steer davies gleave

Dublin Airport Operating Expenditure Efficiency Study

Response to Stakeholder Comments
September 2014

Commission for Aviation Regulation

Our ref: 22648001
Client ref:

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Contents

Figures

1 Introduction

Scope of study

1.1 As part of the process for setting a price cap on revenues per passenger which daa can collect from airport charges at Dublin Airport, the Commission for Aviation Regulation (CAR) appointed Steer Davies Gleave (SDG) to undertake a 'bottom-up' efficiency assessment of daa's operating cost base. The scope of work included all operational costs throughout the airport, including staff wage and pension costs, but excluding any consideration of deficits in existing pension funds. We were requested to develop forecasts for the airport's costs which would be delivered by an efficient operator.

Approach

1.2 SDG held detailed discussions with daa about its existing and projected costs and was provided with data by the airport. SDG also held discussions with other major stakeholders at the airport, including Ryanair, Aer Lingus and the airport's Airline Operators Committee. SDG also undertook benchmarking exercises based on public and non-public information available to it.

1.3 Based on this information and analysis, SDG developed a base forecast of operating costs at the airport for the period to 2019, expressed in average 2013 prices. Savings were identified in certain cost areas, which were classified as higher or lower ambition, depending on the difficulty of obstacles to overcome in achieving the savings.

1.4 Our base forecast and the identified savings were set out in our Publishable Draft Report on "Dublin Airport Operating Expenditure Efficiency Study", dated 7 May 2014 and published by CAR alongside its draft determination.

1.5 Comments by stakeholders, including daa, airlines operating at the airport, representatives of business and labour, and international organisations, were received by CAR and, where relevant, passed on to SDG for comment. This report sets out our responses to those comments.

1.6 Where we consider that the comments received have identified reasons to make material changes to our base forecast or proposed savings, this has been acknowledged in the text. Where we have considered the comments but do not consider that our forecasts should be changed, we have provided reasons for retaining our original forecast.

This report

1.7 This report is our response to stakeholder comments. We have responded to comments which relate to SDG's analysis and proposals in our Published Draft Report. We have not responded to comments on CAR's interpretation and use of our report in developing its Draft Determination, which are a matter for CAR.

1.8 The following section of the report sets out our analysis of comments received from stakeholders.

1.9 We firstly consider comments from daa relating to the actual/projected costs for the years 2012-14. We received actual data for 2012 and 2013 from daa, with 2013 data forming the base of our projections. As discussed below, we have therefore accepted changes to the costs for these years (which often arise due to issues of allocation between Dublin and daa's other airport operations). daa's comments on the 2014 cost base have a different status, since these represent projections, and we have analysed the substance of the changes proposed in the light of the objective to develop a cost projection for an efficient operator.

1.10 Secondly we consider more general comments received from daa and other stakeholders (i.e. comments not relating specifically to individual cost areas). We discuss whether these comments related to areas within our scope and, in such cases, indicate the general approach taken in our analysis. More detailed treatment is provided as appropriate in the sections dealing with individual cost areas.

1.11 We then consider comments relating to the major cost areas. For each cost area where comments were received we set out:

- Our forecasts and proposed savings as per the Published Draft Report;
- Comments from stakeholders;
- Our response to those comments; and
- Proposed changes to the forecasts and savings, if any.

1.12 The cost areas reviewed were:

- daa staff (general);
- Security Staff;
- Cleaning & Facilities;
- Campus Services;
- Retail;
- Airside Operations;
- Maintenance;
- Information Technology;
- Central Functions Staff;
- Other Central Costs;
- Utilities;
- Other staff costs;
- Car Parks;
- Passengers with Reduced Mobility; and
- Rent and Rates.

1.13 In addition to this report, we have also updated the Published Draft Report to take account of changes to the base forecast and savings we propose in the light of the comments received. This separate document forms our Final Report, which follows the same structure as the Published Draft Report.

2 Dublin Airport Costs Analysis

Comments on 2012-2014 cost base

Steer Davies Gleave estimates

2012 actual operating costs at Dublin Airport

2.1 daa commented that the total costs for 2012 as presented by Steer Davies Gleave in the report do not reconcile with the data submitted by daa. The total discrepancy in 2012 amounted to -€0.6 million:

- €0.2 million of this difference is due to a comparison of the Steer Davies Gleave real terms value (€186.7 million) to nominal (€185.8 million)
- The remaining €0.4 million is due to our inclusion of the net of the "Allocations of Mat'ls & Services" cost line in our estimate of the cost base.

2013 actual operating costs at Dublin Airport

2.2 Steer Davies Gleave estimated Dublin Airport's 2013 actual operating costs and 2014 forecasts based on data and other information provided by daa.

2.3 daa provided, as requested, a breakdown of operating costs at Dublin Airport over the period 2005-2013 by category, business unit, item and allocation (i.e. Dublin Airport only or a Shared cost). Following the receipt of this data in January 2014 and in order to produce an accurate estimate of the total operating costs for Dublin Airport, Steer Davies Gleave requested detailed breakdowns of the shared cost allocations between Dublin and the two other airports operated or previously operated by daa (Shannon and Cork). This was provided for the years 2010-2012 inclusive, for reasons of practicality (for the years prior to 2010) and availability (for years after 2012).

2.4 For 2013, in the absence of actual shared cost data, we estimated the proportion of daa shared operating costs allocated to Dublin Airport by applying, for each category, the 2012 proportional allocation to the 2013 shared costs. We understand that the discrepancy between our estimate for 2013 actual operating costs at Dublin Airport (€189.5 million) and daa's stated value (€192.2 million) is due to our estimate of the proportion of shared costs allocated to Dublin Airport. Following dialogue with CAR and daa, it has been established that the correct figure for 2013 is €191.6 million.

2014 operating costs at Dublin Airport

2.5 Operating cost data or estimates for the year 2014 were not available when Steer Davies Gleave undertook the "Dublin Airport Operating Expenditure Efficiency Study", as the main study period was in early 2014.

2.6 In its response to the Airport Charges Draft Decision Paper, daa provides in Exhibit 3.4 an operating cost bridge from 2013 to 2014. Steer Davies Gleave's estimate for 2014 outturn operating costs were approximately €11 million lower than daa's latest estimates (as well as the -€2.7 million discrepancy in 2013 noted in paragraphs 2.2 - 2.4 above).

Other stakeholders' responses on this matter

2.7 Dublin Airport Trade Unions also note the 2012, 2013 and 2014 cost base differences and refer to the daa Response to Airport Charges Decision Paper.

Steer Davies Gleave analysis

2.8 Steer Davies Gleave has taken the following actions regarding these differences:

- 2012: removal of the "Allocations of Materials & Services" cost line from the cost base completely. We have not taken any action relating to the -€0.2 million discrepancy pointed out by daa as this is due to a comparison of amounts in different price terms (real to nominal comparison).
- 2013: adjust the Dublin Airport cost area totals to reflect the information provided by daa (as corrected in dialogue with daa and CAR). We note that without detailed data this will be a top down application by cost area and some differences may remain; however these are expected to be minimal (less than €50,000).
- 2014: under the Terms of Reference for this study, the Steer Davies Gleave approach has been to start with 2013 operating cost at Dublin Airport and then proceed with our forecast for 2014-2019 assuming no change to the quality of service. We therefore have made no changes to the 2014 cost base, with the exception of the following:
  - Security staff uplift of 50 staff to allow for full additional 100 staff to required in response to security failings identified in the EU Article 15 audit in March 2012 (see paragraph 2.62).

Suggested changes to proposed savings in Draft Report

2.9 The changes to the base level of costs in 2012, 2013 and 2014 do not impact the level of savings identified by SDG (i.e. the difference between the high/low-ambition savings and the base case forecast), although they do affect the absolute level of forecasts.

General comments from stakeholders

2.10 This section includes our response to a number of general comments made by daa and other stakeholders on our Operating Expenditure Efficiency Study. The areas covered include:

- Capex and the reflection of allowances or disallowances for capex in the opex;
- Elasticities;
- Overall efficiency savings 2008-2019;
- Use of regression analysis;
- Price base and passenger forecast used by Steer Davies Gleave;
- Quality of service levels;
- Consultation;
- Pensions; and
- The 'over-forecast' in the previous determination and treatment of this for the next determination.

Allowances for capex in the operating expenditure for the next regulatory period

2.11 Any allowances for operating costs arising from capital expenditure are outside the scope of this study, and are a matter for CAR.

2.12 On page 70 of its Response to Airport Charges Draft Decision Paper, daa notes that it has proposed an alternative treatment to operating costs relating to the development of its assets, namely that they would be “recorded as operating costs and remunerated as opex through the price-cap formula”.

2.13 In SDG’s analysis of operating costs, capitalised opex has been included only insofar as it was present in the 2013 accounts, at €1.46 million. This then grows to reach €1.61 million by 2019 (in 2013 prices), a real CAGR of 1.6% p.a., driven largely by assumed real salary increase. No additional elements of capitalised opex have been included in our forecasts, such inclusion being a matter for CAR to determine.

Elasticities

2.14 daa has stated that it considers the elasticity assumed by SDG for security (0.3) to be too low and that it was wrong of SDG not to include any passenger elasticity for cleaning and facilities.

2.15 In fact, SDG’s elasticity for security applies to the totality of security staff, of whom approximately half are deployed on “fixed posts”, whether within the terminal or airside, rather than at Central Search locations (in T1, T2 and the Transfer facility). Given that staffing for fixed posts is independent of passenger traffic, the implication is that that the implied elasticity of Central Search staff is 0.6, similar to that assumed by Booz in its report for daa.

2.16 We consider that cleaning and facilities costs are largely driven by the size and nature of the terminal facility, rather than by throughput. Although higher passenger usage does theoretically increase the workload, given that the current facilities, with the addition of T2, are not close to their potential throughput, we do not consider this effect is material over the assumed five year period of the regulatory settlement.

2.17 Given this relatively low level of passenger utilisation of the terminal facilities compared with their capacity, and the fact that other key cost areas such as maintenance, are also largely driven by the nature of the facility rather than by passenger throughput, we consider it reasonable that overall levels of elasticity to passenger growth are relatively low.

Overall efficiency savings 2008-2019

2.18 Aer Lingus commented that the level of savings proposed by CAR would bring costs per passenger to a similar level in 2019, in real terms, as they had been in 2008. The airline noted that this implied no improvement in efficiency over a period of 11 years, whereas it considered that an improvement of 1% p.a. was reasonable, leading to a 12% unit cost improvement overall.

2.19 Ibec, the Irish employers’ association, was concerned that any improvement in cost efficiencies did not come at the expense of any deterioration of the passenger experience at the airport, particularly in relation to security queues. The association was also concerned that the potential for industrial action was minimised.

2.20 Lufthansa/Swiss commented that their preference was for cost reductions to be focused on operational expenditure rather than restrictions on capital investment.

2.21 Given that SDG's proposed savings were based on a bottom-up appraisal assuming no change to service levels, and also taking account of the fact that as a two-terminal operation Dublin Airport in 2019 may be expected to have higher underlying costs than the single-terminal operation in 2008, we do not consider that these comments require any changes to our projection.

Regression analysis

2.22 Dublin Airport Trade Unions commented that they considered regression analysis as a means to establishing future costs was inappropriate given the extraordinary economic conditions of the last five years.

2.23 As SDG has used a bottom-up approach, rather than regression analysis, we consider this is a matter for CAR to respond to.

Price base and passenger forecast used by Steer Davies Gleave

2.24 In its joint response to CAR's draft determination, Forfás/Enterprise Ireland/IDA Ireland requests an explanation for the differing assumptions on traffic forecast and cost base between Steer Davies Gleave's report and CAR's determination.

2.25 When embarking on this study in January 2014, Steer Davies Gleave agreed with CAR that we would use daa's traffic forecast as the basis for our report (as at the time of the study CAR's forecast was not yet available), and that we would use 2013 as our price base.

2.26 The potential for CAR's subsequent adoption of their own traffic forecast was anticipated and we provided our model to them so that the adjustment could be made directly. CAR's reasoning for applying their own traffic forecast is provided in section 3 of the Draft Determination. CAR selected a price base of December 2013.

Quality of Service Levels

2.27 In its joint response to CAR's draft determination, Forfás/Enterprise Ireland/IDA Ireland recommends that "target levels for 2015-2019 should not be lower than the recent performance outturn to ensure that current service levels at Dublin airport are maintained and customer interests are protected".

2.28 IALPA, in its response, also implies that new quality of service metrics might be considered (arrival queues, stand allocation, transfer passenger screening).

2.29 ACI Europe also comments on CAR's increase to the minimum level of passenger satisfaction scores and that there is "no suggestion that potential operating cost implications have been considered" and that "existing levels of service will have to be maintained".

2.30 Ryanair, in its response, stated that CAR was correct not "to award bonuses to the DAA monopoly for meeting certain service standards". Ryanair welcomed the new definition of the security queue length and 30 minute target.

2.31 As noted on page 11 of SDG's report, no changes in the Quality of Service (QoS) levels achieved in 2013 were assumed in the development of our operating cost forecast. Any proposed adjustment to QoS metrics are a matter for CAR.

Consultation

2.32 In its response to the draft determination, IALPA ask whether Steer Davies Gleave consulted IAA on the operational efficiency of the airfield.

2.33 In agreement with CAR at the launch of the operating expenditure study, Steer Davies Gleave consulted with the following organisations during the course of the study:

- daa;
- Aer Lingus;
- Ryanair; and
- Dublin Airport Airline Operators' Committee.

2.34 During the course of the stakeholder meetings, none of the airlines consulted raised airfield operational efficiency as a particular concern.

Pensions

2.35 As noted on page 11 of the Operating Expenditure Efficiency Study, pension costs at Dublin Airport were treated as a part of overall staff unit costs, in line with data provided by daa. No provision has been made for funding of pension deficits, as this was outside the scope of the study.

Rolling Schemes for over-forecast in previous determination

2.36 In its response to the Draft Determination, Aer Lingus reflects its concerns on the over-forecast of operating expenditure for the 2009-2014 period, and its treatment in the next regulatory period.

2.37 The treatment of this over-forecast and its roll over to the next regulatory period is outside the scope of the Steer Davies Gleave study.

daa staff (general)

Steer Davies Gleave proposed savings

2.38 SDG identified very significant differences in unit costs of "legacy" staff and those working on new contracts in Terminal 2 (and, in some cases, in Terminal 1). Salaries for staff on new contracts for four staff groups (retail, cleaning and facilities, car parking and security) ranged from 39% to 48% below corresponding legacy salaries; in the case of maintenance staff, the difference was less, at 13%.

2.39 SDG proposed that, subject to legal and social constraints on daa's behaviour, as well as on the correct legal interpretation of Irish TUPE regulations, some of these legacy functions could be outsourced, thereby achieving significant cost reductions through competitive tendering. We identified two significant risks to this approach, namely IR disputes and the application of TUPE regulations, which might remove any financial benefits from outsourcing.

2.40 We considered that, while IR disputes were likely, they did not constitute an insuperable barrier. The interpretation of TUPE regulations is complex and needs to be considered by legal experts; however, on the basis of publicly available information on the practice of the regulations in Ireland, we considered it reasonable that the application of the regulation could be avoided where new staff were brought in by the contractor. For this reason, we considered that outsourcing was a practical solution for the first four staff groups mentioned above, but not for maintenance staff.

2.41 Successful outsourcing was assumed to achieve savings of 40% for retail staff and 30% for the other staff groups.

daa response to proposed savings

2.42 daa made a number of comments in response to our proposed approach to general staff costs, and in particular to the proposed outsourcing of certain staff groups.

2.43 Firstly, daa commissioned their legal advisers Arthur Cox to provide advice on the potential application of TUPE regulations to the outsourcing of functions proposed by SDG. [✂]

2.44 Secondly, daa stated that, even if outsourcing were possible, the savings identified by SDG would not materialise, for the following reasons:

- Staff on new contracts do not currently have access to a company pension scheme;
- "Catch-up" salary increases for staff on new contracts assumed by SDG have not been taken into account in SDG's costings of outsourcing;
- Additional costs would be incurred for the outsourced staff, including a 6-7% profit margin and overheads of 10%, "suggesting a minimum 15% cost increase over internal staff rates";
- There is a "vast mix of roles, grades and experience" between the costs of staff in the four categories proposed to be outsourced, with the majority of these undertaken by staff on "legacy" contracts; and
- daa questioned the relevance of the salary benchmarks provided by SDG, stating the roles were not comparable.

2.45 Based on this, daa indicated as an example that outsourcing of the entire Security Serach service would result in costs increasing from €21.5 million to €22.7 million, hence not providing any savings.

2.46 daa also stated that, even if outsourcing was possible without triggering TUPE regulations and did result in savings, "SDG have ignored that staff that would be replaced would remain within the business". daa assumes that, of the proposed 577 staff to be outsourced, 50% would accept voluntary severance immediately, with the remaining 50% being "gradually absorbed into the business requirement (i.e. through natural churn rates)". It indicated that the NPV of this cost would be -€43 million (allowing for €8 million p.a. savings from our proposals).

Other stakeholders' responses to proposed savings

Ryanair

2.47 Ryanair made a number of comments on general staff cost assumptions:

- It considered that SDG's assumption that salaries for higher skilled workers would grow at CPI + 1.6% p.a. "is very high and fails to reflect the fact that the DAA monopoly's salaries are substantially above the Irish national average";
- It was wrong of CAR, and contrary to its statutory duty to facilitate the efficient operation of the airport, to set a target halfway between SDG's lower and higher ambition savings, rather than much closer to the higher ambition savings; and
- It was wrong of CAR to set terms of reference for SDG which excluded staff pension costs.

Aer Lingus

2.48 Aer Lingus was concerned that, while it considered thorough analysis had been undertaken, it was concerned that:

- An insufficient challenge was being set for daa in terms of achieving better passenger throughput per staff member;

- CAR's selection of a mid-point between SDG's lower-ambition and higher ambition savings meant that achieving savings of the costs of legacy staff had "been put in the too-hard category"; and
- Allowance was being made for real cost increases for staff costs, whereas Aer Lingus considered that usual regulatory practice was to assume efficiency savings to absorb such increases.

Other

2.49 In relation to the proposed outsourcing, ACI Europe commented that, while operating efficiencies were an important objective, "this must always be done within the confines of applicable legislation" and it would be irresponsible for any commercial enterprise "to plan efficiencies on the basis of a credible risk that labour laws will not be respected".

2.50 The Dublin Airport Trade Unions commented that:

- The outsourcing of nearly 600 jobs would not be acceptable to Dublin Airport staff and that an attempt to implement this would lead to industrial unrest;
- Wrong assumptions had been made in reaching the operating cost determination, including the continuation of payroll reductions agreed during the recession, exclusion of current payment claims, exclusion of additional pension costs for new staff and IASS pension settlement costs.

Steer Davies Gleave analysis

2.51 SDG's analysis of staff costs identified clear discrepancies between the costs of legacy staff and those on new contracts. This indicates that legacy staff costs are very far from being on the efficient frontier. The proposal that certain activities be outsourced was made on the basis that this appeared to represent an achievable route to the significant cost reductions required to reach market rates for the activities carried out by many groups of staff.

2.52 SDG recognises that it is for daa to determine how best to reach an efficient level of cost and that this may or may not involve outsourcing. Regardless of whether an outsourcing approach is adopted, SDG considers that in order to fulfil its brief to develop a "forecast of the efficient future operating expenditures of the DAA", it was necessary to highlight where costs were not efficient and to propose future levels of costs which could be delivered by an efficient provider. The comments on the achievability and impact of outsourcing below should be understood in that context.

2.53 [✂]

2.54 In relation to the savings we assume would be achieved through outsourcing, in particular in response to daa's comments, we note that:

- SDG's analysis of staff costs took account of all costs in the 2013 cost base (including pensions where applicable), so to the extent that costs were considered reasonable no allowance needed to be made for additional pension costs – in any case it does not seem likely that outsourced staff would receive pensions, so it does not seem appropriate to take account of any increase due to a change to the pensions of new-style contract staff;
- Catch-up salary increases for new-style contract staff were included in our cost estimates for outsourced staff (in contrast to daa's assertion to the contrary);
- The cost savings proposed for outsourcing (40% for retail staff and 30% for the other groups) are significantly lower than the amount by which costs for staff on new contracts

are below those on legacy contracts (ranging from 39 to 48%), allowing headroom for the 15% uplift on salaries due to overheads and supplier profit margin suggested by daa;

- The mix of grades among the legacy staff was understood by SDG in making our proposals, and in particular, supervisory staff were excluded from the suggested outsourcing;
- The salary comparisons underpinning our analysis was based not only on the published table (on page 24 of our Publishable Draft Report) but also on salary data provided to us in confidence by others operating in comparable roles at the airport.

2.55 Given this, we consider that our modelling of staff savings due to outsourcing is appropriate.

2.56 In relation to daa's comment that outsourcing would not in any case lead to savings because the staff replaced by the outsourced supplier would remain on daa's books, we consider that if daa were to take such an approach of retaining these staff (or paying expensive voluntary severance), this would not constitute the approach of an efficient operator. While recognising that redundancies are highly undesirable for the staff affected, and that daa has historically not imposed compulsory redundancies, we consider that any costs beyond those relating to statutory redundancy could not be reasonably be considered efficient operator costs.

2.57 We have not included transition costs in our analysis. However, as an estimate of the relevant costs, statutory redundancy pay in Ireland is set at a rate of two weeks per year of service, plus one week, up to a maximum rate of €600 per week[1]. Based on information provided by daa on staff ages, we estimate that the average length of service of daa staff is 22 years. Assuming that 551 staff were outsourced[2], and that all were paid at least the maximum weekly rate, this implies a total statutory redundancy cost of €14.9 million.

2.58 In relation to the comments by parties other than daa, Ryanair's and Aer Lingus' comments are largely focused at CAR's use of our results, apart from comments encouraging greater savings. ACI Europe's comments that all actions should be within applicable labour law is of course correct and underpins our statement in relation to legal advice. The opposition of the airport's trade unions is understandable and was anticipated in our original analysis. In relation to the trade unions' comments on assumptions being incorrect, we do not think the recovery of previous pay cuts would be justified in the light of the analysis of the economic efficiency of existing levels of legacy staff pay, while pension deficit costs are outside SDG's scope of work.

Suggested changes to proposed savings in Draft Report

2.59 Based on the above analysis, we do not propose to make any changes to the savings set out in our Draft Report.

Security Staff

Steer Davies Gleave proposed savings

2.60 SDG proposed a combination of efficiency savings in both Central Search and fixed security posts, as well as the outsourcing of the activities of 90% of security staff on "legacy" contracts. In our "higher ambition" savings we assume that the roles of 256 staff would be outsourced, while the efficiency of central search staff on legacy contracts is increased by 15% while that of fixed posts is improved by 10%. Our "lower ambition savings assume no outsourcing and

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[1] http://www.citizensinformation.ie/en/employment/unemployment_and_redundancy/redundancy/redundancy_payments.html

[2] Reduced from 577 due to changed assumptions on Airside Operations, as described below

efficiency improvements of 10% in central search and 5% in fixed posts. An elasticity to passenger numbers of 0.3 is assumed across all security staff groups. The resulting forecasts and savings are shown in the charts below.

Figure 2.1: Security Staff numbers (higher ambition)

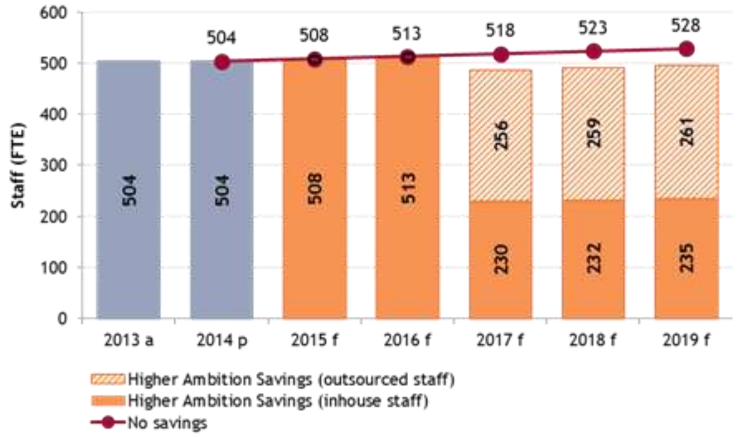


Figure 2.2: Security Staff numbers (lower ambition)

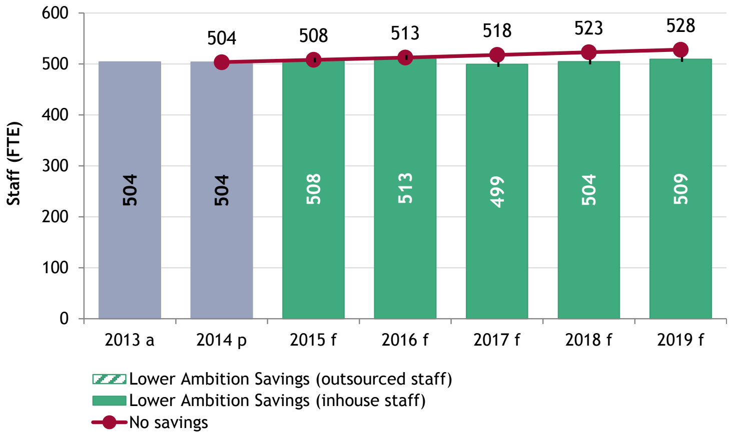
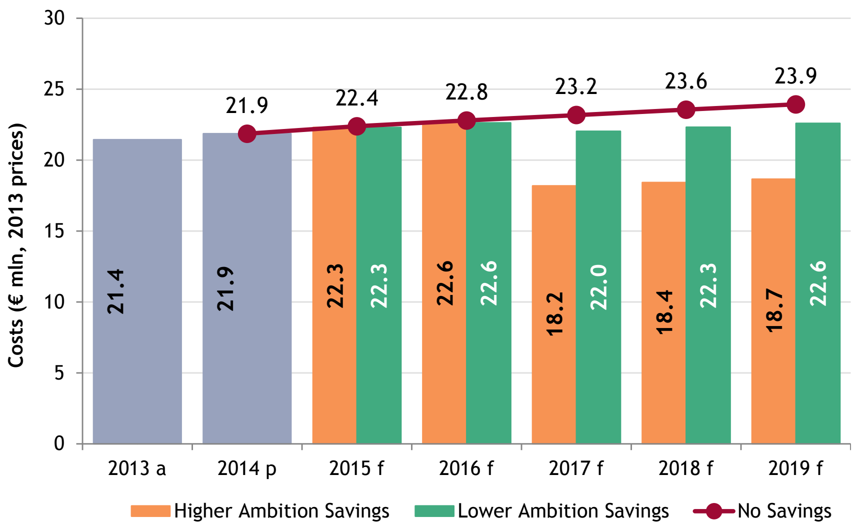


Figure 2.3: Security Costs (€m 2013 prices)



Savings relating to outsourcing of staff

2.61 The savings proposed in relation to outsourcing of staff in the higher ambition scenario are not discussed in the sections below, as they have already been covered in the general staff section above.

daa response to proposed savings

2.62 As already noted at paragraph 2.8 above, daa stated that an uplift of 100 security staff was required in in response to security failings identified in the EU Article 15 audit in March 2012. Of this 100 staff, only 50 had been recruited by 2013 and hence included in the base data used by SDG. A further 50 staff have now been recruited and form part of the base number of security staff in 2014. SDG had not taken into account the arrival of the additional 50 security staff.

2.63 daa questioned SDG's analysis of the efficiency of the Central Search processes in each terminal and disputed SDG's finding that the number of Central Search staff in Terminal 1 could be reduced by 30% to reach a theoretical most-efficient coverage of passenger demand on the 95% Busy Day, with a corresponding figure of 8% in Terminal 2.

2.64 daa also stated that SDG was wrong not to make additional allowance for the additional workload resulting from new LAGS ("liquids and gels") legislation, although it stated the impact of the new regulations was uncertain.

Other stakeholders' responses to proposed savings

Ryanair

2.65 Ryanair considered that there was considerable scope for security staff savings, even without outsourcing. It considered that the 26% uplift in staff requirement identified by SDG to allow for leave and sickness was "extraordinarily high" and could be reduced to 10%. It considered that the "higher ambition" efficiency savings were achievable even without outsourcing, by moving legacy staff onto "the new terms and conditions which apply in T2". It noted that Manchester Airport achieved savings in the 1990s by the revision of legacy staff terms and conditions.

Irish Aviation Authority

2.66 The Irish Aviation Authority (IAA) expressed concern about the fact that CAR has disallowed expenditure relating to the European Commission Article 15 audit failure. Many of these concerns relate to capital expenditure, including LAGS and Hold Baggage Screening, and hence are outside the scope of the SDG study.

2.67 IAA also comments unfavourably on CAR's proposal, based on SDG's analysis, that security staff numbers should be reduced from 550 to 500. IAA mentions that resourcing needs to allow for any requirements imposed by the US to maintain the airport's US pre-clearance authorisation. IAA also stated that "It should be clearly understood that considerable extra resources were committed to security following the European Union (EU) Article 15 findings, these cannot simply be withdrawn."

Others

2.68 ACI Europe states that the redefined security queuing standards represents a 33% increase in the minimum standards to be provided by daa, but that this has not been factored into the financial model (or into SDG's operating cost modelling).

2.69 The Irish Airline Pilots' Association (IALPA) notes that CAR has not included a security service standard for passengers transferring to the US pre-clearance facility. IALPA considers that CAR should "ensure a quick efficient hassle free process from inter terminal security".

2.70 The Irish Tourist Industry Confederation (ITIC) was concerned that CAR's determination should ensure that quality of service at the airport should be maintained. It supports the development of Dublin as an airport hub and is concerned that "CAR has disallowed DAA's planned investment in an expanded transfer facility that would offer shorter connecting times for passengers and help improve the overall transfer product".

2.71 Norwegian Air Shuttle supported the airport's acquisition of new security processing technology in relation to LAGS and Hold Baggage Screening Standard 3 equipment.

2.72 Turkish airlines also supported the acquisition of security equipment and stated that it was important that the airport ensure that security processing is adequately resourced.

Steer Davies Gleave analysis

2.73 SDG agrees that the second group of 50 additional security staff required to deal with the non-conformances identified in the EU Article 15 audit failure (making a total of 100 additional staff) were excluded in error. These should therefore be included in the base number of security staff for 2014, along with their associated costs. There is no consequent change to the level of savings proposed in either the "higher ambition" or "lower ambition" scenarios, but the staff numbers and costs of the base case and each savings scenario should increase correspondingly.

2.74 SDG's analysis of the efficiency of the Central Search processes in both Terminal 1 and Terminal 2 was based on roster and passenger arrivals data provided by daa: in each case, the relevant data has been for the Central Search function only, so that workload requirement and staffing are calculated on the same basis. SDG considers that its analysis demonstrates the significantly higher efficiency (in terms of staff hours per passenger) of the Terminal 2 operation as compared with the Terminal 1 operation. Neither operation is as efficient as theoretically achievable, but SDG has recognised that too great an assumption of improvement cannot be made with the level of data available to us. Given the information available, we also did not consider that the approach suggested by Ryanair could be safely adopted.

2.75 Nevertheless, given that the Terminal 1 operation was 30% worse than the optimum and 20% worse than the corresponding Terminal 2 operation, we consider that the assumed improvement to Terminal 1 efficiency (for legacy staff only) of 15% is conservative. For this reason, we also do not consider it necessary to increase staff in advance of an unquantified potential additional requirement driven by changes to LAGS regulations.

2.76 The comments relating to additional expenditure on security equipment (including LAGS and HBS standard 3) relate to capital expenditure and are beyond our scope of work. In relation to service standards, our terms of reference assumed no change to service standards, so we do not consider any changes to our proposed savings or forecasts are required to meet concerns by some stakeholders in relation to potential reductions in service standards.

Suggested changes to proposed savings in Draft Report

2.77 The base level of security staff in 2014 should be increased by 50 FTE to allow for the additional staff required to remedy the deficiencies identified in the 2012 EU Article 15 audit. These additional staff would apply in the base case, as well as the lower and higher ambition scenarios (so would have no material impact on the identified level of savings).

Cleaning & Facilities

Steer Davies Gleave proposed savings

2.78 In our Operating Expenditure Efficiency Study, we propose a "higher ambition" saving to outsource the higher unit rate T1 cleaning and facilities staff in 2016. Staff salary unit cost savings resulting from this lead to cost savings of approximately €2.4 million p.a. from 2016. As a "lower ambition" saving, we consider it reasonable for salaries of legacy staff to remain constant in real terms.

2.79 There is no elasticity to passenger growth so staff numbers are not forecast to increase as passenger volume grows over the period. No changes to T2 cleaning/facilities staff or airport and terminal operations are proposed which result in any cost savings. We note that daa may restructure the Airport Control Centre over the next regulatory period which may result in efficiencies in airport and terminal operations staff, but this has not been modelled.

2.80 The charts below show our base forecast and projected savings for staff numbers and cost levels.

Figure 2.4: Facilities & cleaning staff numbers (FTE, proposed savings)

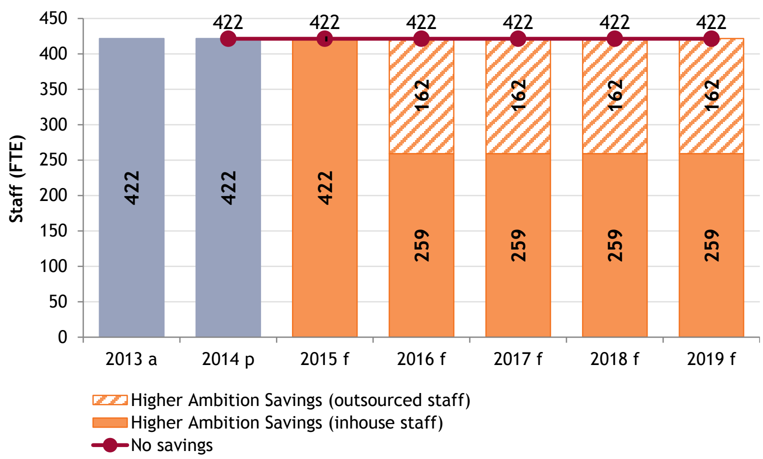
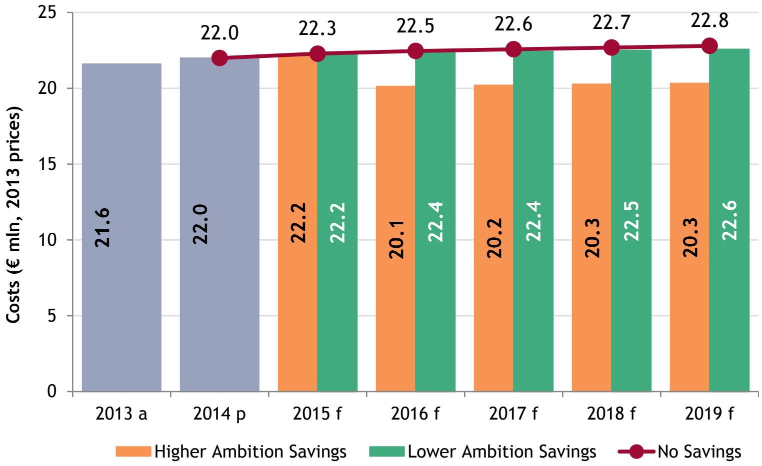


Figure 2.5: Facilities & cleaning costs forecast (€m, 2013 prices, proposed savings)



Source (both charts): daa data, Steer Davies Gleave analysis

Savings relating to outsourcing of staff

2.81 The savings proposed in relation to outsourcing of staff in the higher ambition scenario are not discussed in the sections below, as they have already been covered in the general staff section above.

daa response to proposed savings

2.82 In its response to the Draft Determination, daa stated that SDG's assumption that there is no elasticity between passenger numbers and cleaning and facilities costs is "clearly incorrect as it makes no sense to believe that increased use of a facility will not cause additional cleaning and trolley management requirements". daa also provided charts comparing the cleaning staff and trolley staff levels with terminal passenger levels.

Other stakeholders' responses to proposed savings

Ryanair

2.83 In its response, Ryanair questions why some cleaning is undertaken in-house and other cleaning is outsourced, and whether the staff flexibility between trolley collection, forecourt management and other cleaning functions in T2 can be reflected in T1, with resultant efficiencies.

2.84 Ryanair states that there are "obvious outsourcing efficiencies in cleaning and probably further associated efficiencies from (for example) making all cleaning the responsibility of a single provider and improving staff flexibility between tasks".

Steer Davies Gleave analysis

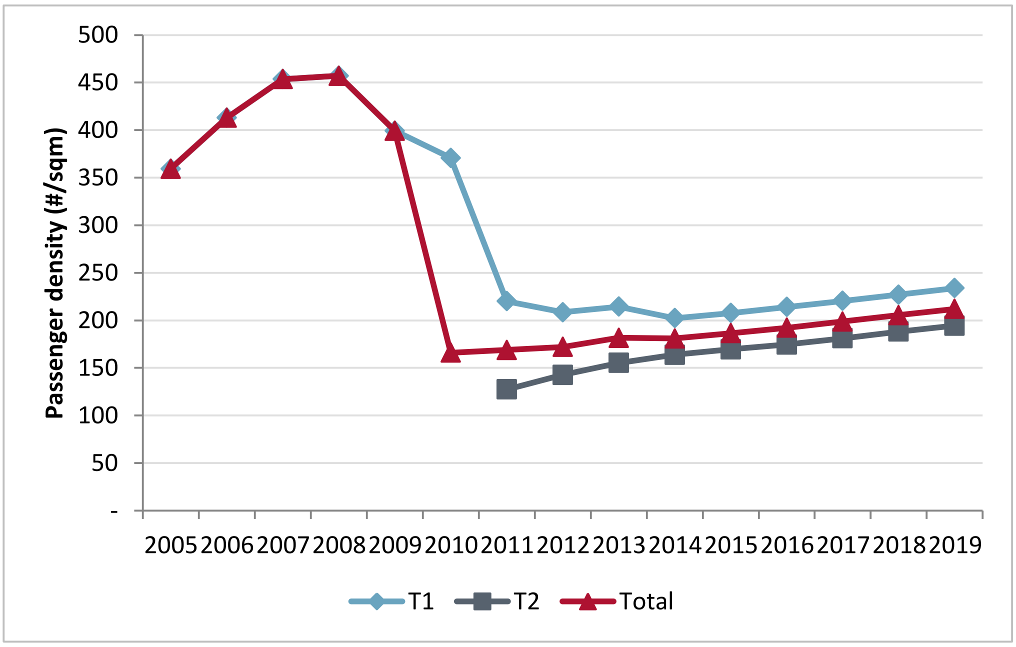
2.85 Dublin Airport is an unique case – shortly after the recession began in 2009 and passenger numbers decreased significantly, Terminal 2 opened. The significant decrease in staff in 2009 and 2010 as Terminal 1 staff took voluntary redundancy was immediately followed by a sharp increase in staff numbers as Terminal 2 staff were hired, at a significantly lower pay rate than Terminal 1.

2.86 Our experience and research shows that the strongest driver for cleaning and facilities costs is terminal area, rather than passenger numbers[3]. We consider the changes seen at Dublin Airport from 2008 are evidence of the level of inefficiency present pre- recession.

2.87 In addition, in response to daa's proposal to align cleaning and facilities staff numbers with passenger growth, we note that forecast staff numbers across the next regulatory period are expected to remain level, at 422 staff (regardless of whether they are in- or outsourced). This is approximately equivalent to the 427 staff employed in 2008, immediately prior to the crisis and when passenger numbers were at their peak (23.5 million). CAR forecasts passenger numbers will not return to this level until 2019. Our forecast allows for more staff per passenger over most years of the regulatory period, and it is only in 2019 where we see passenger levels and staff levels approximately equivalent to 2008.

2.88 We accept that changes in passenger density will have an impact on cleaning costs over the longer term; however over the five year period between 2014-2019 the effect is negligible given the minimal increases in passenger density over that time. We also note that passenger density levels are still significantly lower than those experienced in Terminal 1 prior to the opening of Terminal 2 (Figure 2.6).

Figure 2.6: Passenger density at Dublin Airport, 2005-2019



Source: daa data, Steer Davies Gleave analysis

2.89 Ryanair suggests that further efficiencies may be available if the entire cleaning and facilities task were outsourced. This may be the case, but we consider that the level of efficiencies proposed (to bring Terminal 1 cleaning costs to the level of Terminal 2) are sufficient, given the scale of effort involved, and that Terminal 2 cleaning costs are within the comparator airport benchmark range.

[3] See operational expenditure studies undertaken for the UK CAA on Heathrow, Gatwick and Stansted Airports in London, available at **http://www.caa.co.uk**

Suggested changes to proposed savings in Draft Report

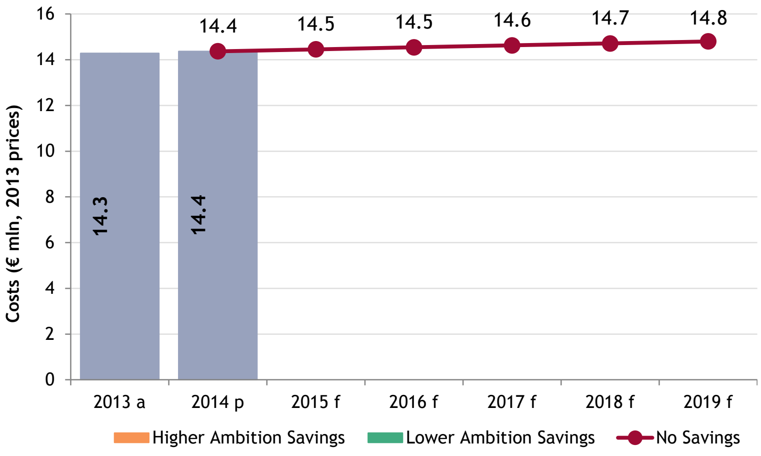
2.90 None.

Campus Services

Steer Davies Gleave proposed savings

2.91 Steer Davies Gleave forecast Campus Services costs will increase in line with assumed general staff salary increases at Dublin Airport.

Figure 2.7: Campus Services forecast (€m, 2013 prices)



Source: daa data, Steer Davies Gleave analysis

2.92 Police unit cost per FTE was in line with Garda Siochana benchmarks and other airports. No direct benchmark for fire unit costs per FTE however these were in line with police unit costs at the airport, as well as Garda Siochana.

2.93 Central Admin staff costs have seen a significant decrease (-7.5% CAGR over 2009-2013) and we do not consider further step-efficiencies are required.

Other stakeholders' responses to proposed savings

Ryanair

2.94 In its response, Ryanair stated that the analysis has "overlooked any potential for reduction in staff numbers. The levels of airport policing and fire service are excessively high". Ryanair considers that the reductions seen in Campus Services staff (-7.5% CAGR over 2009-2013, as noted above) should continue into the next regulatory period, as achieved by Stansted.

Steer Davies Gleave analysis

2.95 Given the significant reductions seen since 2009 in this staff category and the importance of the safety and security role that these staff have at the airport, Steer Davies Gleave does not consider further FTE reductions are required.

Suggested changes to proposed savings in Draft Report

2.96 None.

Retail

Steer Davies Gleave proposed savings

2.97 Steer Davies Gleave proposed savings relating to both improving processing efficiency in Terminal 1 to a level closer to that in Terminal 2 and by bringing salary cost per FTE in T1 down to T2 levels.

2.98 Recognising that the different layout of T1 may account for some of the throughput differential to T2, we consider that it would be reasonable for T1 efficiency (measured in transactions per FTE) to move halfway towards the T2 2013 levels. This results in a reduction of 11 FTEs in T1 in 2016. We assume this reduction is made by 2016, following a procurement exercise.

2.99 Retail activity is related to the number of passengers coming through the airport but should allow for efficiencies as volumes increase; we have therefore applied an elasticity of 0.7 to terminal-based retail staff numbers in relation to passenger growth. No elasticity is applied to management and logistics staff numbers.

2.100 Most retail staff salaries are forecast to grow at the general staff salary increase. However the higher Terminal 2 staff cost driver is applied for T2 retail staff, and the skilled staff salary driver applied to retail management and support staff.

2.101 Our proposals result in an efficiency saving of approximately €1.4 million per annum from 2016 onwards. We consider this to be a “higher ambition” saving. A “lower ambition” saving would be for salaries to be held constant in real terms for legacy staff.

Figure 2.8: Retail staff numbers (FTE, proposed savings)

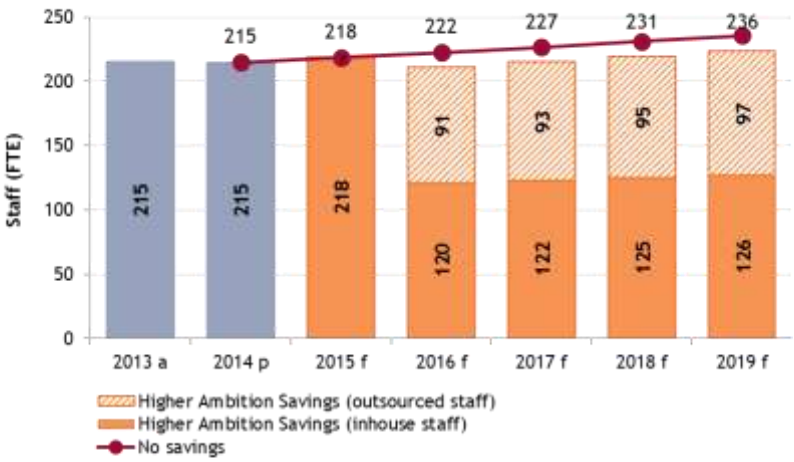
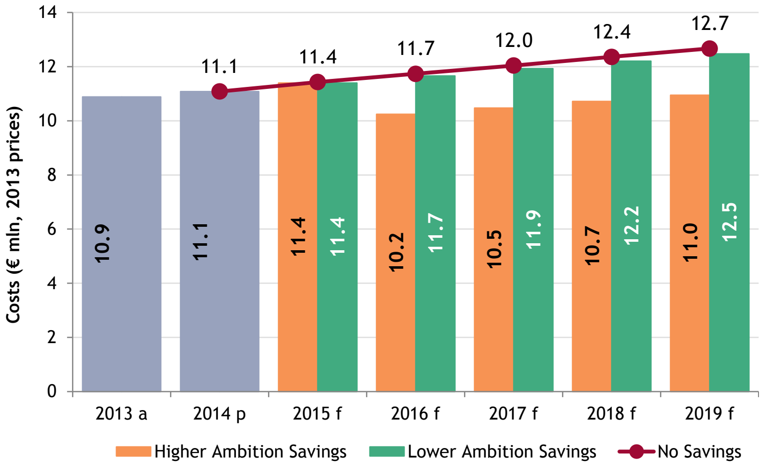


Figure 2.9: Retail staff cost forecast (€m, 2013 prices, proposed savings)



Source (both charts): daa data, Steer Davies Gleave analysis

Savings relating to outsourcing of staff

2.102 The savings proposed in relation to outsourcing of staff in the higher ambition scenario are not discussed in the sections below, as they have already been covered in the general staff section above.

daa response to proposed savings

2.103 In section 3.2.1, point (c) in their Response to the Draft Decision Paper, daa noted that there are differing levels of experience and responsibility within the legacy staff groups that means they should not be compared directly to the new staff groups in Terminal 2. daa cite as an example the Retail staff category, which includes logistics management, general management and operations managers who are senior daa employees in the legacy staff group with far more responsibility than the newer staff groups.

Other stakeholders' responses to proposed savings

Ryanair

2.104 Ryanair commented on the elasticity applied to retail staff numbers in relation to passenger numbers over the course of the next period (0.7). Ryanair state that the elasticity to passenger numbers applied is inconsistent with the fact that retail staff costs have declined over the current regulatory period to date, despite the opening of Terminal 2.

2.105 Ryanair consider that retail staff costs should not increase over the next regulatory period.

Steer Davies Gleave analysis

2.106 We agree with daa's comments about the level of experience in the retail management staff category, all of whom are staff on legacy contracts. We have not included management staff (which we assume relates to staff within the group "ARI retail management & support") in our estimate of the retail staff cost savings due to outsourcing.

2.107 In response to Ryanair's comment on the elasticity of retail staff numbers to passenger levels, we note that the reductions in staff numbers seen since 2009 have occurred entirely in the legacy staff group (which is more expensive than the new staff group). This legacy group has reduced in size by -45%. This significant reduction indicates a movement towards a more efficient operation (albeit with fewer passengers) and in addition we have proposed an efficiency improvement for Terminal 1 (legacy) staff in relation to their efficiency (measured in transactions per FTE) as compared to T2 in 2013.

2.108 New staff have been hired for Terminal 2 at significantly lower rates than the legacy/Terminal 1 staff.

2.109 With the efficiencies achieved to date in the legacy staff area, along with those proposed by Steer Davies Gleave for the next period, we consider the daa Retail staff cost category to have moved towards that of an efficient airport.

2.110 Our analysis and experience is that in normal circumstances (i.e. steady passenger numbers and no significant changes to the airport layout) retail staff numbers are related to passenger numbers and would be expected to increase in line with the number of transactions, but with some efficiency improvements relating to steadier workflow, especially as increasing traffic leads to a less peaky daily pattern of demand. We therefore consider our assumption of an elasticity of 0.7 to passenger numbers to be reasonable, assuming our proposed efficiencies are implemented.

Suggested changes to proposed savings in Draft Report

2.111 None.

Airside Operations

Steer Davies Gleave proposed savings

2.112 We considered that the Facilities and Cleaning roles in Airside Ops undertaking Airside and landside cleaning, debris, snow & ice tasks, have a similar skill level to that for other facilities tasks that we propose to outsource (trolley collection, forecourt management, see Cleaning and Facilities slides). We therefore proposed to reduce the unit cost for these staff to that of Terminal 2 Cleaning and Facilities staff members (adjusted for the mix of legacy and new contract staff in the airside operations staff group).

2.113 This resulted in an average saving of approximately €0.6 million per annum. We considered this to be a "higher ambition" saving.

2.114 Airside operations staff salaries are expected to grow in line with the general staff salary driver.

Figure 2.10: Airside Operations staff cost forecast (FTE)

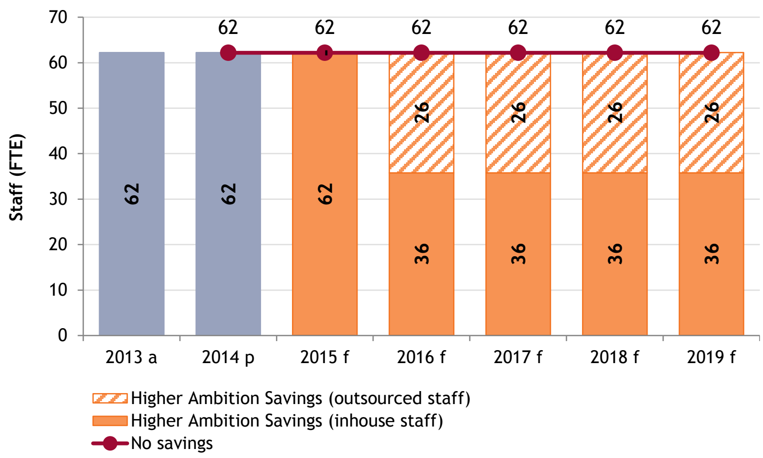
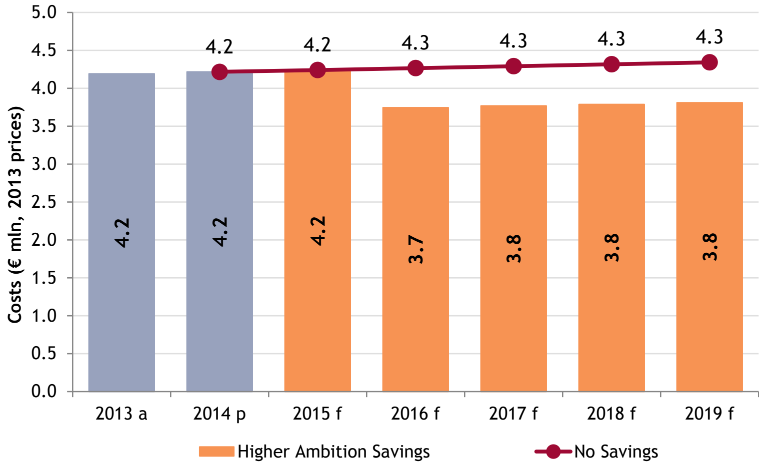


Figure 2.11: Airside Operations staff cost forecast (€m, 2013 prices)



Source (both charts): daa data, Steer Davies Gleave analysis

daa response to proposed savings

2.115 On page 70 of its response, daa stated that outdoor cleaning roles are always likely to be filled by experienced and trained cleaning staff and generally would be higher paid than facilities new entrants. This is due to the technical requirements of the outdoor cleaning role and required knowledge of airside and airfield operations.

Other stakeholders' responses to proposed savings

2.116 No other comments received.

Steer Davies Gleave analysis

2.117 We have compared the budget average cost per FTE for the Outdoor Cleaning group in 2014[4] to the average cost per FTE for Terminal 1 facilities staff in 2013. The Outdoor Cleaning staff group is +7.3% higher than the average cost per FTE for the facilities cleaning staff group average for the Terminal 2 and Shared groups (we acknowledge we are comparing different years, however the outdoor cleaning staff group data was available only for the year 2014 in the booz and co report, and we consider that a comparison of rough orders of magnitude is not unreasonable between two adjacent years).

2.118 We accept the argument made by daa that airside cleaning staff would have more technical requirements relating to their role than terminal cleaning staff and therefore would be higher paid than new entrants to the facilities staff group. We consider the current 'gap' of circa 6% between the two staff groups reflect this.

Suggested changes to proposed savings in Draft Report

2.119 The proposed saving associated with the outdoor cleaning functions with the airside operations group has been removed.

[4] booz & co Opex Efficiency Review, Dublin Airport, January 2014

Maintenance

Steer Davies Gleave proposed savings

2.120 SDG proposed a gradual and modest reduction of Terminal 1 maintenance staff by 2% p.a., resulting in an increase of 10% in productivity by 2019, consistent with the lean workflow methodology planned to be introduced by daa management. Staff salaries are assumed to rise at 1 percentage point above those of general staff due to stronger assumed demand for skilled staff. Terminal 2 staff costs are assumed to rise more quickly initially due to “catching-up” levels of seniority. This results in a reduction of staff by 13 by 2019 and corresponding savings of €0.9 million p.a. These savings are considered to be lower ambition, with no distinct higher ambition scenario. They are shown in the charts below.

Figure 2.12: Maintenance staff cost forecast (FTE)

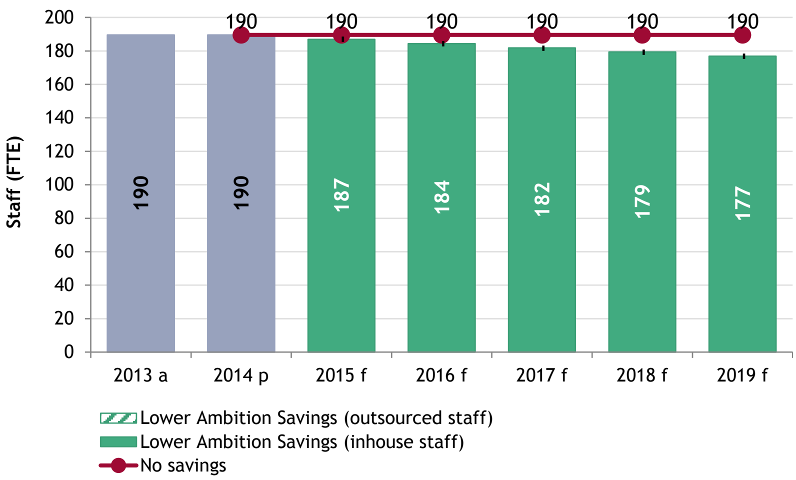
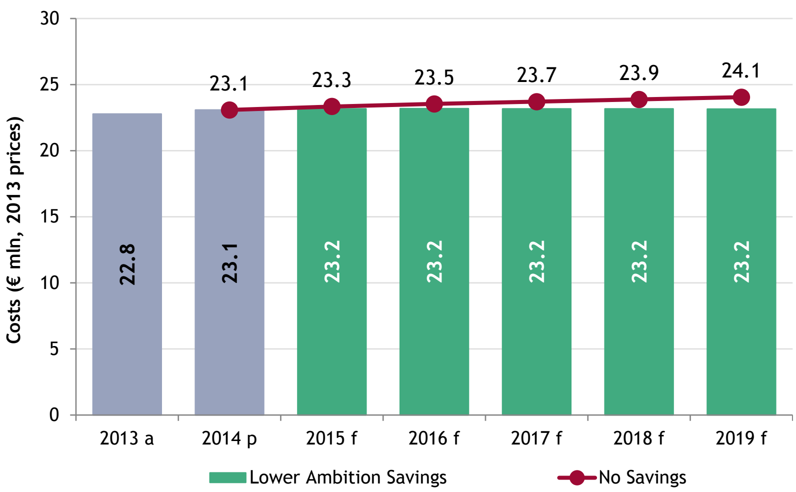


Figure 2.13: Maintenance staff cost forecast (€m, 2013 prices)



daa response to proposed savings

2.121 daa stated that SDG’s report shows maintenance costs lower than the benchmarks including Heathrow and Gatwick, despite the fact that it has additional maintenance costs associated with the retail and car parking businesses. daa does not agree with the proposed reduction of 2% p.a. in the number of staff in Terminal 1.

Other stakeholders' responses to proposed savings

2.122 None

Steer Davies Gleave analysis

2.123 SDG considers that the proposed savings are very modest and well within the lean workflow efficiency savings planned by daa management.

Suggested changes to proposed savings in Draft Report

2.124 None.

Information Technology

Steer Davies Gleave proposed savings

2.125 IT costs at Dublin have risen very rapidly in recent years reaching €13.7 million in 2013 (making allowance for costs allocated to Shannon and Cork. This implies that costs are 3.7% of revenues, which is above corresponding SITA and Gartner benchmarks, above that at Heathrow (2011/12) and above the (then) projection for Gatwick in 2012/13. Both Heathrow and Gatwick have plans to reduce IT costs per passenger at a CAGR of at least -7% p.a. over the next five years.

2.126 Recognising the continuing increase in real-terms IT salaries, we considered that Dublin could nevertheless reduce costs significantly through improved procurement, leading to a -5% p.a. CAGR in the higher ambition case, or -2.5% p.a. CAGR in the lower ambition case. The projections of costs and costs per passenger are shown in the charts below.

Figure 2.14: IT Operating Costs (€m 2013)

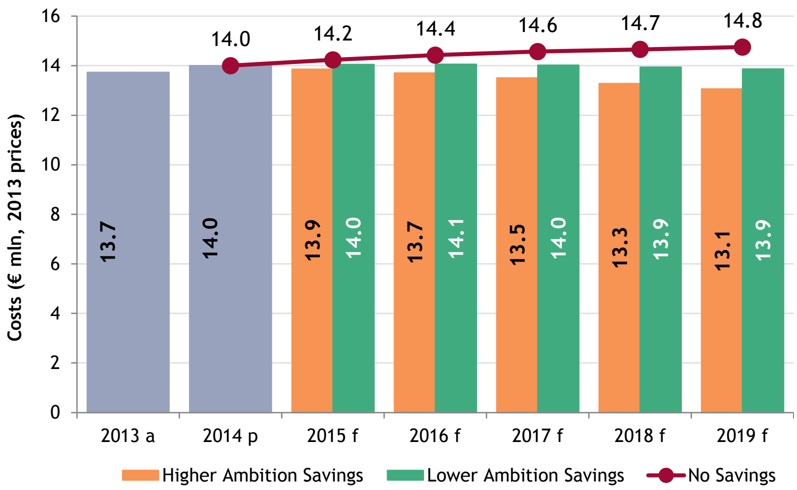
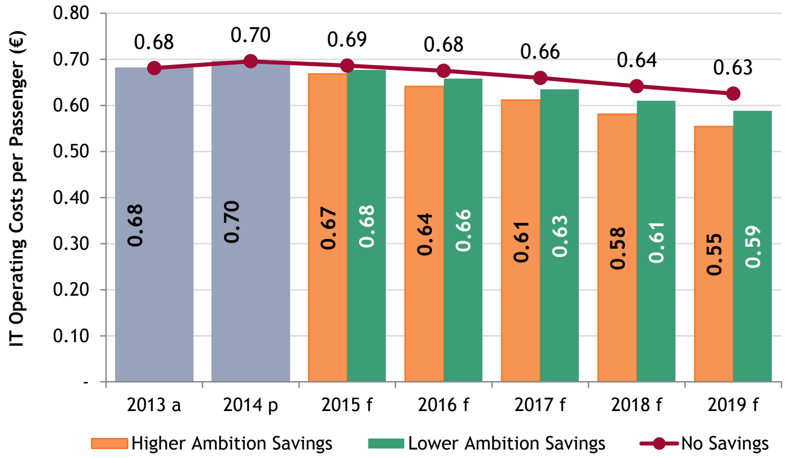


Figure 2.15: IT Operating Costs per Passenger (€ 2013 prices)



daa response to proposed savings

2.127 daa stated that its IT operating cost figure for 2013 was €14.7 million, but that this should be adjusted to reflect both an allocation for Shannon and Cork and also by the commercial revenue earned from the sale of IT services.

2.128 daa did not comment further on SDG's analysis, but did comment on CAR's determination, in which the opex and capex elements of daa's IT costs were considered together. daa stated that this showed that daa's total IT spend was actually below its own projection of the SITA benchmark for 2014, so that no savings were necessary.

Other stakeholders' responses to proposed savings

2.129 IATA commented that it was concerned that the allowance made for IT staff cost growth was high, given high unemployment rates and a mobile professional workforce.

Steer Davies Gleave analysis

2.130 While we accept that an allowance could be made for the IT revenue earned by Dublin airport, this is relatively small and may, in any case, also exist in the benchmark values against which it was compared. The costs attributable to Shannon and Cork airports were allowed for as accurately as possible based on the information provided by daa so that we consider that our benchmarking exercise remains valid.

2.131 We consider that the rate of cost reduction assumed by SDG is reasonable in comparison with that planned by Heathrow and Gatwick, especially taking into consideration that the infrastructure for Terminal 2 is now fully in place, so that there should not be a need for any step-change in expenditure to cover these costs.

Suggested changes to proposed savings in Draft Report

2.132 None.

Central Functions Staff

Steer Davies Gleave proposed savings

2.133 Central staff costs (including Finance, IT, HR, Communications, Strategy and Airport Management) have increased significantly in since 2010. The number of Central Functions staff also appear to be very high, at 13.9 central staff per million passenger, compared with those at

Gatwick Airport, where the corresponding number is 3.9, based on analysis undertaken at Gatwick Airport by consultants Helios on behalf of the UK CAA.

2.134 SDG proposed that central staff numbers should be reduced significantly, with commercial and finance staff numbers being brought back to 2010 levels and management and support staff (the largest category) being reduced by 25% (in the lesser ambition case, the reduction of management and support staff is to 2010 levels only). Salary levels are assumed to rise at 1% point faster p.a. than general salary levels at the airport to reflect pressures in the market for more highly skilled staff.

Figure 2.16: Central Functions Staff (FTE, Higher Ambition Savings)

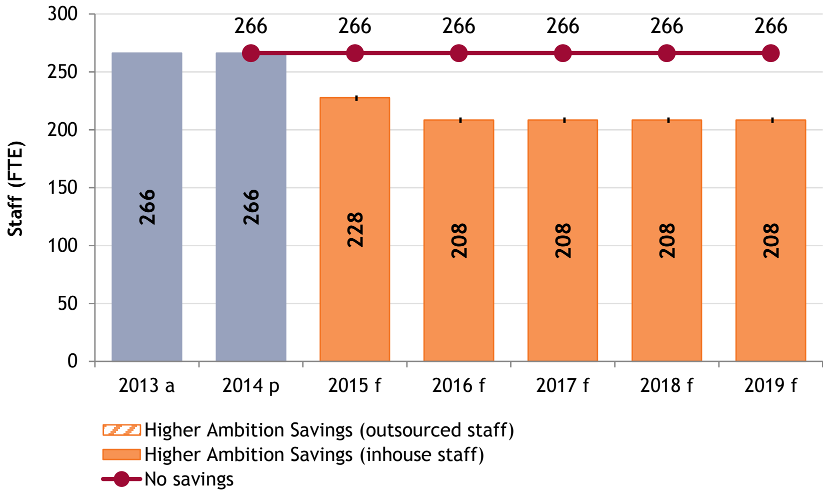


Figure 2.17: Central Functions Staff (FTE, Lower Ambition Savings)

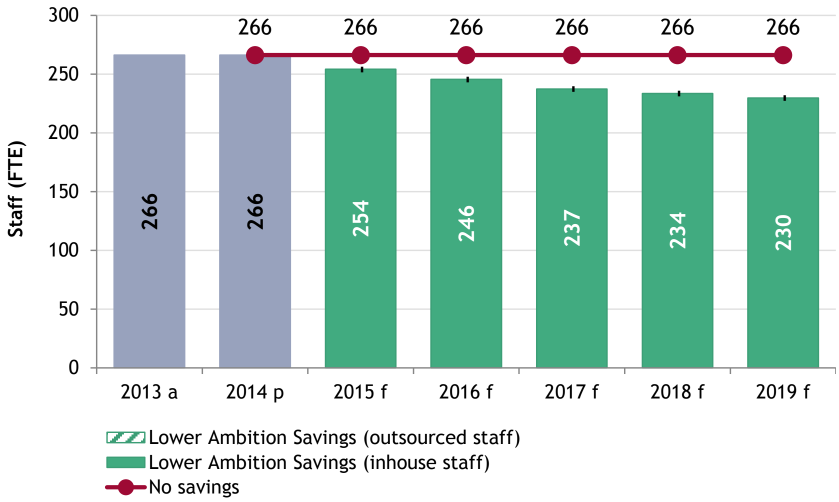
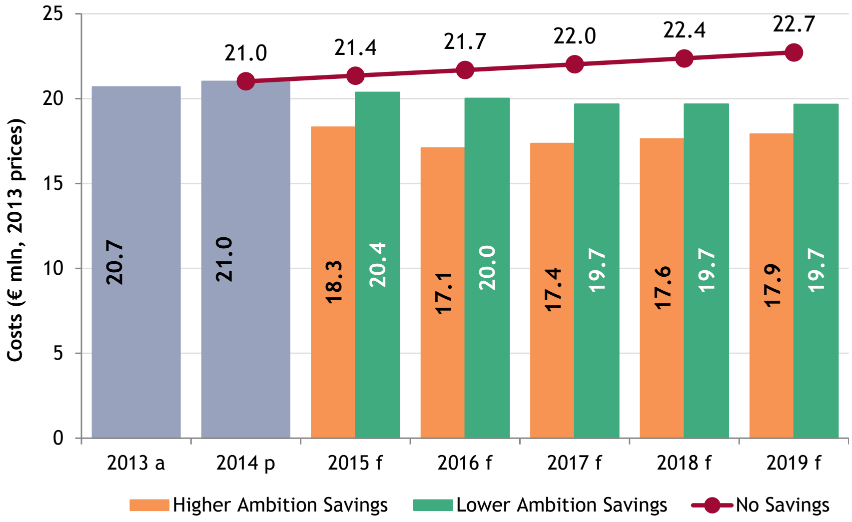


Figure 2.18: Central Functions Staff Cost (€m 2013 prices)



daa response to proposed savings

2.135 daa considered that SDG's analysis was flawed as it did not take account of the actual comparability of the activities carried out at Dublin and Gatwick airports. It also considered that the analysis did not take account of different levels of outsourcing of activities at the two airports. daa stated, as a sense check on overall efficiency, that total Opex per passenger at Gatwick, at €10.6, was higher than at Dublin (€9.5).

2.136 In relation to the comparability of the activities at the two airports, daa considered that:

- The Airport Management costs in Dublin include 70 FTEs not included in the analysis of Gatwick;
- The Finance function at Dublin includes 22.5 FTEs fulfilling administration roles not included in the Gatwick comparison;
- The HR department at Gatwick is outsourced to a higher degree than at Dublin;
- Procurement is not included in the Gatwick analysis; and
- Commercial FTEs have increased due to new business at Dublin Airport, which provide an overall subsidy to airport charges.

2.137 In its analysis, daa suggested that the level of outsourcing of management functions was significantly higher at Gatwick than at Dublin, given that central staff costs represent only 39% of total central costs, whereas at Gatwick the corresponding figure was 70%. Based on this, it stated that the 133 central staff used in the Gatwick calculation should be adjusted, for comparability with Dublin, to 238 staff.

Other stakeholders' responses to proposed savings

2.138 None

Steer Davies Gleave analysis

2.139 SDG accepts that it is very difficult to demonstrate strict comparability between the central cost staff and other costs at Gatwick and Dublin Airport on the basis of the information available. Nevertheless, we consider that the comparison is still reasonable, and that Dublin Airport also does not have sufficiently detailed visibility of the Gatwick situation to allow it to come to definite conclusions about what would represent a strictly relevant comparison. In any case we note that Commercial Staff at Dublin were excluded from our comparison between the two airports.

2.140 Our lower ambition savings are based entirely on Dublin reverting to 2010 staff numbers, so we do not consider that these are impacted by daa's analysis on the comparison between Dublin and Gatwick Airports. In the higher ambition case, the staff reductions proposed for management and staff costs do require a reduction below the 2010 staff level.

2.141 However, we note that if we take daa's analysis at face value, i.e. that the appropriate number of Central Function staff at Gatwick, adjusted for the level of outsourcing of central functions from its actual value of 133 to a notional figure of 238, and if we further accept daa's contention that 70 FTE of Central Staff should be outside of the comparison, then the adjusted number of central staff per passenger at Gatwick becomes 7.0, compared with an adjusted number for Dublin of 10.2.

2.142 Therefore, in order for Dublin to reach the same level of efficiency as Gatwick, it would need to reduce Central Function Staff by 32%. Excluding commercial staff from the base, this implies a reduction of 73 staff (or 84 staff if commercial staff are included). This is a greater reduction than the 58 proposed by SDG in the higher ambition case. We therefore consider that SDG's reductions are reasonable even if daa's comments on comparability are accepted at face value.

Suggested changes to proposed savings in Draft Report

2.143 None.

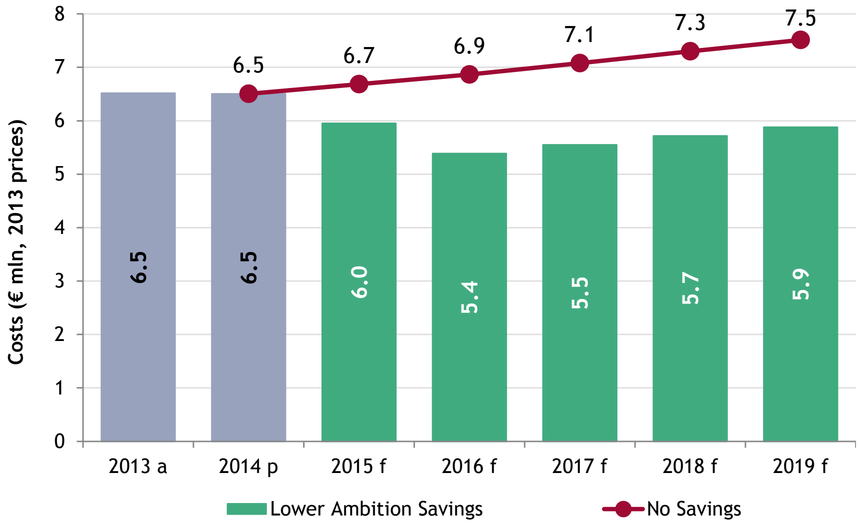
Other Central Costs

Steer Davies Gleave proposed savings

2.144 The major elements of other central costs were marketing, insurance and consultancy costs. Marketing costs have risen strongly at the airport since 2008 and, at €6.5 million in 2013 were approximately twice that of the average spend per airport in the ICD Global Airports Survey 2013-14 (€3.4 million). Given that the airport has no significant competing airports in its natural catchment area, SDG proposed that the annual marketing spend should be reduced to its 2010 level of €5 million p.a., thereafter rising with passenger volumes. No savings were identified for insurance or consultancy costs.

2.145 The savings in marketing costs are shown on the chart below.

Figure 2.19: Marketing Costs (€m 2013 prices)



daa response to proposed savings

2.146 daa commented that "The assumption that Dublin Airport has a monopoly over consumer demand is incorrect. … Dublin Airport accounts for 64% of international air travel to / from the island of Ireland in 2013 … there are gains to be made from investment in consumer marketing campaigns in areas such as Northern Ireland".

2.147 daa also stated that Dublin Airport is different from many UK comparators in that it operates its own Retail and Car Park business, which need to be supported by marketing spend, with €1.7 million being spend on marketing relating to those areas in 2013. Both areas have competition: from downtown shops and from non-daa car parks, respectively.

Other stakeholders' responses to proposed savings

2.148 None

Steer Davies Gleave analysis

2.149 While SDG did not state that Dublin Airport has a monopoly, it remains true that there are no major competing airports within 150km. While we accept that Dublin does carry out activities which not all airports undertake in-house, most major airports do advertise their car parks on their websites. In any case, even if the car park and retail related marketing spend of €1.7 million were removed from the cost base, the marketing spend would remain significantly above the benchmark. Furthermore, marketing spend between 2005 and 2011 averaged well under €5 million (in 2013 prices), so it seems reasonable to expect it to return to those levels.

Suggested changes to proposed savings in Draft Report

2.150 None

Utilities

Steer Davies Gleave proposed forecast

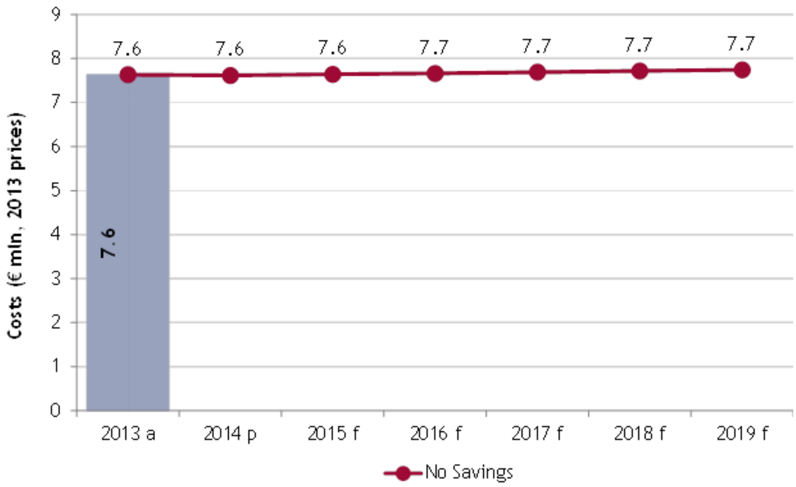
2.151 We have applied the Sustainable Energy Authority of Ireland (seai) forecast real terms unit price increases plus a small buffer (rounded up to nearest %) to the relevant Dublin Airport unit energy prices. This results in a CPI + 2% increase for both gas and electricity prices. Water grows with CPI (the new Irish Water Authority has not yet set its regulated prices).

2.152 Elasticities of all utilities to passenger growth is low, at 0.1, with the exception of water, which has been set to 0.5.

2.153 We note that daa plan to continue reductions in energy consumption on like for like basis by -2% p.a. This efficiency improvement has been included in both daa and Steer Davies Gleave forecast scenarios, although we note that the additional capex investment required to facilitate efficiencies should be included in the determination for this to be realised.

2.154 The chart below shows SDG's forecast of utility costs.

Figure 2.20: Utilities cost forecast (net of recoveries), Dublin airport (€m, 2013 prices)



daa response to proposed savings

2.155 [✂]

Other stakeholders' responses to proposed forecast

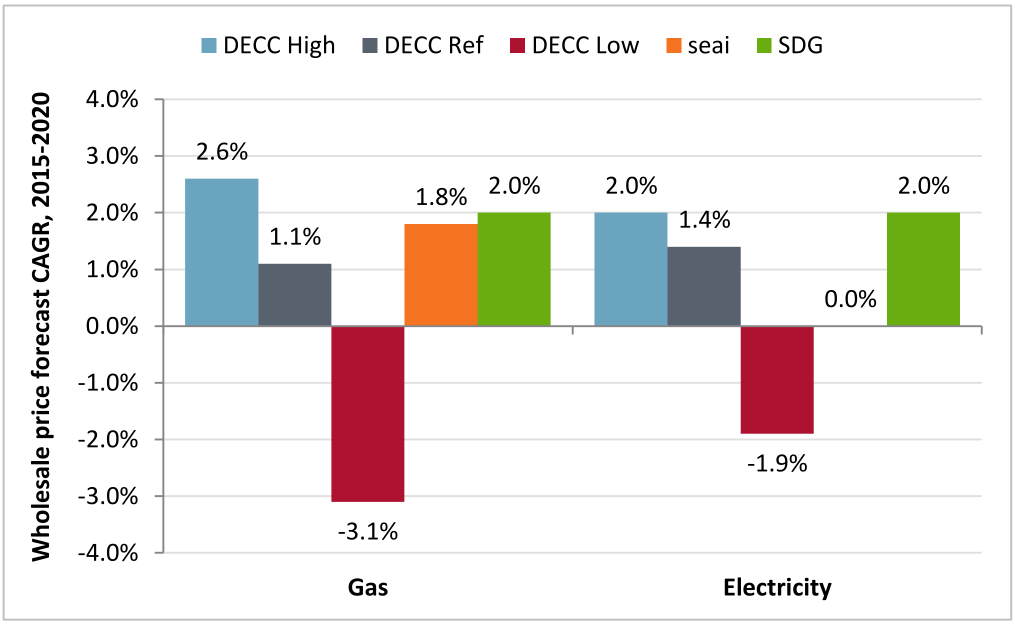
2.156 None

Steer Davies Gleave analysis

2.157 SDG considers that where available, national energy authority forecasts are the most appropriate source for electricity, gas and oil prices in a particular country, rather than international sources from neighbouring countries. In their broader publication of energy consumption forecasts for Ireland, seai include their own forecast for energy prices out to 2020.

2.158 Nevertheless we have compared seai and DECC forecasts in order to understand whether there are significant discrepancies between the two. DECC publish annual price forecasts for each year out to 2030 (the most recent publication is 2013) and seai published their projections for the years 2011, 2015 and 2020 (in December 2011). In Figure 2.21 below we have compared the seai forecast prices to the DECC forecast prices over the period 2015-2020.

Figure 2.21: DECC and seai energy price comparisons 2015-2020

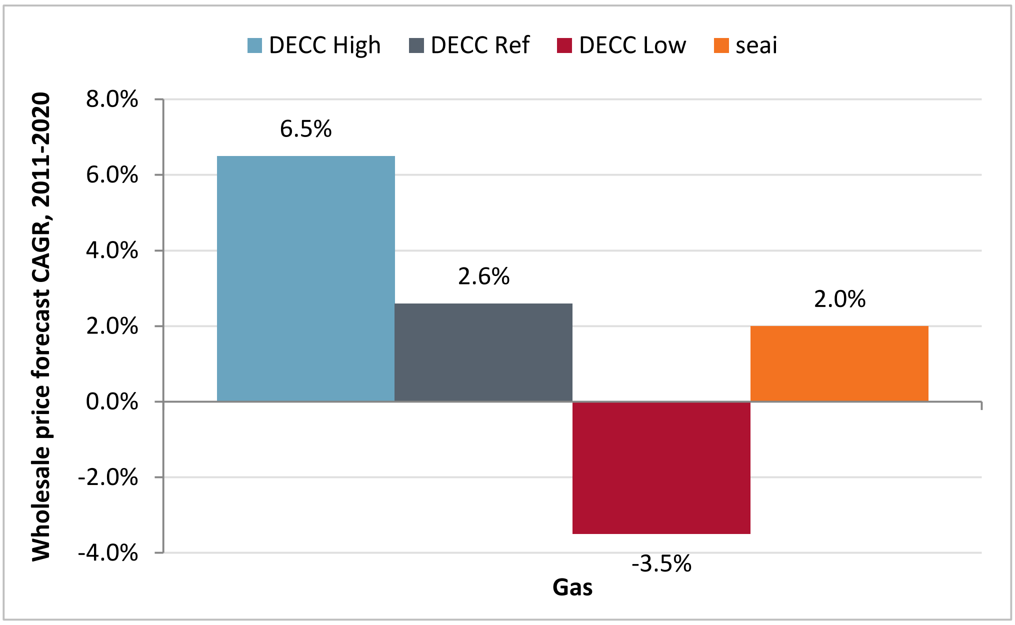


Source: DECC, seai, Steer Davies Gleave analysis

2.159 In our forecasts, we have rounded the seai forecast real terms price increases up to the nearest whole percentage point for each year of the reference period. We note that the average price increase forecast by DECC in their reference scenario over 2015-2020 for oil, electricity and gas are lower than the Steer Davies Gleave projected increase proposed (2%), and the DECC low case actually forecasts a reduction in real terms (seai do not present multiple forecast scenarios, nor do they present an electricity price forecast). DECC's high case scenario over 2015-2020 for electricity prices is in line with Steer Davies Gleave's forecast electricity prices, and the gas forecast is slightly higher (2.6% vs 2.0%). Forecast average changes in UK energy prices over the period 2014-2020 are not significantly different from 2015-2020.

2.160 We have also compared seai energy price growth over 2011-2020 to DECC's published values (Figure 2.22 – DECC does not publish historic electricity prices and seai publish fuel prices only). seai's forecast changes in oil prices over the period are in line with DECC's reference case, and gas prices slightly lower than DECC's reference case, but significantly higher than the low case, which forecasts a -3.5% reduction in real terms.

Figure 2.22: DECC and seai energy price comparisons 2011-2020



Source: DECC, seai, Steer Davies Gleave analysis

2.161 We therefore consider the seai price forecasts to be a reasonable basis for energy price increases at Dublin Airport, and note that seai forecasts are approximately in line with UK DECC forecasts, which daa consider to be an appropriate comparison.

2.162 We consider that seai will have taken foreign exchange risk into account when making projections for fuel prices in Ireland, so have not made any further adjustment to this, as an unregulated competitive business would not have the benefit of assuming it can protect itself against future price and currency variations beyond the range of hedging arrangements available on the market.

Suggested changes to proposed forecast in Draft Report

2.163 None

Other staff costs

2.164 No comments received.

Car Parks

2.165 No comments received.

Passengers with Reduced Mobility

2.166 No comments received.

Rent and Rates

2.167 No comments received.

Control Sheet

Document Title	
Dublin Airport Operating Expenditure Efficiency Study	

Document Type	
Response to Stakeholder Comments	

Client Contract/Project No.	Steer Davies Gleave Project/Proposal No.
	22648001

Issue history

Issue No.	Date	Details
1	11 September 2014	V1.0 Final

Review

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Commission for Aviation Regulation	