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09th March 2007

Mr. John Spicer
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**RE: Commission Paper CP1/2007**

Dear Mr. Spicer,

Please find attached the comments of Aer Lingus in relation to the above Commission Paper together with a separate memorandum on the CEPA paper "Developing CAPEX Incentives for DAA: Triggers".

Please acknowledge safe receipt by return.

Yours sincerely,

Laurence Gourley
Manager Legal Affairs and Company Secretary

# Aer Lingus Comments on CEPA Discussion Paper "Developing Capex Incentives For DAA: Triggers"

## A. INTRODUCTORY COMMENTS

Aer Lingus recognises the problem created by the large indivisible investments that need to be carried out at Dublin Airport. We consider that some concept of "Trigger" could be beneficial, where the DAA gets paid when and if it delivers the capacity needed by airport users.

However, insofar as it is possible to understand the proposals set out in CEPA's paper, which are somewhat unclear, we have grave misgivings about the recommendations made to CAR and would not support Triggers as described in this paper.

We consider that there are two important principles that need to be adhered to in any determination.

1. Airport users should only pay for that facilities provided by the airport operator. In particular, current airport users should not pay for facilities that will be offered to future users, but are not yet available. This is how competitive markets work. A car manufacturer builds a new plant for its new model; it recovers the cost of this plant from sales of that model, *not* from sales of its existing models.
2. The airport operator should be fairly remunerated for efficiently undertaken investment to provide users with the facilities they need. This means that CAR should operate the regulatory system in such a way as to ensure that the DAA has a reasonable expectation that, once investment is approved it will recover the agreed cost of that investment over a reasonable time period and retain the benefits of any efficiencies in delivering that investment (again for a reasonable time period).

The second principle, if properly applied by CAR means that the DAA's development of T2 does not place it in the equivalent position of the car manufacturer building a new plant. The latter bears the full risk that its new model may fail commercially. The DAA is not subject to that risk. Because of the regulatory system, if CAR approves the DAA's CIP, and the DAA deliver on that CIP, the DAA is largely protected from variations in overall traffic demand, because if demand is lower than expected, aeronautical charges will be increased at the next price review.

This regulatory protection for the DAA makes it perfectly clear that there is no justification for CAR to allow the DAA payments for significant investments like T2 and Pier E in advance of their completion. On the contrary, provided that the regulatory treatment of these assets is clear there is no reason to suppose that the DAA will have difficulty in financing these projects.

## B. SPECIFIC COMMENTS ON THE CEPA PAPER

CEPA's paper contains a number of important propositions. These are addressed in turn below.

### 1. Triggers are relevant once the DAA's investment plan has been reviewed and accepted by CAR.

Aer Lingus strongly supports this view. Triggers are not a substitute for CAR rigorously reviewing the DAA's CIP. For the price review process to have an efficient outcome on this occasion, and in the long term, it is essential that CAR carefully reviews the DAA's CIP and challenges the cost assumptions contained therein.

The use or otherwise of triggers does not change CAR's duties in this regard in any way. In the long term there needs to be a broad equality between aeronautical charges and efficiently incurred costs at Dublin. This is the primary purpose of CAR's review. Triggers only perform a role in ensuring that revenues and costs follow an equitable and efficient profile over time.

### 2. Triggers can be divided into input and output triggers; for many investments, e.g. terminal buildings, input triggers are more important.

Aer Lingus strongly disagrees with this conclusion. While recognising that there are difficulties in defining outputs there are equally risks in making payments conditional on inputs without regard to whether the DAA has delivered additional value to users. For this reason our view is that all triggers should be output-related.

CEPA favours input triggers for terminal buildings because it says outputs are invariably multi-faceted. It then lists a set of possible "input" conditions that could be used to allow some funding.

We note that the final condition, first day of operation, is really an output trigger. In general, Aer Lingus strongly opposes the idea that the DAA should be paid for facilities that are not yet operational. Hence we could not agree to input triggers based on milestones along the way to completion. If CAR is concerned to provide the DAA with strong incentives to complete large investment projects on time, then it should not allow the DAA to receive "stage payments" for events along the way to completion. This simply reduces the DAA's incentive to complete the project as a whole.

Furthermore, Aer Lingus does not agree that defining outputs is materially more difficult or could lead to more investment distortion than basing triggers on inputs.

As far as T2 is concerned, the DAA is committing to build a terminal building with a peak capacity of 4,200 passengers per hour meeting IATA Service Level C. We would submit that it is straightforward to base the trigger for

payment on the self-evident achievement of this objective. Likewise in the case of Pier E, output can easily be measured in terms of the DAA making the Pier operational with the agreed number of aircraft stands and air bridges. Defining triggers in terms of inputs provides no guarantee that the DAA delivers value on a timely basis. For instance, "first day of operation" is not a sufficient description, because it does not specify at what level of agreed capacity. Clearly this needs to be agreed, at which point the trigger is in effect the sort of output trigger that Aer Lingus would approve.

### 3. Triggers are particularly suitable for large capex projects that straddle two determination periods.

Aer Lingus agrees with the first proposition but considers that CEPA draws the wrong conclusion about projects that straddle regulatory periods. We consider triggers are important when the exact timing of an investment becoming operational is uncertain, doubly so when it is unclear whether this event will occur within the forthcoming regulatory period or may stray into the following one.

CEPA suggests that triggers are particularly suitable for large capex projects that straddle two determination periods. The implication of what is said is that the trigger would act to give the DAA some revenue *before* the next review, even though the asset, say T2, is not yet complete.

We do not accept the need for triggers to deal with this problem. Provided the amount that is allowed for T2 under the regulatory settlement, and the rules under which it is capitalised into the RAB, are clear there is no reason to believe triggers should be used to allow the DAA to collect advanced revenues.

We accept that there is an element of uncertainty in an investment programme that spreads past the next price review, because of the possibility that the amount that is allowed for the investment could be changed. However, it is obvious that it would be completely irresponsible of CAR to arbitrarily change the amounts allowed for the development of T2 in the middle of the construction process. To do so would be very bad regulation indeed and there is no suggestion that CAR would do anything of the sort.

Indeed there are strong incentives for CAR not to act in this way because it is essential for the regulatory system to have credibility with all interested parties, including the providers of finance to the DAA.

In our view the role of the trigger is important when the timing of completion of the asset is uncertain. If it is possible that completion may not occur until after the following price review there is the possibility that the regulator could assume that the asset will not need to be factored into prices until the *next* review. It is clear that to act in this way would create serious uncertainties for the DAA, which could act to deter investment. The use of Triggers means that CAR can review the costs and include the investment in prices contingent on

completion, but without needing to take a definite view as to exactly when the completion date will occur. Acting in this way gives the DAA the predictability of knowing how much it will receive when it has finished the job and the incentive to complete the investment as quickly as possible.

4. **Incentives should be adjustments to revenue or the RAB (up or down) that vary from actual (or projected) costs, to induce the DAA to complete projects in a timely way.**

We believe this concept of triggers is profoundly flawed. Price cap regulation requires there to be a long-term relationship between the price caps set by the regulator and long term efficient costs. It is in our view a sufficient incentive for the DAA to make the inclusion of investment in the RAB (and opex in allowable revenue) contingent on delivery for the DAA to want to complete projects on time.

CEPA's report contains discussion of various possible adjustments that could be made to allowable revenue or the RAB when the trigger event has occurred, that would induce the DAA to deliver the relevant projects in a timely fashion.

However, it seems to Aer Lingus that CEPA's discussion is in terms of permanent adjustments (up or down) to either allowable revenue or to the RAB that will reward or penalise the DAA for quick or tardy delivery.

Aer Lingus considers that CEPA's proposals are over complicated and imply that Triggers could result in a *permanent* divergence between prices and efficient costs. In our view there should never be a permanent divergence of this nature. If revenues exceed costs, because of excellent performance, the DAA will benefit from this for a period, but in the medium term this divergence should be corrected again by the regulatory process,. This is how competitive markets work.

Aer Lingus considers that there is no need to create artificial trigger values in terms of revenue or RAB adjustments to provide the appropriate incentives for the DAA to complete these projects in a timely way. The existing regulatory regime already contains strong incentives for the DAA to complete its plans in a cost efficient way. Whether investment is allowed directly into the RAB or subject to some form of trigger process does not alter this incentive.

Our proposal would therefore be as follows: CAR should determine for the project (e.g. T2) any capex allowance that should be included in the RAB and any opex allowance to be included in allowable revenue in the normal way. These values should be included in the DAA's charges calculation from the start of the year following T2 coming into operation. The DAA still has every incentive to complete T2 at the lowest possible cost, because it can keep the benefit of this efficiency for a period in the normal way under the existing regulatory rules. Cost overruns are similarly already penalised, as the DAA would not get these overruns included in prices. The only aspect of this that

requires a change to the existing arrangements is making the inclusion of opex and capex in prices contingent on the completion of the project.

Finally, to ensure that the DAA has appropriate incentives to finish T2 (and the other projects) as quickly as possible, CAR should consider carefully the discount rate applied to capex incurred before the trigger is achieved. We accept that interest on the capex incurred before the project is completed needs to be capitalised into the RAB; it is just a question of the appropriate rate to use. CAR needs to beware of allowing too high a rate (in particular a rate in excess of the DAA's true WACC). In this case the DAA would have an incentive to delay completion because the profit from delay would exceed the additional cost of funds.

We would propose that CAR apply a low cost of funds to this discounting (for instance the risk free rate). This would provide the DAA with an additional incentive to accelerate the completion of major projects. For example, if the DAA were late completing T2, the cost to the DAA of additional interest on the overrun would be valued at its WACC, but under our proposal, any additional capitalisation of interest already incurred would only happen at the risk free rate. Hence the DAA would suffer a financial penalty for delay.

## Response of Aer Lingus to the Public Consultation on Dublin Airport Charges Following the Capital Investment Programme 2006 (CP1/2007)

This note sets out the response of Aer Lingus response to Commission Paper CP1/2007.

The main features of our response are as follows:

- Aer Lingus supports the development of T2 and Pier E with a peak capacity of 4,200 per hour and achieving IATA Service Level C.
- As the service offered by T2 is not intended to be at a higher level than that provided by T1, there is no justification for differential pricing of T2 compared to T1. In particular the higher costs identified by CAR (over and above international benchmarks) cannot be attributed to a higher level of service from T2. Consequently, Aer Lingus will remain in T1 should differential pricing be imposed.
- There is no justification in peak pricing for terminal facilities during the course of the next price review period as it will be runway and not terminal capacity that determines peak throughput at Dublin Airport.
- Aer Lingus strongly supports the principle that airport users should only pay for facilities once they are operational. We believe trigger pricing, if carefully implemented, is consistent with this principle.
- Aer Lingus also supports the principle that the costs of major capacity enhancements should be recovered, as far as is practicable, via charges that are constant per passenger over time in real terms.
- The DAA has indicated during the consultation process that the CIP could be delivered if the price cap for the subsequent determination period was increased to €8.50 and Aer Lingus has indicated its acceptance of this figure. We have expressed our acceptance of this indicative pricing but require confirmation that this price cap includes all costs associated with the operation of T2 which is required to go to tender.

Our response to the specific questions raised by the Commission are as follows:

**Q1: Please comment on how the DAA's investment plan has evolved since the Determination in September 2005. Does it represent an improvement on earlier plans? Are the changes in costs justified?**

Since the Determination in September 2005 (CP3/2005), the DAA has engaged in a wide ranging consultation process regarding the design and

specification of its investment plans at Dublin Airport, in particular the planning of T2. Aer Lingus has fully participated in this process and believes that the specification of T2 as set out in the DAA's October 2006 CIP accurately reflects the discussions which took place during this process. We are also aware that there would be independent verification of costs by Government appointed consultants and we believe that this has taken place. Consequently, Aer Lingus supports the development of T2 in accordance with the October 2006 CIP which is consistent with the capacity needs and the likely future growth of traffic across all carriers operating at Dublin Airport.

We are concerned that opening up the discussion of the design and scale of the DAA's plans now would only serve to prevent capacity being developed to the necessary timetable. As we stated in our previous submission, Aer Lingus considers that it essential that more capacity is developed at Dublin to the existing timetable, with Pier D scheduled for completion this year and T2 in 2009. Failure to meet these deadlines would have a serious adverse impact on current airport users and the growth of Dublin airport.

However, while we support the specification as set out in the CIP, our support for the plan overall is dependent on the DAA's ability to deliver this plan at a fair cost and that T2 and other investment in airport capacity are funded through charges that are levied in an equitable manner across all airport users.

We comment further on these matters in response to later questions.

**Q2: What are the advantages and disadvantages of using trigger-pricing principles when setting price caps for airport charges at Dublin Airport?**

**Q3: For what projects in CIP2006, if any, should the CAR incorporate the principle of trigger pricing when making future determinations? To what key milestones and dates should the triggers relate?**

Aer Lingus considers that there are two important principles that CAR should adhere to in setting aeronautical charges at Dublin Airport. First, it is essential that the DAA has the appropriate incentive to provide the capacity that the airport users need. This means that the DAA must have the expectation of being able to recoup the reasonably incurred investment costs. Secondly, airport users should only pay for services that they are receiving.

Within these two constraints, we accept that the traditional regulatory approach to funding airport investment may not work adequately. Including in the RAB investment costs for assets that may not be completed on time, or within the next regulatory period, exposes airport users to the risk of paying for services that have not been delivered. The DAA may also not have the appropriate incentive to complete investment on time if they get paid anyway.

On the other hand, committing major elements of investment such as T2 to a future "logging up" process means that the DAA may not have sufficient clarity as to the returns it can generate on this investment (including the risk

that the investment may be disqualified in part by the regulator when the logging up is reviewed). As a result the DAA may not be incentivised to deliver the key capacity enhancements that are needed.

In our view the trigger mechanism described by CAR represents a good compromise. It can provide airport users with protection against being charged for new capacity before that capacity is available. Furthermore, it can provide the DAA with the incentive to complete projects to time, or even early, so as to commence the process of generating revenue from its investment at the earliest possible date.

Having said this, there are a number of caveats that should be placed on the trigger process:

- The amount of allowed expenditure (capex added to the RAB and costs added to opex) should be set by CAR in its Determination. In particular the quantum of cost allowed should not be based on the DAA's actual expenditure, as this would give the DAA an incentive to over-spend on the elements covered by the trigger[1]. Only the timing of trigger, not its value, should be within the DAA's control.
- The event that activates the trigger should be clearly related to outputs in terms of capacity delivered at Dublin. In particular the trigger should not be based on inputs, such as spending on given projects. In that case there would be no guarantee that the trigger would coincide with the delivery of services to airport users.
- CAR needs to consider carefully how the trigger would work in the event of a partial delivery of the outputs included in the Determination. Aer Lingus's view is that partial achievement should not be rewarded. If the DAA is committing to specific capacity outputs it should deliver these in full before the trigger is activated.
- The treatment for regulatory RAB purposes of investment undertaken before the assets become operational needs to be considered. While it is appropriate to capitalise interest on assets under construction before they enter the RAB, CAR should take care over the interest rate at which this capitalisation occurs. If the rate is too high, specifically in excess of the DAA's cost of financing for the project, the DAA would have an incentive to delay completion so as to maximise the capitalised asset value. A return towards the low end of reasonable values should be selected so as to incentivise the DAA to complete the capacity projects as quickly as possible. Moreover, some recognition should be made in the RAB that the full benefits of the increased terminal capacity within the CIP will not materialise until the construction of the second runway has taken place.

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1 We recognise is that if the DAA delivers the output at a lower cost than projected by CAR it should be able to retain the benefit of this efficiency for a period, but not indefinitely.

More detailed comments in relation to CEPA's report to CAR on the use of triggers are set out in the attached memorandum.

As regards which projects should be subject to the trigger process, it is necessary for there to be a clear linkage between capacity outputs and the project investment, which makes triggers only suitable for large discrete capacity enhancements. In the period of the next Determination this should encompass only Pier E and T2.

**Q4: Are there any reasons for allowing the DAA to start levying higher charges to allow it to fund CIP2006 in advance of the projects being completed?**

We do not accept that financability can be used as an excuse for the DAA to begin charging for elements of CIP2006 in advance of the projects being completed.

First, this behaviour would be contrary to the functioning of a competitive market and would not represent economically efficient pricing. Secondly, provided CAR has made adequate provision for the DAA's cost of capital we cannot see that there can be any justification in allowing the DAA to collect revenues in advance, as the long-term return on the investment is secured providing the DAA operates in an efficient manner.

**Q5: Should charges to recover the costs of CIP2006 be front or back loaded?**

Aer Lingus strongly supports the scenario put forward in the CP1 to recover costs on a constant unit cost basis.

Our view is that this is both fair and economically efficient. Given the lumpy nature of airport capacity it is inevitable that there will be excess capacity in terminal facilities when a new terminal is opened. As demand grows, this capacity will be used up. But this trend neither justifies an increase or a decrease in the price charged per passenger over time. In a competitive market the DAA would not be able to charge more per passenger in the early years to fund excess capacity, nor would it be able to charge more in later years to pay for past excess capacity. This leads to the inescapable conclusion that aeronautical charges should, as far as is practicable, be set to recover a constant amount in real terms per passenger over the life of the terminal building.

**Q6: What traffic forecast should be used when setting the price cap? Who should bear the risks if demand out-turns does not correspond to the initial traffic forecast?**

While it is inevitable that there will be uncertainty regarding future levels of demand at Dublin Airport, it is in our view CAR's responsibility to use a

demand forecast that represents the best consensus view of likely demand over the medium term. CAR must also ensure that the CIP allowed for in the Determination is entirely consistent with this demand forecast.

Provided CAR takes these precautions our view is that the risks of traffic levels not turning out as expected are shared between the airport and its users.

CAR seems confused on the matter of depreciation in that it seems to think that variances from forecasts may have a significant impact on the DAA's depreciation profile. We are not sure this is correct. A regulatory depreciation based on forecast passenger numbers will be fixed for the period of the Determination. The DAA may recover more or less revenue in total if the demand forecast proves wrong, but this is standard commercial practice and is true regardless of the method used for calculating the depreciation schedule. Looking forward to the following regulatory period, it is not clear that the depreciation schedule changes just because demand is higher or lower than anticipated previously. This is because the remaining asset value at the start of the period (which as we noted is independent of the initial level of demand) is then depreciated over its remaining life in proportion to the expected future traffic growth at that point. There is no intrinsic reason to expect that this will change the time profile over which depreciation is recovered.

However, the DAA is protected to some extent from unexpected downturns in volume because while its capital costs may be fixed, at the next review these will be recovered over a smaller projected charging base, leading to an increase in aeronautical charges. This passes a significant part of the risk in demand forecasts on to the airport users, making it doubly important to airport users that CAR performs the sanity checks on demand and the CIP outlined above.

**Q7: What actions, if any, should the CAR take to strengthen regulatory commitment and credibility with respect to the level of charges it will allow in future determinations for the funding of CIP2006? Should the length of the price cap be increased?**

Aer Lingus believes that a gap of five years between price caps is appropriate to strike a balance between providing the airport with sufficient incentives and certainty to pursue its investment plan, and protection for all parties (the airport and its users) against costs and allowed revenues moving significantly out of line.

We believe lengthening the price cap would place too much financial risk on both the DAA and the users of Dublin Airport because of the inherent difficulties in forecasting accurately over the long term.

Five years is a standard period for regulatory price reviews, and is applied around the world in many sectors which share characteristics of airports of having the need for long term investment. There is no evidence to suggest that

regulated firms under these conditions lack the incentives to invest or to improve their overall levels of efficiency.

The credibility of the regulatory system must ultimately derive from the CAR making sound and balanced decisions in the present, which sends a signal as to how it will behave in the future.

**Q8: Should Terminal 2 be built to satisfy a busy-hour capacity of 4,200 and provide a level of service equating to IATA level C?**

**Q9: Is €609 million a reasonable estimate of the cost to build the proposed new terminal and pier?**

**Q10: Is €3,500 per square metre a reasonable estimate of the costs of building a terminal that provides service standards equating to IATA level C? Is the metric of cost per square metre appropriate, or should some other metric be used, e.g. cost per passenger, cost per peak-hour passenger? Are the comparator airports cited relevant when thinking about the costs for T2? Is it appropriate to use benchmarks?**

Given the current situation and the need for additional capacity at Dublin Airport, Aer Lingus supports the development of T2 to the specification set out in the DAA's October 2006 CIP.

We are not in a position to comment in detail on the DAA's cost estimates or on the benchmark of €3,500 per square metre. Regulatory experience tends to show that it is wise to use a range of benchmarks for the assessment of cost and for the regulator to make an informed judgement based on this wider set of information.

However we are concerned that CAR establishes an efficient cost for the construction of T2 and does not allow the DAA excessive funds for the project, as this will simply lead to higher aeronautical charges which will damage the competitiveness of the users of Dublin Airport. CAR is right to note that the planned service level for T2 is the same as for T1 (i.e. IATA Level C). Thus CAR would be wrong to infer that any additional cost for T2 and Pier E over and above that implied by the benchmarks is as a result of T2 offering a higher level of service than T1. The discussions that Aer Lingus has had with the DAA indicate that T2 is being designed to meet, not to exceed, the stated service level. Moreover as a result of the construction of T2, growth will be able to take place at Dublin Airport (including at T1) whilst enabling T1 to retain its IATA Level C status thereby benefiting the users of T1.

In conculsion, therefore, if CAR finds that the costs of T2 exceed estimates based on reasonable benchmarks then these costs should be disallowed, not treated as costs of providing addition al quality of service.

**Q13: How much would users be willing to pay in airport charges for the improved quality experience that they expect T2 to provide?**

**Q14: What are the merits of using differential pricing when setting airport charges for T1 and T2 users at Dublin Airports?**

**Q15: What calculations should the CAR make if it decides to set a price cap that encourages the DAA to recover the costs of improved service qualities in T2 by means of differential pricing?**

Because of the answer we have given to questions 9 and 10, it is necessary for us to answer questions 13 to 15 out of order so that Aer Lingus's position is clear.

The first and most important point Aer Lingus wishes to make is that T2 is planned to provide the same standard of service as T1. For that reason alone there is no justification whatsoever for differential charging at T1 and T2. Furthermore, Aer Lingus does not welcome or need differential service standards between the two terminals; therefore we are not prepared to pay more for a higher level of service in T2.

Aer Lingus has participated fully in the consultation process that developed the current T2 proposal. It was a precondition of that process that there would be no differential pricing between current facilities and any proposed new terminal. The result of this Pascal and Watson process was (we believe) agreed by all the major carriers using Dublin Airport and it required Aer Lingus to move its operation in full into T2 and release capacity in T1 so as to improve the service for all users of the airport. However, Aer Lingus will have not option but to remain in T1 should differential pricing be imposed as to do otherwise would place it at a significant competitive disadvantage with regard to users of T1.

In our view there is no merit, as a matter of principle, in the Regulator attempting to set different regulated prices for differential levels of service within Dublin Airport. CAR should set the cap for a standard level of service offered to all airlines. It should then be a matter of commercial negotiation between airport users and the DAA to agree the terms for any additional services (e.g. INS services, lounge access) required by individual users. If CAR were attempt to regulate not only the basic price but also the differential price for different levels of service this would almost certainly lead to distorted incentives and behaviour. If CAR were to set the differential in price too low the result would be that the DAA would not offer alternative levels of service even if there was demand for users. On the other hand if the differential was set too high then, by nature of the fact that regulation seeks to cover total costs for the airport with total revenue, charges would in practice be too low for the basic service, leading to inefficient use of the airport and potential difficulties for the DAA.

In the above we have dismissed the notion that the DAA should be allowed to charge differential prices for T1 and T2 on the basis of service quality. However, we also reject the idea that different charges should be made for the use of T2 simply because T2 may be more expensive to build than T1. In this respect the relative cost of T1 and T2 is irrelevant. From the point of view of the users both terminals are configured to provide the same level of service. Consequently there is no reason to charge a higher price for use of T2. To do so would be inefficient and leave the users of T2 at a competitive disadvantage.

Charging the same price for use of either terminal is economically efficient because, as both terminals offer the same service, the cost of expansion (i.e. the cost of T2) represents the marginal cost of terminal capacity in *both* terminals. This is clear for the airline using T2, but also true for the airline using T1, as to do so displaces other use of T1 and requires more use of T2. The costs of T2 therefore define the marginal cost of capacity in both cases.

Finally in this regard, it should be noted that the DAA has indicated during the CIP consultation process that this programme could be delivered in full if the price cap allowed by the CAR for the next determination period was increased to €8.50. Aer Lingus has expressed its acceptance of this indicative pricing but requires confirmation that this cost would include the costs associated with the operation of T2 (which is required to go to tender).

**Q11: What are the merits of using peak-load pricing for airport charges at Dublin Airport to fund Terminal 2?**

**Q12: What calculations should the CAR make if it decides to set a price cap that encourages the DAA to recover the costs of expanding Dublin airport by means of peak-load pricing?**

As we have noted above, T2 is not specified to provide a different level of service to T1. Furthermore, the capacity in T2 represents the marginal terminal capacity at Dublin Airport regardless of which building an operator is actually using. For these two reasons there is no justification whatsoever for levying differential charges for T1 and T2. Hence in our view the issue of using peak load charges *in T2* to fund that terminal does not arise.

Notwithstanding the above, it could be argued that peak charges could be levied on the terminal element of aeronautical charges based on the combined peak use of T1 and T2 together. However, Aer Lingus considers that there is no economic justification for peak pricing of terminal facilities during the period of the next price review as Dublin Airport is slot constrained and peak capacity at the airport as a whole will be constrained by runway capacity until the new runway is completed around 2012. Thus no particular economic benefit can be derived for the airport, in terms of optimising throughput of passengers, by charging for terminal use according to peak demand.