised for preventing airports from setting prices for aeronautical services that reflect the high levels of demand. It has been suggested that at congested airports, higher airport charges do not need to lead to higher charges for passengers, since the airlines with access to the slots will already be charging passengers more because entry by competitors is limited by capacity constraints.

- 3.27 *Reduced incentive for airports to gold plate investments in commercial activities.* Since airport charges are set without regard to the costs and revenues associated with non-aeronautical activities, there is no prospect of airlines being asked to pay higher charges to fund a large investment in some activity that is not core to the airline's business. Under a single-till arrangement with a RAB, the airport may have an incentive to inflate the level of investment it undertakes in non-aeronautical activities not related to airport charges so as to increase the RAB. While the incentives to "gold plate" capital expenditure will exist under any RAB regime, regardless of the scope of the regulatory till, the potential to take advantage of this incentive may be greater in a single-till environment as it increases the pool of possible investments that the airport might undertake to increase the RAB.
- 3.28 *Easier to estimate cost of capital.* The regulatory till covers a smaller set of activities under the dual-till approach than fall to be considered under a single-till approach. This means that the regulator has fewer activities to consider when determining an appropriate cost of capital. This reduces the potential for errors in estimating the cost of capital, although there will still be difficulties estimating a cost of capital under a dual-till approach.
- 3.29 *Reduces scope of the airport's business that the regulator has to scrutinise.* Under a dual-till regime, the regulator does not need to form a view on the costs or likely revenues associated with activities not central to providing aeronautical services. This reduces the regulatory burden on the airport operator, who only has to provide information on a subset of its activities, and on the regulator who can focus resources on those activities for which charges are regulated. The rationale for regulating airport charges is to address those activities for which legal or other impediments have given rise to a monopoly; there is no such need for the regulator to regulate other activities at the airport.
- 3.30 *More stable airport charges.* Under a dual-till regime, changes in the level of airport charges will reflect only changes in the level of costs of providing those services at the airport: the change in the per unit charge will correspond to the change in the per unit cost. In contrast, a single-till approach means that even if costs at the airport remain constant, a change in revenues from unregulated activities will cause airport charges to change. Furthermore, if the single-till does result in lower airport charges because commercial revenues are "cross subsidising" the regulated activities, then there will be a gearing effect on airport charges associated with changes in costs of providing aeronautical services. A 10% change in per unit costs will result in a greater than 10% change in per unit airport charges under a single till (even though, in absolute terms, the increase in per unit costs and charges will be the same as under a dual-till regime, e.g. a €1 increase in both).

Consultation Questions

- 3.31 The preceding material has sought to summarise many of the arguments that have been advanced in favour of the differing approaches to defining a regulatory till for airport regulation. The debate about the general merits of these competing

approaches predates this consultation paper. Parties are welcome to identify important arguments that they believe that the Commission has omitted.

- 3.32 However, the Commission’s primary interest at this stage is identifying the relevance of the various arguments for regulation at Dublin airport, rather than act as a general forum for the merits of single and dual tills. Parties are encouraged to set out which arguments they think are most relevant for the case of regulation at Dublin airport, and why that is the case. Alternatively, parties may wish to identify further work that the Commission should undertake prior to reaching a conclusion on which approach is most appropriate for regulating airport charges in Dublin.

Are there other arguments in favour of the single or dual tills of which the Commission should be aware?

What specific work, if any, does the Commission need to undertake before it can conclude whether a single or dual till arrangement would be more appropriate at Dublin airport?

Should the Commission change from its current use of the single till?

4. Current Regulatory Till at Dublin Airport

4.33 This section provides more details on the current regulatory till at Dublin airport. The purpose is to invite comments from parties about whether and how the currently regulatory till at Dublin airport might change.

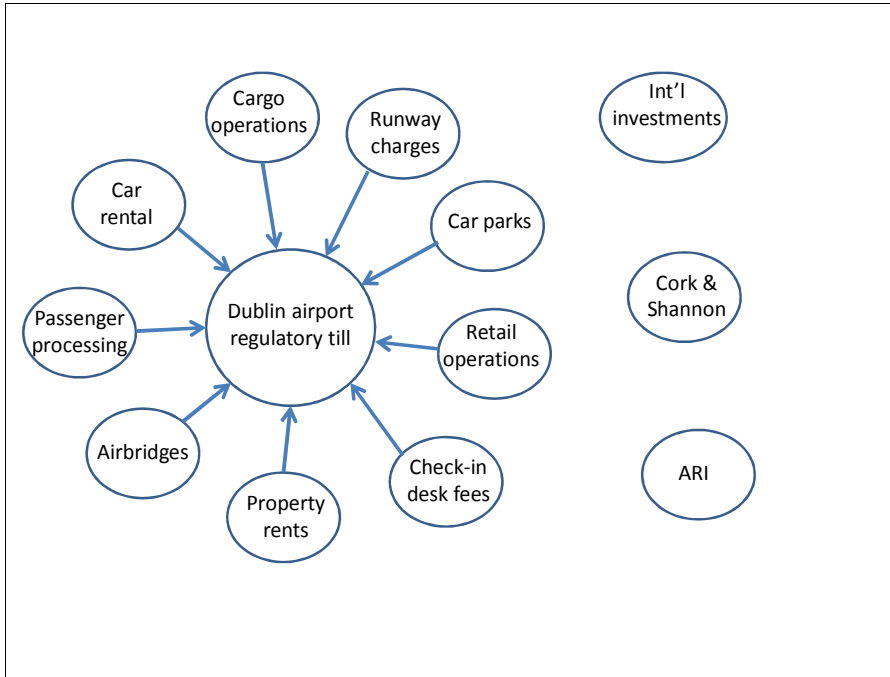


Chart 4.1: Income streams in the regulatory till at Dublin Airport

4.34 The Commission regulates airport charges at Dublin airport. These charges are for

- Taking off of an aircraft,
- Landing an aircraft,
- Parking an aircraft,
- Use of an air bridge,
- Processing arriving and departing passengers, and
- The transportation of cargo.

4.35 The DAA also collects revenues from a number of other sources that the Commission includes in the regulatory till. These so-called commercial revenues are collected from airlines, passengers and other parties using the airport. The categories of commercial revenues include:

- *Retail*, both from DAA-owned shops and from concessionaires, covering a variety of offering including liquor and tobacco, perfume and cosmetics, ground catering and bars.
- *Car parks*, short and long term, as well as taxi and coach parks and staff and executive parking facilities.

- *Property rents*, for providers of banking facilities, car hire, hotels, pay-phones, aviation fuels, buses and coaches, etc.
- *Ground handling*, covering executive and VIP lounges, cleaning revenue contracts, security charges and maintenance contracts among other things.
- *Property concessions, advertising, corporate and other.*

4.36 The split between the DAA’s revenues earned from airport charges and commercial revenues has evolved over time, as the following chart illustrates. Airport charges are expected to account for over 50% of the DAA’s revenues at Dublin airport in the current regulatory period. They accounted for less than 40% at the start of the century.

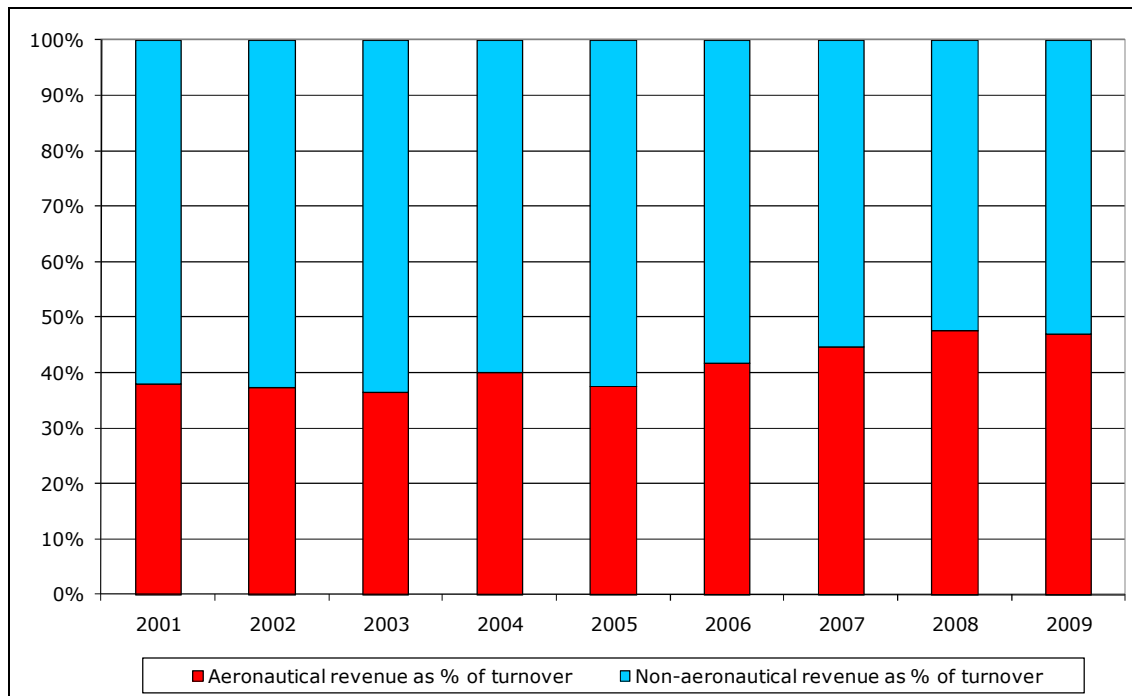


Chart 4.2: Share of Aeronautical Revenues at Dublin Airport

4.37 The regulatory till does not include all revenues collected by the DAA Group, notwithstanding the fact that the Commission classifies its approach as single-till regulation. The Commission has excluded the costs and revenues of activities that it considers not to have a sufficient nexus to the airport.⁷ This includes revenues and costs from

- Cork and Shannon airports,⁸
- Aer Rianta International,
- International investments, e.g. Birmingham and Hamburg airports, and

⁷ These activities have been considered by the Commission when satisfying itself that an airport charges determination would enable the DAA to operate the airport in a sustainable and financially viable manner.

⁸ Prior to the 2004 State Airports Act, airport charges at these airports were subject to price-cap regulation. The Commission included the corresponding categories of revenues and costs at these two airports as it now includes just for Dublin airport.

- Property related joint ventures.
- 4.38 The Commission has also indicated previously that revenues and costs associated with Dublin airport city will not be included in the regulatory till should the DAA proceed with this project.⁹
- 4.39 The fact that not all revenues collected by the DAA are included in calculations to generate the price cap at Dublin airport illustrates that in practice the distinction between single and dual-till regulation is not as stark as the most stylised descriptions suggest. Typically a single-till approach will disregard some costs and revenues of the regulated firm, i.e. not allocate all costs and revenues to the regulatory till. And dual-till approaches may still include some non-regulated revenues in the calculations used to estimate the appropriate level of regulated charges.
- 4.40 There are different approaches that can be used to define the contents of the regulatory till under a dual-till regime. These will vary in what costs (and possibly revenues) are included in the regulatory till, with consequent implications for the price cap. The following four bullets describe four possible guiding principles that might be used to determine what services to include in the regulatory till. These approaches need not necessarily be mutually exclusive. Nor is the list exhaustive. Moreover, even having adopted a guiding principle, there may be scope for further disagreement as the details associated with applying that principle are considered.
- *Legalistic approach.* This approach would seek to only include costs that the airport operator incurred providing services for which airport charges might apply. These services would be determined with reference to the relevant statutes, in the case of Ireland the Aviation Regulation Act 2001 as amended. The regulatory till would exclude the costs and revenues associated with all other services, such as those relating to ground handling activities at the airport, car parks, and retail operations.
 - *Engineering approach.* This approach would include in the regulatory till those airport activities identified as necessary for airlines to operate at the airport and which could not be replicated at another airport or outside the airport environment. This has been called a “bottleneck approach” by the Australian Consumer and Competition Commission (ACCC) and the UK’s Civil Aviation Authority. Over time, the definition of the regulatory till may change as the range of activities required by airlines at an airport evolves.
 - *Economic approach.* This approach seeks to identify those services for which the airport has market power. The thinking is that the focus of regulation should be on those services for which the airport enjoys a dominant position. Where the service is subject to competitive pressures, there is no need to include the costs of the service in the regulatory till. Since the airport’s market power in some areas may grow or wane over time, the regulatory till may need to be re-defined from time to time.
 - *Accounting approach.* This approach seeks to develop a set of agreed accounting rules to allocate the various cost centres between the regulated and unregulated tills. Shared-cost centres, such as head office costs, might be allocated according to an activity-based costing exercise or using a fully-distributed costing approach. Where it is difficult to identify how to split costs between the regulated and unregulated till, the services to which those costs relate might all be included in the regulated till.

⁹ See pages 146-7, Commission for Aviation Regulation (2009) “Determination on Maximum Levels of Airport Charges at Dublin Airport”, CP4/2009, www.aviationreg.ie.

Consultation Questions

- 4.41 The purpose of starting this consultation is to consider whether and how the current regulatory till might change. Parties are therefore encouraged to set out what costs and revenues should be included in the regulatory till when making future determinations. In providing such comments, parties might choose to identify specific cost and revenue items that should be included or excluded, or they may choose to identify a set of guiding principles that might be used to identify what to include in the regulatory till.
- 4.42 Thoughts are also welcome on how the Commission might manage a transition to a new regulatory till. For example, the current RAB includes a number of assets that might fall outside the regulatory till in a dual-till environment. If the Commission decided to adopt a dual till, parties are invited to comment on whether there would be merit in adjusting the existing RAB, or whether the transition to a dual till should only apply to prospective investments. Should the existing RAB be adjusted, parties might wish to identify how the exercise should be undertaken. Similarly, parties might outline how different approaches to managing any transition to a revised regulatory till might affect future forecasts of commercial revenues and operating costs.

Are there costs and revenues included in the current regulatory till at Dublin airport that should be excluded?

Are there costs and revenues excluded from the current regulatory till at Dublin airport that should be included?

Are there general guiding principles that the Commission might adopt in considering whether to include or exclude costs from the regulatory till?

How should any transition from the current regulatory till be managed? For example, should past investments included in the regulatory asset base be included in a review of what to include and exclude from the regulatory till?

5. Next Steps

- 5.43 This consultation paper commences a potentially lengthy period of engagement with interested stakeholders concerning a change in the definition of the regulatory till. In 2014, when the Commission next has to make a determination governing airport charges at Dublin airport, the Commission wants to be in a position where it could change the regulatory till should it conclude that was desirable. At the moment, the Commission has not formed a view as to the desirability or otherwise of making such a change; nor has it formed a view on how any such change might be made. Any decision the Commission makes about the use of a single or dual will be with reference to its three statutory objectives when making a determination, namely:
- To facilitate the efficient and economic development and operation of Dublin airport which meets the requirements of current and prospective users of Dublin airport
 - To protect the reasonable interests of current and prospective users of Dublin airport in relation to Dublin airport
 - To enable the Dublin Airport Authority to operate and develop Dublin airport in a sustainable and financially viable manner.¹⁰
- 5.44 The first stage in this consultation process is for parties to respond to this paper. Details on how to respond are provided below. Having received and considered responses to this consultation paper, the Commission will advise parties how it proposes to proceed with this exercise. It is possible that, following receipt of responses, the Commission concludes that there is no merit in undertaking further work to consider a possible change in the regulatory till. Should it reach such a conclusion, it is unlikely that the Commission will be in a position in 2014 to entertain proposals to change from a single to a dual-till arrangement: parties open to the possibility of switching to dual-till regulation should use this opportunity to engage on the topic rather than wait until 2014 to lobby for such a change.
- 5.45 Parties are encouraged not only to set out whether they think a change in the regulatory till is desirable, but also to outline how they think the work on this topic might best proceed over the next three years (assuming they think there is merit in considering changes to the regulatory till).
- 5.46 At the same time as publishing the consultation paper, the Commission has also published CP5 which invites interested stakeholders to consult on the form of regulatory accounts that the DAA and the IAA might produce in the future. Parties that believe the two projects should not run in parallel are invited to set out why they believe this is the case and how they think the two projects should be sequenced.
- 5.47 Other developments may have relevance for work the Commission undertakes on whether to use a single or dual-till approach to regulation in the future. For example, international agreements or European Commission directives could potentially have implications for decisions relating to the definition of the regulatory till. Parties aware of any such developments might helpfully refer the Commission to them in their responses.

¹⁰ Section 33(1) of the Aviation Regulation Act 2001 as substituted by Section 22(4) of the State Airports Act 2004.

Responding to this Consultation Paper

- 5.48 The Commission would like to hear the views of interested parties in relation to the issues discussed in this consultation papers. Responses should be marked “Response to regulatory till paper” and sent to

John Spicer
Commission for Aviation Regulation
3rd Floor, Alexandra House
Earlsfort Terrace
Dublin 2

Or by email to info@aviationreg.ie

- 5.49 The closing date for responses is Wednesday 23 February 2011.
- 5.50 Respondents should be aware that the Commission is subject to the provisions of the Freedom of Information legislation. It will place all submissions received on its website. Ordinarily, the Commission does not edit this material. As a result, the content of any submission is solely a matter for the submitting party. The Commission may not publish material identified as confidential, but may in consequence place less weight on such material as it would place on material subject to public scrutiny. If submissions do contain confidential material, it should be clearly marked as confidential and a version suitable for publication should be provided at the same time.
- 5.51 Any party submitting information to the Commission in response to a document inviting submissions acknowledges that the Commission intends to publish that information on the website of the Commission, in reports of the Commission and elsewhere as required or appropriate. Parties submitting such information to the Commission consent to such publication. Any party submitting information to the Commission shall have sole responsibility for the contents of such information and shall indemnify the Commission in relation to any loss or damage, of whatsoever nature and howsoever arising, suffered by the Commission as a result of publication or dissemination of such information either on its website, in its reports or elsewhere.

ANNEX 1: Regulatory Tills at Airports outside Ireland

Single Till	Dual Till
Belgium (Brussels)	Australia
France	Denmark (Copenhagen)
Germany	Germany (Hamburg)
Italy	Hungary (Budapest)
Lithuania	Malta
Poland	New Zealand
Spain	The Netherlands (Amsterdam)
UK (Heathrow, Gatwick, Stansted)	

Table A.1: Examples of Airports subject to Single and Dual Till Regulation

In the UK, the Civil Aviation Authority (CAA) uses a single till to set price caps at Heathrow, Gatwick and Stansted airports.¹¹ It includes revenues and costs from car parking and retail in its calculations, although it does not include World Duty Free (the retail subsidiary of the airport operator, BAA) or hotels in the regulatory till. The possibility of switching to a dual till was considered in the lead-up to the 2003 price-cap decisions, with a number of documents produced by the CAA and the UK Competition Commission considering the merits of such a switch.¹²

Other jurisdictions where there are airports subject to a single-till regulatory regime include Italy, Germany, Spain, Lithuania and Poland. In Germany some airports are subject to single-till regulation while others are subject to dual-till regulation (e.g. Hamburg).

In India, the regulator (AERA) published a consultation paper in February 2010 that suggested that a single-till approach might be the most appropriate form of regulation.¹³ The basis for this conclusion was that non-aeronautical revenue at an airport was a function of aeronautical activity. AERA also thought that this approach protected the interests of users and avoided the requirement for complicated cost allocations.

In France, for the regulatory period 2011-2015 the scope of the regulatory till at Aeroports de Paris (AdP) will be reduced.¹⁴ Previously a single-till regime was in place. From 2011, AdP will move to an adjusted regulatory till which will exclude from the regulatory till: real estate outside the terminal building not used for aircraft maintenance; premises and space for ground handling and fuelling operations; business and general aviation; retail activities, including shops, bars, restaurants, hotel services in the terminal, banking, foreign exchange, car rental and advertising; public car parks; and other activities with no relation to aerodrome activities.

A dual-till system of regulation applies at Amsterdam's Schipol airport in the Netherlands.¹⁵ About two-thirds of the total business activity operated by Schipol Group is subject to regulation. Regulated activities include take-off, landing and parking of aircraft, the handling of passengers and their baggage, and the

¹¹ Civil Aviation Authority (2008) *Economic Regulation of Heathrow and Gatwick Airports 2008-2013*, www.caa.gov.uk and Civil Aviation Authority (2009) *Economic regulation of Stansted Airport 2009-2014*, www.caa.gov.uk.

¹² See www.caa.co.uk/default.aspx?catid=5&pagetype=90&pageid=586 for links to many of these documents.

¹³ Airport Economic Regulatory Authority of India (2010) *Regulatory philosophy and approach in economic regulation of airports and air navigation services*, www.aera.gov.in.

¹⁴ Economic Regulation Agreement (ERA) between the State and Aeroports de Paris 2011-2015, www.aeroportsdeparis.fr.

¹⁵ The Dutch Competition Authority (NMa) decision of 20 April 2009, www.nmanet.nl/engels/home.

implementation of security measures for passengers and their baggage. In April 2009, the Dutch competition authority ruled that Schipol airport must lower its charges by €3.5 million as it wrongly included in its calculation for aviation charges the costs of constructing a noise barrier, recruiting and training baggage handlers, and an accountants report on earlier tariff negotiations. These costs were disallowed because they were judged not to relate to aviation activities.

In Australia, aeronautical charges increased on average by 130% at Sydney airport when it went from setting charges on a single-till to a dual-till basis.¹⁶ In October 2000 the new lease holders, Sydney Airport Corporation Limited, had suggested switching to a dual-till approach from the single-till approach that had applied across the network of government-owned Australian airports. The regulatory till for airport charges excludes aircraft refuelling, check-in desks, and car parking.

The New Zealand Commerce Commission applies dual-till regulation to airports. The regulated airport's accounts present information using an activity-based costing allocation.¹⁷ In 2008, unregulated revenues accounted for between 45% and 47% of total revenues at the regulated airports. Unregulated activities include revenue earned from retail concessions (duty free, specialty stores, foreign exchange, and food and beverage outlets), property rentals and car parking.

¹⁶ International Civil Aviation Authority (2008) *Case study: Australia*, www.icao.int/icao/en/atb/epm/CaseStudy_Australia.pdf

¹⁷ New Zealand Commerce Commission (2009) *Input Methodologies Discussion Paper*, www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Input-Methodologies-Discussion-Paper-19-June-2009.pdf