DUBLIN AIRPORT CHARGES

Interim Review

Draft Decision (CP5/2007)

Summary of proposals

21 MAY 2007

Process and timeline

- **September 2005** – Determination on price cap on airport charges included €476 million for capital expenditure over the 2006 – 2009 period
- **October 2005** – Revised investment plan submitted by DAA, increase from €571 (May 2005) million to €1,178 million – whether and how to fund this investment?
- **December 2006** – Commence interim review of price cap
- **May 2007** – Draft Decision, subject to consultation
- **As soon as feasible** – Final Decision on Interim Review
- ... begin process for 2009 determination to set 2010 – 2014 price cap

DAA's Capital Investment Plan

(€2006 prices)	DAA's investment programme 2006 -2009	
	May 2005 (€ million, 2006)	**October 2006 (€ million, 2006)**
Terminal 2 related projects	€234	€607
Other projects	€337	€571
Total	**€571**	**€1,178**

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Commission objectives

- Key drivers:
  - Implementation by DAA of Aviation Action Plan
  - Delivery of cost effective capacity in timely manner
  - Meeting the reasonable interests of users
- Commission's proposals:
  - Provide incentives for DAA to carry out much needed infrastructure investments to boost capacity
  - Protect passengers against potential overpayment for airport services
  - Enable the DAA to recover allowed costs of its proposed investment plan – over the current price control and beyond

Financing T2 until it opens

- As the DAA's financial state has improved since 2005, the Commission has concluded that for the Interim Review, it is not necessary to increase the price cap in order to satisfy the Commission's statutory objective governing financeability.

- In particular, the income/debt (FFO:Debt ratio) projections for the period 2006-09 are robust & do not indicate a requirement for a change to airport charges up to 2009.

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Possible Approaches

- Inclusion of full revised DAA investment plan in the current Price Cap would give average airport charges of
  - Approximately €7.50 up to 2009, rising to around €9.50 for 2010 -2014
  - This compares with an average for the 2005 price cap of €6.68
- The Commission's proposals provide for a smoother change in prices
  - DAA can recover up to 95% of costs in the CIP, subject to demand evolving broadly in line with DAA's own projections
  - On this basis, estimates of average price-cap for 2010 – 2014 are around €7.75

**Note – all figures quoted in €2006 prices.*

Commission's role:

- Evaluate, given information, whether demand exists for a given investment
- Such that those airport customers wishing to use it are willing to pay for it on a long-term basis
- Not to dictate location, scale or design of Investment project. DAA, in full consultation with users, best placed to do so.

Commission Review of CIP2006

The Commission has reviewed in detail the costs for the major projects:

- Cost benchmarks used by the DAA for T2 (including Pier E)
- Non-construction costs relating to T2
- 27 projects in the investment plan where each expenditure exceeds €5m

Reports published with CP5/2007 in redacted form

In general, costs found to be reasonable; therefore the Commission proposes that €582m out of T2 costed at €607m be added to the RAB in due course, subject to demand evolving in line with DAA's projections

T2

- DAA proposes to build a large terminal with capacity that appears to be well in excess of foreseen demand
- The Commission proposes to
  - Require DAA to assume some of the risk that T2 is too large
  - But nonetheless to calculate future charges on the basis that all capacity will ultimately be required
- Final €152 million of T2 total capital expenditure (€582) will be added into the RAB if and when Dublin Airport pax exceed 30 million pa
- Current DAA forecasts for traffic growth indicate that it will either reach (or come very close to reaching) this figure towards the end of the next price control or shortly thereafter, *circa* 2015

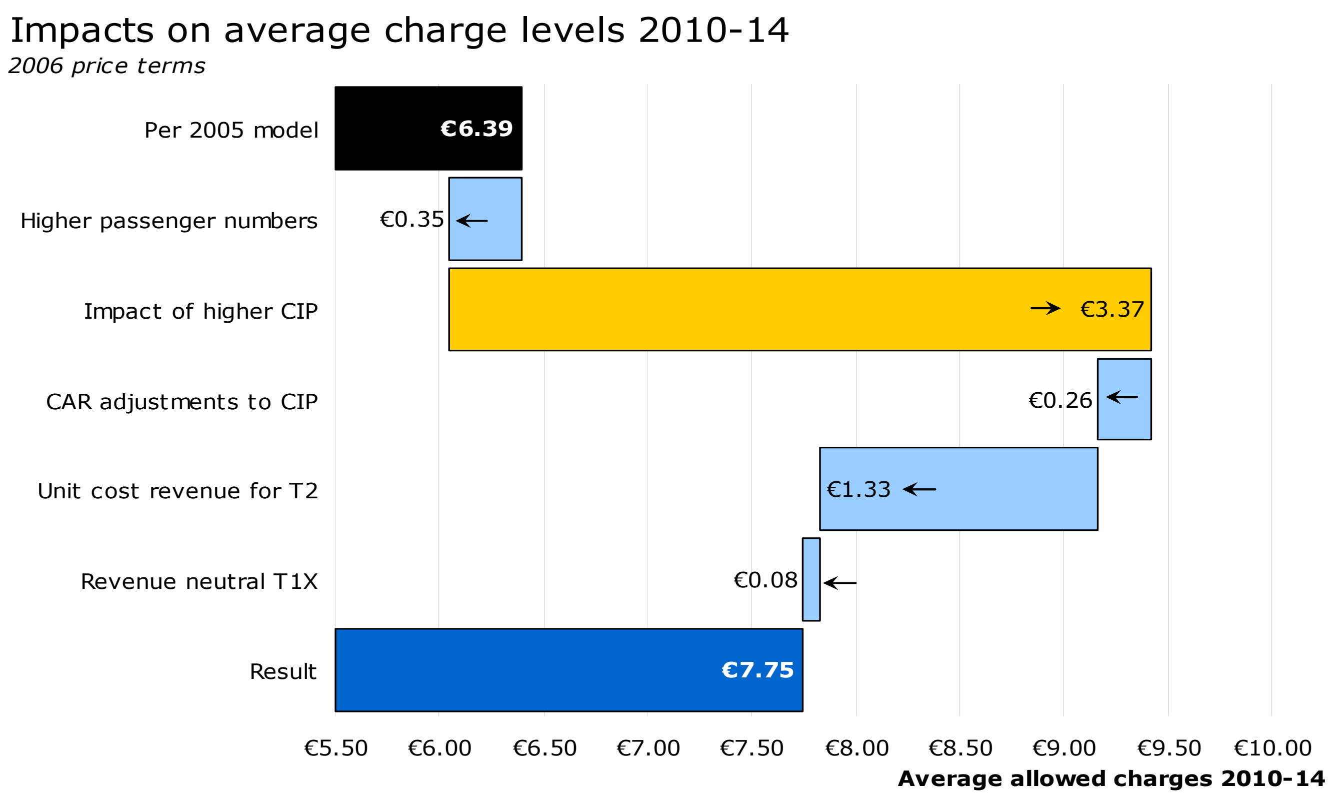
Policy after 2009

Important to provide indication to DAA and users as to how the costs of investments might be recovered in the years after 2009

In summary:

- T2: costs recovered in two parts once T2 operational (2009)
- T1X: charge-neutrality
- Pier D: treat as cost overrun without interim review

Possible Average Charges 2010 - 2014



- Impact on key financial indicators

High level statistics	
CPI (2006) = 115.7	*2010-14*
PV revenues	**€877.1m**
Average price in period	**€7.75**
Average FFO: debt	**17.6%**

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Policy after 2009

- The Commission proposes to enable the DAA to fund a new terminal
- The Commission proposes to use constant unit charge approach, so as to protect current users
- The Commission will also have regard to enable the DAA to operate the airport in a sustainable and financially viable manner
- Should the need arise, the Commission would consider alternative approaches to depreciating assets in the RAB

T2 capacity

- The Commission has doubts as to whether the costs associated with the proposed size of T2 – designed to cater for 4,200 pax per hour in the busy hour – should be recovered from *all* potential passengers in an airport-wide charge
  - Based on feedback received as part of the consultation
  - Based on detailed analysis of airline schedules and likely future demand
- Therefore, the Commission is reluctant, at this stage, to write into the RAB the full cost of the T2 investment on the scale proposed by the DAA in CIP2006

Proposed treatment of T2 costs

- Instead, the Commission proposes to divide the costs into 2 'boxes'

Box 1	From opening of T2 to year when the airport (T1&T2) is used by 30 mppa, €430 million of the cost of T2 will be incorporated into the RAB for recovery from airport customers through a uniform airport-wide charge on passengers
Box 2	The Commission proposes that the DAA assumes the demand risk for the remaining €152 million which will be included in RAB once annual passengers numbers reach 30 mppa million. At that point, the incremental investment costs could be recovered on an airport-wide basis