RYANAIR
THE LOW FARES AIRLINE

Corporate Head Office,
Dublin Airport,
County Dublin,
Ireland.
Telephone: +353 1 8121212
General Fax: +353 1 812 1213
sita; DUBHQFR
Reservations: +353 1 2497700
Website: www.ryanair.com

Department Fax Numbers

Finance:	01 8121373
Sales & Marketing:	01 8446625
Flight Operations:	01 8444404
Engineering:	01 8121338
Reservations:	01 6097902

9th March 2007

Mr Cathal Guiomard
Commissioner for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2
Fax No. 6611269

Dear Cathal,

Attached is Ryanair's response to CP1/2007 regarding the review of the September 2005 Determination. Below is a summary of the points raise in our submission:

1. CAR has failed to meet its statutory duties

Section 33 of the Aviation Regulation Act of 2001 requires the CAR to *"facilitate the development and operation of cost-effective airports which meet the requirements of users"*. The CAR has failed to meet this statutory duty. Ryanair has on several occasions highlighted that the DAA is engaged in a process of "regulatory gaming" by inflating its capital expenditure in order to claim higher airport charges from the Regulator. The CAR has consistently failed to intervene when the DAA refuses to respond to users requests (i.e., for traffic forecasts and other relevant information) or even to attend these sham consultation meetings held by the DAA.

2. The DAA has failed to provide adequate information to users

DAA have consistently refused to provide adequate information to users, including detailed traffic forecasts, that would allow users to determine whether proposed developments meet their requirements and are being provided in a cost effective manner. In December of last year, Ryanair wrote to DAA's Chief Executive, Declan Collier, with a list of detailed comments and questions (see attached) and DAA have flatly refused to respond to any of these questions. This failure to provide information has been highlighted by Ryanair on numerous occasions and the CAR has repeatedly failed to intervene. Some high level information was posted on the CAR's website after the close of play on 6th March (see attached) – just three days prior to the deadline for user submissions - but this information still does not allow users to properly interrogate the DAA's plans. Why did the CAR not publish this information to users with its CP1/2007 document on 9th February 2007?

3. The DAA has failed to properly consult with users

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The DAA has consistently failed to consult with users on their requirements. Ryanair, the largest users of Dublin Airport, has repeatedly called on the DAA to provide a low cost, efficient terminal facility to accommodate its price sensitive passengers in Dublin airport, who now account for almost 40% of total scheduled passenger traffic at Dublin Airport. Ryanair even offered to pay for and build this facility. Instead, the DAA is proposing to build a terminal costing €609 million (or €760 million including the redundancy of the 7-year old Pier C), which is over 10 times more costly than a similar capacity terminal being built in Frankfurt Hahn Airport for just €60 million.

The DAA's refusal to consult users (and the CAR's failure to restrain these abuses) is the reason why Cork Airport has a €200 million terminal that no-one wants to pay for and that should have cost one tenth the cost compared to similar sized facilities at other European airports (e.g. Marseille T2).

4. The CAR's consultation paper asks the wrong questions

The CAR's consultation paper takes the DAA's grossly inflated 2005 and 2006 capital investment programmes as a fait accompli and fails to ask the right questions, for example, were airlines properly consulted by the DAA on their requirements? Have users been given sufficient information by the DAA to determine whether the proposed development is necessary/cost effective. The CAR's questions focus on who pays for a capital programme that has not been properly consulted on, does not meet the requirements of users and is specifically overly designed in order to inflate airport charges at Dublin Airport.

Based on the limited information available to users, Ryanair has determined that the DAA's is massively fiddling their traffic forecast numbers to justify a goldplated and excessively large Terminal 2. Based on the CAR's own consultants' reports, the second terminal as proposed by DAA is not justified until at least 2014 and yet the DAA is trying to build it 7 years in advance.

Based on this submission, Ryanair therefore calls on the CAR to postpone any further review of the Dublin Airport charges until such time as the DAA provides sufficient information to users, properly consults with them on their requirements, and proposes a competitive cost efficient 15 mppa terminal facility which reflects the cost of similar capacity terminal facilities being built at other European airports (e.g., Bremen, Schipol, Marseille, Hahn, Charleroi, Lutton, Liverpool, etc.).

If the CAR nevertheless proceeds with the review it will be in breach of the duties in Section 33 of the Act.

Yours sincerely,

J. Callaghan

Jim Callaghan
Head of Regulatory Affairs and Company Secretary

Ryanair's Response to Questions posed in CAR Consultation Paper CP1/2007

Introduction

1. Failure of the CAR to Meet its Statutory Duties

In making a determination in relation to the charges to be levied at Dublin Airport, the CAR is required, under Section 33 of the Aviation Regulation Act 2001, first and foremost to *"facilitate the development and operation of cost-effective airports which meet the requirements of users"*. This is significant as it makes clear that the primary duty of the Commission relates to cost effectiveness and meeting the needs of the users. Whilst there are a number of other factors to which the Commission is required to have regard, these are secondary to the primary duty set out above.

Ryanair will demonstrate, as far as it is able given the lack of information provided by DAA as discussed below, that the Dublin Airport CIP 2006, to which this determination will relate, is neither cost effective nor meets the needs of users. The fact that the determination must also have regard, inter alia, to a reasonable return on capital employed for DAA, this is a second order consideration. That DAA has proceeded to incur cost related to the design and development of the overspecified T2 facility does not justify the CAR in allowing DAA to earn a return on that expenditure if it is not in pursuit of a 'cost effective' development to 'meet the requirements of users'.

Ryanair has called several times on the CAR and has presented evidence demonstrating that DAA has not properly consulted with users on development plans (discussed further below) and has ignored comments and refused to answer questions raised by its largest airline user. Ryanair has also pointed to other similar instances where the DAA has abused its dominant position in order to ignore user requirements and build inefficient and excessively costly facilities, which users are then forced to pay for. The recent row regarding the €200 million wasted on the new terminal in Cork is a clear example.

However, the CAR has consistently failed to intervene on behalf of users. For example, the CAR has failed to attend any of the so-called consultation meetings held by the DAA, despite evidence from Ryanair and others that these consultation meetings were part of a strategy to "game" the regulatory process and that the minutes of these meetings did not reflect the comments of users raised at those meetings.

Ryanair considers that the CAR has failed to meet its statutory duties by failing to ensure that the DAA properly consulted with users in order to provide facilities that are 'cost effective' and 'meet their requirements'.

2. Failure of DAA to Provide Adequate Information

It is virtually impossible to respond in detail and appropriately to this consultation given the inadequate information regarding the justification for the Dublin Airport CIP 2005 or

CIP 2006 provided either by DAA directly or via the Commission. In particular, Ryanair sent detailed questions and requests for further information to the DAA on 8th December 2006 (copy attached). To date, no response to these questions has been received and nor has the further information in support of the plan which was requested therein. Although there have been several so-called "consultation" meetings, these have tended to address short term operational issues (and the DAA again refused to respond to Ryanair's queries). No justification for the huge increase in costs between the CIP 2005 and the CIP 2006 was provided at these meetings. The DAA produced minutes of these minutes are incomplete and/or factually inaccurate.

Significantly, there has been inadequate information supplied by DAA in respect of the underlying traffic forecasts which it claims have resulted in the development requirements, and hence the costs of development, being substantially higher (in the case of T2 by a factor of over 4 times) than the 2005 CIP. Information is required not simply in relation to the overall forecast passenger and movement numbers but specifically into how the busy day and peak hour profiles have been derived, the sensitivity of these profiles to different factors such as individual carrier plans or the assumptions regarding US open skies and how these impact on the assumed pattern of traffic using Terminal 1, Terminal 2, the apron areas and the runways. Without this information, it simply not possible to claim to have consulted with users as they have been denied the opportunity to form a view on the proposals contained within the CIP or their appropriateness to meet user needs. The late publication by the CAR of DAA's April 2006 Traffic Forecasting Report at 18.33 hours on 6th March 2007 (see attached) – just three days before the deadline for these submissions - does nothing to redress the lack of information. First of all, the late publication within the consultation period further disadvantages users, who have not seen this document before, making it unreasonable to expect proper reasoned comment.

This information asymmetry, or the manipulation of information and its availability, is a characteristic of abuse of a monopoly position – "regulatory gaming" in order to achieve higher airport charges. DAA is clearly a monopoly in terms of the provision of airport services in the Dublin area and its behaviour and the withholding of information has to be viewed in that light. It is important that the Commission does not reward the monopolist by accepting their view of the world simply because users have been denied the information necessary to allow them to consult or make informed judgements and comments on the proposals contained within CIP 2006.

Given the inadequacy of information made available by DAA or the CAR at the time of writing, the CAR cannot proceed with a review of the determination until such time as airlines have been provided adequate information and have been properly consulted on their requirements.

3. <u>Failure of DAA to Consult Users</u>

There is voluminous evidence which demonstrates that the DAA is engaged in regulatory gaming. It has now been recognised by the UK Office of Fair Trading (UK) that the form of economic regulation that both the UK and Irish regulatory systems are based on is fundamentally flawed. In its conclusions, para 9.3 of its report, the OFT stated clearly that *"We suspect that the price regulation of BAA's airports may distort investment incentives by providing a guaranteed return on investment, and encouraging regulatory gaming".*

The RAB (Regulated Asset Base) based approach actively encourages the regulated monopoly to spend excessively on capital projects because they receive a guaranteed rate of return on this expenditure, which they recoup from airline users in the form of prices set by the regulator. This too was recognised and questioned by the OFT at para 6.21 of its report; *"we therefore question the view that any investment funding should be generated by higher charges to current users before the investment takes place. Investment projects are usually selected on their ability to generate new revenues, not in view of the scope to raise current prices to fund them."* In its conclusions at para 9,4, the OFT recognized that the problems are clearly seen in terms of *"pricing, conduct and proposed investment decisions".*

This is clearly the strategy adopted by the DAA, i.e., inflate its capital expenditure in order to achieve higher airport charges through the regulatory settlement. Ryanair has presented evidence to the CAR that the DAA has been in contact with the BAA to discuss the level of information that BAA has provided to its users during the consultation process on the quinquennial review by the UK CAA. The BAA's failure to provide adequate information to users is one of the matters being investigated by the OFT.

4. <u>The CAR's Consultation is Flawed and Discriminatory and Does not Ask the Right Questions</u>

Ryanair considers that the consultation document issued by CAR is fundamentally flawed as it does not address in detail the fundamental issues regarding the demand projections for Dublin Airport or the appropriateness of either the 2005 or the 2006 CIP in meeting the requirements of airport users. This is despite the supplementary reports prepared on behalf of CAR, upon which we draw and comment in making this response.

Ryanair considers that the CAR has a duty to undertake a thorough investigation into the cost effectiveness of the capital programme rather than addressing, as it does in CP1, the mechanics of how the programme should be funded and its implications for airport charges.

Ryanair considers the list of questions issued by the CAR to be seriously incomplete. The CAR should have asked detailed questions regarding users' requirements and the design, location and cost of the planned facilities. The following is a list of questions that the CAR should have asked in order to determine users' requirements, together with the responses of Ryanair, Dublin Airport's largest user:

- *Were users properly consulted on the DAA Masterplan?* No. See response in section 3 above.

- *Do users agree with the DAA Masterplan?* No. The analysis below clearly demonstrates that the DAA Master Plan is badly designed, profligate and designed to maximise capital expenditure in order to almost double airport charges.

- *Have the DAA provided sufficient information to allow users to participate in the consultation process?* Clearly not. See section 2 above highlighting the DAA's consistent refusal to provide information to users.

- *Are the DAA's Minutes of the consultation meetings an accurate record of these meetings?* No. Ryanair has had to request serious substantive corrections to the minutes, some of which were refused by the DAA. Ryanair was forced to take its own minutes at the last meeting.

- *Is the proposed T2 in the right location?* No. Ryanair has demonstrated that the location of the proposed T2 in a cul de sac on the southside of the airport will lead to huge inefficiency in terms of taxi times to the new runway and will lead to delays. Aer Lingus have also confirmed in previous submissions to the CAR that the southern location is inefficient and will lead to increased costs and delays.

- *Is the proposed T2 an efficient, sensible design which meets users requirements?* Clearly not see further discussion below.

- *Do users require a separate check-in building with deep queuing spaces?* No. the advent of Check-in kiosks and web check-in mean that there is no justification for "deep queuing".

- *Have the DAA explained or justified to users why the cost of T2 has mushroomed fourfold from €170m in September'05 to over €600m in August'06 without any increase in its 11.5MPPA in its first phase?* No. See further discussion below.

- *Do users believe that a second runway is necessary at this time or prior to 35 mpaa?* No. The DAA is not fully utilising the existing runway capacity.

- *Can users point to more efficient, lower costs facilities elsewhere?* Yes. Fraport is building a similar sized new terminal in Frankfurt Hahn Airport for approximately €60 million, **one tenth the cost of the DAA's proposed T2.** Ryanair and 13 other entities proposed to build a competing second terminal in Dublin for a fraction of the cost proposed by DAA.

- *Are users willing to fund and build independent competing terminals at Dublin Airport with no increase in passenger charges to the travelling public?* Yes. Ryanair had 13 other parties expressed an interest in building a competing terminal at Dublin Airport.

- *Are users willing to accept lower specification facilities if provided at lower cost?* Yes. Airports around Europe (Bremen, Lutton, Liverpool, Marseille, Charleroi, Hahn, etc.) are developing low cost terminal facilities in order to lower airport charges and attract further passenger growth. The DAA's own forward terminal facility (which it now proposes to retain for the longer term) is a further example of this trend. See further discussion below.

- *Have the DAA consulted with or offered to users any such lower spec/lower cost facilities?* – No. Ryanair has been campaigning for years to be permitted to finance and build a low cost terminal facility at Dublin airport. These offers have been repeatedly ignored or rejected.

- *Were users consulted on the design of the Cork Terminal, Pier D, the link building or the T1 extension?* No in all cases. Users comments and requirements were ignored by the DAA.

- *Do users have any faith in the DAA to design, build or deliver efficient facilities in a timely fashion?* No. The DAA has consistently provided poorly designed, grossly inefficient and over expensive facilities. Ryanair has listed these examples to the CAR on numerous occasions. The inefficiencies are highlighted by the 38% increase in the cost of Pier D, now on site, between the 2005 and 2006 CIP.

- *Have users any faith or confidence in the CAR or its willingness/ability to meet their reasonable requirements?* No. Until the CAR actually starts to regulate the DAA and forces them to provide sufficient information regarding cost efficient options for development, then the DAA will continue to game the regulatory system and ignore users' requirements.

A question that the CAR did raise but was not included in the list of 15 questions is the following:

Are users and prospective users willing to pay the charges necessary to fund CIP 2006, and what assurances can they provide that they will use Dublin Airport (and therefore pay such charges) in the future? (page 4 of CP1)

This is the most fundamental question posed by the CAR, yet it does not appear as a specific question to which the CAR has requested a response. Ryanair states categorically that it is <u>not</u> willing to pay the charges necessary to fund the development set out in CIP2006 and that it will not use Terminal 2 if construction proceeds on the basis currently set out and at the price proposed. Furthermore, in the event that Ryanair obtains majority ownership of Aer Lingus, then Aer Lingus will not transfer its operations to the inefficient and overly expensive T2. Ryanair doubts whether Aer Lingus will now be willing to fund the extra cost of operating from Terminal 2 in any event as its recent Defence Document (1st December 2006) committed it to "continue to reduce its unit costs", which would not be consistent with operating from and funding an over specified and excessively expensive terminal.

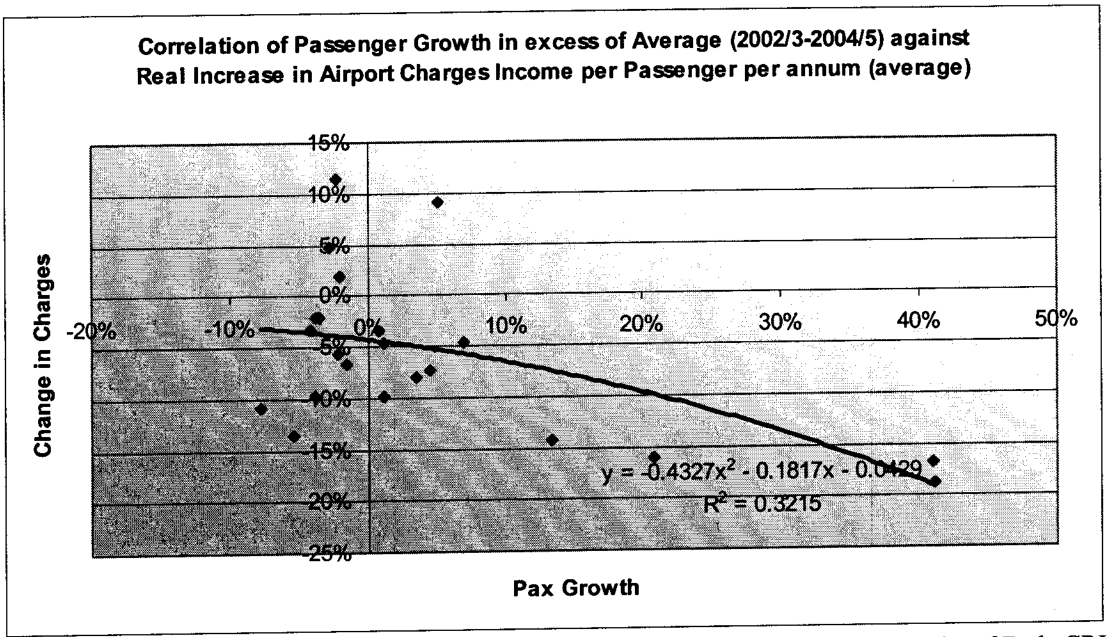
The cost increases implied by allowing the implementation of CIP2006 and its inclusion within the RAB (regulatory asset base) will have serious implications for traffic growth at Dublin Airport. Should airport charges rise to fund development, Ryanair and other airlines may be forced to consider alternative options for growth. This might include:

- Ceasing growth altogether in Dublin by diverting new aircraft deliveries to other lower cost, efficient airports around Europe;
- Relocating based aircraft to other airports in Ireland, either in the Republic or in Northern Ireland;
- Expanding operations away from the Irish market if the costs of serving it become too expensive;
- Operating 'W' rotations, retaining based aircraft but flying the remaining sectors in the day elsewhere.

In any event, Ryanair does not intend to significantly increase its base of aircraft at Dublin for the foreseeable future but, provided the airport charges at Dublin are not increased, may serve Dublin from additional points on its network with aircraft based elsewhere, so reducing its proportionate contribution to the morning peak period demand and contributing to more effective use of existing infrastructure, enabling development to be delayed compared to the programme set out in CIP2006.

Ryanair also understands that Aer Lingus intends to develop one or more bases outside of the Republic of Ireland in the near future, with Belfast being strongly rumoured.

There is a growing body of evidence that reducing airport charges in real terms is necessary to sustain growth. Airports which increase their charges are and will experience growth below the levels which might otherwise exist in an unconstrained market, particularly where growth, as at Dublin, is largely being driven by low fare and mid-frills carriers. This is clear in the UK where there is strong correlation between real movements in airport charges and traffic growth as illustrated in the graph below. This arises not simply through the elasticity of demand at the individual passenger level but because the increase in airport charges and the effect on demand at the individual route level mean that some routes, which would otherwise have been operated, will cease to be viable to the airlines. This compounds the normal price elasticity effects and means that price elasticity of airline and passenger demand combined at an individual airport level is higher than the overall market elasticity of demand (typically in the range -0.8 to -1.5).



Source: University of Bath, CRI

Appreciating that this analysis is estimated during a period (2002-2005) when airport charges have generally been falling across airports, York Aviation estimate that the effect of an increase in average airport charge per passenger from €6.78 to fund CIP2005 (which in itself Ryanair did not accept as having been justified) to €9.51 (excluding any peak pricing effects) as set out in the IMR paper of 9th February 2007 would result in demand growth at Dublin being at least 4.8% per annum less than it would otherwise have been. In other words, the cost of paying for the profligate development set out in CIP2006 would result in traffic growth at Dublin Airport stagnating, as the central forecasts under the plan are based on an annual average growth rate of 4.8%.

There can be no case for the development proposed on these grounds alone.

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?

Ryanair, in common with other users, does not understand how or why the capital investment plan for Dublin Airport has increased dramatically in cost since the CIP document issued by DAA to users in May 2005. In particular, there was no real consultation regarding the options for Terminal 2 or involvement by users in the 'gateway' process. Specific documentation has never been shared with users such as the 'Dublin Airport Authority Terminal Two, Initial Brief Report' relied upon by Boydcreedsweet in its so-called "Independent Verification" of the Terminal 2 proposal for the Department of Transport in September 2006. It would appear that this exercise took the brief for the development as read and merely examined the costs of construction. This was fundamentally flawed as increased costs appear to have arisen because of:

- false and misleading peak hour capacity demands presented by DAA;
- gross overspecification of facilities;
- grossly excessive building costs based on inappropriate benchmarks.

These factors are discussed in further detail below.

The Independent Verifiers' Report sets out the High Level Objectives for Terminal 2 as being:

- Development of a terminal to cater for 10-15mppa to optimise the capacity of the site;
- Delivery of sufficient capacity to meet demand in 2009
- **Delivered through a process which is highly visible, auditable and efficient, that ensures best value and engages stakeholders appropriately;**
- **Delivered at the 'right cost' in terms of both capital and life cycle;**
- Delivered safely and **in a manner which maintains capacity during construction.**

It is clear that the development proposed does not meet at least 3 of the high level objectives set for it.

There is total lack of transparency about the process, which renders it impossible to audit decisions taken in terms of location, scale and timing, particularly when users were not consulted properly or at all. Neither is the terminal as proposed cost efficient or 'best value'.

The cost of the second terminal as proposed is grossly excessive. The initial estimates of cost were between €170 million and €200 million when the 15 mppaproject was announced in September 2005. However, in a period of just 11 months, this figure ballooned to €609 million on DAA's numbers, which does not include the necessary redundancy of the 7-year old Pier C at a cost of €150 million, nor other associated oad, car parking and utility works and project management costs up to a total of €757 million for the total first phase development. This without increasing the 11.5 mppa capacity of the first phase of the facility. Whatever way one looks at this it is clear that the DAA is attempting to maximise the cost of this facility in order to achieve higher airport costs.

Similar capacity facilities being built at other airports (that are subject to market forces) are being provided for a fraction of the price of T2. For example, and as provided to the CAR on 13th December 2006, Fraport is developing a similar new terminal facility in Frankfurt Hahn Airport to provide a 15 million passenger terminal at a proposed cost of just €60 million – less than one tenth of the cost of DAA's T2 plan. It is patently clear that the DAA's plans are unjustified and designed to maximise airport charges and a greater absolute return.

Clearly the development proposed does not 'maintain capacity during construction' as it involves the loss of Pier C (with 6 contact stands) and non-pier served stands during construction which is being used as a primary, if unfounded, justification for the change in coordination status of Dublin Airport from winter 2007 onwards.

Ryanair cannot see how the project can be justified in any terms, including meeting the high level objectives which DAA itself set for it.

It is worth reminding CAR that Ryanair and other users did not accept CIP2005 as having been justified. The same failures to consult and lack of information prevented users from meaningfully commenting on that programme at the time. Indeed, it was already considered as an excessive programme in relation to user needs. CP1 presents only a comparison back to the 2005 CIP, as if that was an acceptable basis for determining charges to users. It is not. In itself, it would have required substantially further consultation and justification. The CAR is again failing to meet its statutory duties by assuming that the 2005 CIP was acceptable to, or met the reasonable requirements of users.

Without prejudice to the comments above regarding the underlying basis for both the 2005 and 2006 CIP's, whilst the cost increases related to Terminal 2 make up the majority of the cost increases in terms of proportion, there are other elements where significant and material cost increases are proposed in their own right. Even within the Terminal 2 costs, there are elements such as the excessive €30 million for customs and border facilities to fund the relocation of existing US pre-clearance facilities which are without justification both because these facilities already exist within Terminal 1 and US carriers are indicating less interest in using such facilities in future, preferring to rely on conventional clearance at the US end of the route. The DAA has not provided and Ryanair has not seen any evidence that relocation and replacement of the existing facility makes a sound business proposition, for which incremental US business would justify the cost. The CAR would need to be satisfied that US carriers are willing to pay for this facility without recourse to the rest of the airport users.

Ryanair notes that the costs of Pier D have risen substantially, by 38%, in real terms against a cost estimate published just prior to the start on site. This is clear evidence of DAA's inefficiency in the delivery of capital programmes. Users are right to be concerned that the total costs of CIP2006 may rise still further, placing yet another burden on users at the time of the next regulatory settlement. The current regulatory regime places no incentive on DAA to specify <u>or</u> deliver capex efficiently or to meet the requirements of users.

A further element in the increased costs relate to the Terminal 1 extension. Ryanair has already queried why the effect of this extension is not a real increase in the capacity of Terminal 1, given the construction of Pier D, enabling both the scale and timing of Terminal 2 to be adjusted both downwards and later. More recent examination of the planning application drawings has revealed that the sole driver for this project is to redevelop/reinstate retail facilities in a location accessible by the majority of passengers brought about by the requirement to incorporate Pier C into the construction of Terminal 2. As a result of this closure, far fewer passengers would be exposed to the DAA's existing retail offer on route to their aircraft (predominantly parked at piers A and D) so Terminal 1X is nothing more than a further unnecessary T2 related enabling cost. It is a further example of the fundamental inefficiency of the development proposed by DAA which users are being expected to pay for.

In summary, the original CIP2005 had not been adequately justified to users and was unacceptable in its own right. CIP2006 has not been adequately consulted on or justified to users and is significantly worse than CIP2005, containing unnecessary, inefficient and overspecified facilities. The almost doubling in costs from CIP 2005 (€542 million) to those in CIP 2006 (€1.2 billion) has not and cannot be justified. The only explanation is a policy by the DAA to game the regulatory process in order to inflate airport charges further.

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

The concept of trigger pricing has been applied, principally at Heathrow Airport, in circumstances where airline users were concerned that the airport operator was delivering capacity improvements too late to meet their needs. This is not the case at Dublin. Trigger pricing should only be considered in relation to facilities for which there is a clear need and to which users can ascribe a value. Only users which value the facilities should be required to pay any incremental trigger price. The mechanism by which this should be agreed would be by specific contract with the airline(s) which want the facilities. Otherwise, in line with the recommendations of the UK OFT, airlines should have the reasonable expectation that development to meet growing demand should be funded through revenues accruing from that growth, not by any step changes in charges, given the economies of scale achievable as an airport grows.

The fact that airport investment is of itself lumpy should, if the correct regulatory regime outlined above was applied, act as its own discipline to ensure that the investment was timely, efficient and appropriate. If particular airline users have specific requirements necessitating a step change in facilities, this should be by contract with the airline itself without recourse to other users.

If investment is efficient, there is no need for financeability itself to be a concern as the investment will be remunerated through growth.

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?

Ryanair does not consider that there are any investments in CIP 2006 which would justify or warrant trigger prices.

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?

There are no reasons for allowing DAA to start levying higher charges to allow it to fund CIP 2006. Firstly, as stated above, DAA's CIP 2006 is a product of regulatory gaming and a failure to consult properly with users on their requirements at Dublin Airport. Users are already paying higher charges based on the DAA's earlier CIP and there is no justification for allowing any further price increases. A blatant example of this if the fact that DAA's current RAB includes the cost of Pier C, which will now be closed and scrapped as part of T2, yet users will continue to have to pay for it, despite the fact that it will no longer be used. Secondly, users should never have to pay for facilities either (a) in advance of when they are ready to be used; or (b) for facilities which those users will never use. Airlines cannot prefund new aircraft and monopoly airports should not be permitted to do so for capital expenditure programmes. If Ryanair or any of the other 13 parties that expressed an interest in building and operating a competing terminal in Dublin Airport had been permitted to do so they would not be able to levy charges on users until such time as the facilities were available to be used and even then only on the passengers and airlines who actually used the second terminal. The CAR should not allow the DAA to depart from this market reality.

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

This is the wrong question. The fundamental question is whether CIP2006 represents cost effective development of Dublin Airport to meet the needs of users.

Only once the correct level of investment in the CIP has been determined, can a sensible discussion take place about any consequent price profiling. Factors to be considered would be:

- does the CIP meet the needs of users;
- the extent to which the development could be phased;
- the size of the minimum capacity increment which was cost effective;
- the extent to which traffic growth will be impacted by the costs of paying for development.

These matters can only be considered through an open and transparent sharing of the costs and benefits of different approaches to development. This should take place through a proper consultative engagement with users, particularly where these users are ultimately expected to bear the full cost of development directly, including through the commercial revenue contributions of their passengers. Ryanair's list of comments and questions sent to DAA's Chief Executive, Declan Collier on 8th December 2006 (copy attached) were an open attempt to start this process. However, the DAA have flatly refused to respond to these questions and comments. The CAR is well aware of the DAA's failure to provide information to users but has failed to attend the various so-called "consultation meetings" held by DAA.

CAR should insist on DAA sharing fully the cost benefit appraisal of different options for development with users prior to their inclusion in the CIP. Until such time as the DAA has presented the options and properly consulted with users on the costs and benefits of these options, the 2006 CIP should be abandoned since it is clearly inflated by regulatory gaming and a terminal facility which costs over 10 times more than other similar sized terminals.

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?

Ryanair cannot comment on detail on the traffic forecasts because of the inadequate information in support of the figures presented in the CIP provided by DAA. The late publication of the DAA's April 2006 report by the CAR only goes someway to addressing the questions posed by Ryanair in its 8th December letter to DAA in terms of the background to the forecasts. In any event, these forecasts were prepared in April 2006 and need to be adjusted in the light of:

- new security requirements and their effect on demand;
- the privatisation of Aer Lingus and any changes in strategy;
- recent market trends, including Ryanair's own growth and future strategy;
- the effect of increased charges on demand.
- revised projections of growth in other markets in the light of the current market situation and fuel prices.

Ryanair would expect to see the forecasts updated and represented, with full explanation, prior to any decision being taken on the appropriateness of investment.

Specifically, it is not adequate to simply report passenger and movement projections in aggregate terms. Whilst the recently published forecast document gives some detail on the geographic mix of demand, no information is given in relation to the split between scheduled and charter carriers, by different aircraft types. Furthermore, the description of the forecast methodology is generic and, except for commenting on the UK market, does not identify how the different growth drivers will affect different markets. Although high and low growth cases are described, no detail is given in relation to these sensitivity tests and how they might impact on the shape as well as quantum of demand. The shape of demand is fundamental to answering question 8 as we discuss below.

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?

As indicated above, Ryanair believes that price regulation should start by establishing a fair market price. It should be possible to increase airport infrastructure to meet growing demand through the proceeds of that growth without recourse to increased prices. In those circumstances, the basic price cap or 'default price' to use the phrase coined by the UK CAA during the Q4 determination, should be a constant price based on current prices. A clear statement along those lines would represent a clear price path commitment and would make clear that capacity must be built cost effectively to meet growth in demand in 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?

The DAA has repeatedly refused to provide airline users with any traffic forecasts that would support this patently false and misleading figure that is designed to justify the 50% increase in the original size of Terminal 2 and the quadrupling of costs. Furthermore, there is no evidence of traffic exceeding demand in the existing terminal at Dublin. As the largest passenger airline in Dublin Ryanair can confirm that the so-called congestion caused by the early morning traffic peak proffered by the DAA is false and results from a policy by the DAA to under declare capacity in order to justify excessive capital expenditure.

Specifically, DAA has not provided an overall profile of demand for the Airport as a whole in future years, including the critical years for the CIP of 2009, 2012 and 2015. This is essential in order to understand whether the development proposed is appropriate in terms of scale and timing and whether it appropriately addresses the capacity shortfalls where they arise. Information must be provided in terms of hourly busy day passengers and movements, broken down by traffic type, both geographic and service type, aircraft type and by which terminal it is proposed that particular blocks of traffic will use. Utilisation diagrams must extend not simply to terminal capacity histograms but to full gating analyses by aircraft type and pier demonstrating the efficiency with which different airside areas will be used.

Sensitivity tests need to be provided showing the effect of alternative allocations of demand between Terminal 1 and Terminal 2 to ensure that the proposed allocation is the most efficient. To the extent that the requirements of the pre-determined 'anchor tenant' for Terminal 2 have resulted in an inefficient utilisation of capacity across the airport as a whole, they must be solely liable for it and willing to underwrite the costs associated with that inefficiency.

There is significant analysis in the IMR report for the CAR to demonstrate the inefficiency of the proposed Terminal 2 development and traffic allocation. Ryanair would, however, draw a different conclusion from this analysis. Rather than concluding that Terminal 2, as proposed, will have a capacity of up to 26mppa - more than double the 11.5mppa stated by DAA for the first phase of T2 - Ryanair considers that this analysis demonstrates clearly that Terminal 2 is inefficient and oversized and that a significantly smaller development would be sufficient. There can be no justification for building terminal capacity now to handle up to 46-50 mppa across the two terminals when neither the aprons nor the existing runways could support such traffic growth and it would be in direct contravention of the limit to growth at the existing terminal area of Dublin Airport imposed by the Final County Local Area Plan. This limits throughput at the existing site to 35mppa. It is clear that Terminal 2 as proposed would be in breach of this planning limit and would hence be abortive expenditure.

Taking the current once way (departures) busy hour at Dublin Airport of 3850 for Summer 2007 based on declared capacity, this represents a ration of 0.000178 of projected annual demand of 21.653mppa (3,850/21,653,000). York Aviation has indicated that, in its experience, the busy hour as a proportion of annual throughput would be expected to continue to decline as a proportion of all total annual demand even when an airport is not capacity constrained simply as a function of critical mass and the increasing maturity of the route network. In other words, the value of this ratio would be expected to fall. This is particularly so for Dublin as:

- the graph at Page 19 of the CIP clearly shows demand becoming less seasonal over time;
- the past trend of reducing peak demand is clearly shown at Chart 8 of the IMR report for the CAR. No explanation or justification has been given as to why this trend will change in future;
- DAA is projecting increased frequency on US and European routes which means that gaps in the schedule will be filled in, to a greater extent than growth in the peak;
- Plans to base aircraft away from Dublin and fly to, rather than from, Dublin in the mornings will reduce the relative contribution of the peak hour.

Even assuming there was no further reduction in the ratio of one way (departure) peak demand to annual demand at the airport, this would suggest that on DAA's forecasts for annual passengers in 2015 of 29.395mppa, the total departure busy hour for the Airport would be expected to be around 5,230 passengers or less. If 4,200 of these busy hour departing passengers are using Terminal 2, this suggests that only just over 1000 passengers will be using Terminal 1 in a typical morning busy hour. Accepting that the peak in Terminal 1 may, by inference from the remainder of the overall demand profile at the Airport as illustrated in Chart 4.2 of CP1, be later in the day, this represents gross underutilisation of the existing facility and a highly inefficient utilisation of airport terminal capacity overall. It is also poor customer service as the balance of stand capacity at the Airport would suggest that a substantial amount of the T2 traffic would be required in the peak hour would be required to use stand capacity associated with Terminal 1. The dilemma is highlighted in Chart 15 of the IMR Report.

Chart 4.2: Capacity Utilisation at Terminal 1 in 2004

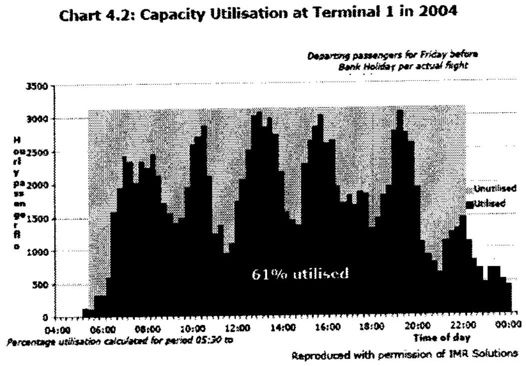
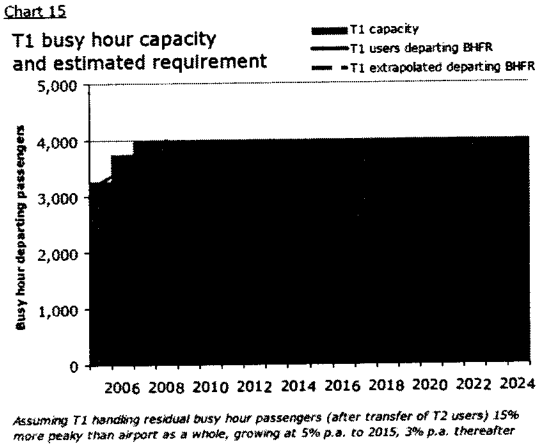


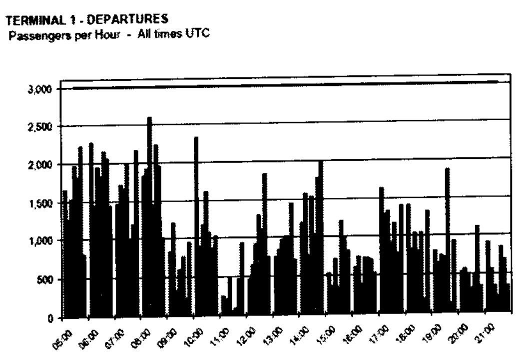
Chart 15

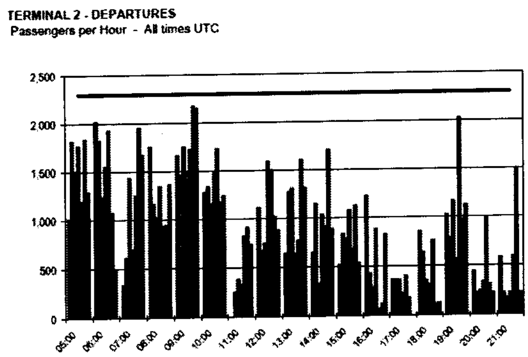


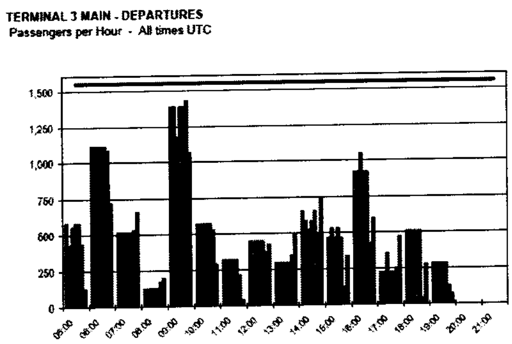
It is noted that IMR has adopted 4,000 departing passengers per hour as the capacity of Terminal 1, based on the Arups report for DAA as presented to the Coordination

Committee in September 2006, which was based on the most limiting capacity element at that time. This is a conservative estimate given the scope for improvement to T1 offered by an extension properly focussed on providing more capacity and meeting the needs of users. DAA has recently confirmed that TX1 will provide an hourly capacity in T1 of 4,800 departing passengers.

From its own experience, York Aviation consider that it is reasonable to expect that there would be some inevitable inefficiencies arising from allocating traffic across more than one terminal at an airport. Typically, other than in the first couple of years after opening, this should be no more than 15-20% of the overall airport busy hour. In other words, it is reasonable that the combined busy hours in two terminals would be some 15-20% greater than the overall airport busy hour. The ability to manage demand across a multi-terminal airport can be seen by examining the departures demand profiles published by ACL for Manchester Airport Summer 2006 below.







Looked at another way, if Terminal 2 has capacity for 4,200 passengers per hour and Terminal 1 has capacity for 4,800 passengers per hour, this would allow the airport to accommodate an overall departures busy hour of at least 7,500, equivalent to an annual throughput of 42.1mppa or more. However, the development of Terminal 2 as proposed will result in inefficient capacity utilisation across Dublin Airport as a whole with capacity at least 25% in excess of overall demand in 2015.

Faced with a demand profile for Terminal 2 as shown in Chart 4.1 of CP1, a rational airport operator would have rejected that utilisation scenario as costly and inefficient and set a target departures busy hour for Terminal 2 at around 2,800-2,900 passengers per hour, appropriate to meeting all but a small proportion of peak demand. Even this would, on the calculations set out here, leave the airport with a high margin of spare capacity overall.

Ryanair knows of no reason why the users of Terminal 2 should exhibit such an extreme demand profile within the day. The DAA has not consulted with Ryanair – its largest airline user – on the timing of its traffic patterns, etc. The IMR report does highlight, in Chart 8, that Aer Lingus is currently fundamentally more inefficient in its use of peak hour capacity at Dublin Airport than Ryanair. The only means by which the hourly demand of 4,200 could be accounted for is by an assumption that the entire Aer Lingus short haul fleet will depart from Dublin in a single busy hour. This appears unlikely, to say the least, given the plans of the airline to base some aircraft away from Dublin at a new base and the commercial need to start some aircraft from abroad to serve inbound markets to Dublin. There would also be substantial operational resource inefficiencies for the airline in handling the operations in this fashion.

Chart 4.1: Projected Capacity Utilisation for Terminal 2 in 2016

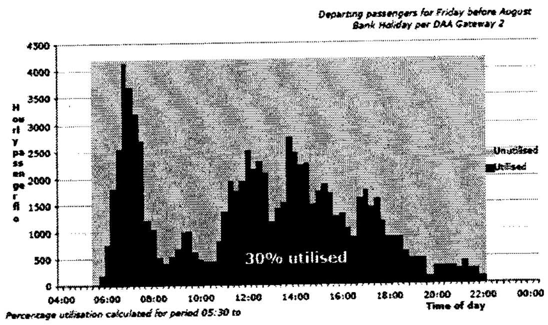
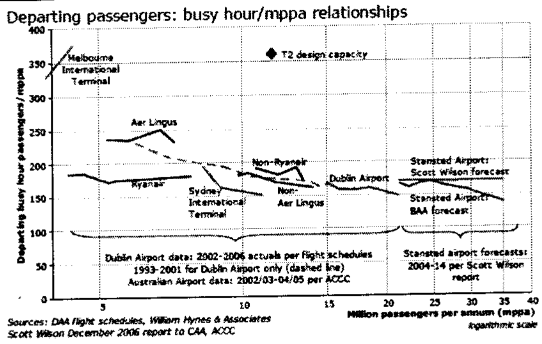


Chart 8

Departing passengers: busy hour/mppa relationships



Given that Ryanair expects to reduce still further the relative demands which it makes on peak hour capacity at Dublin Airport as a proportion of overall traffic, it does not recognise the demand profile or the rationale for it as illustrated in Chart 4.1. It is essential that proper explanation is given for the planned profile of demand and the users requesting such inefficient capacity held accountable.

Ryanair does not consider that IATA level of service C is consistent with the standards of service required by the majority of users operating at Dublin Airport. This level of service would be consistent with the standards expected at an airport handling predominantly multi-class travel. Given that for short haul traffic the majority of Dublin Airport airlines are offering a single class product, level of service C is excessive. Users requiring this standard of service should operate from a defined area and pay a quality of service differential.

Ryanair considers that if capacity assessment was made against an appropriate level of service for the users of the airport, firstly the capacity of Terminal 1 would enable a one-way departure flow of over 5,000 passengers per hour to be handled, taking into account the scope for extension. This would provide sufficient capacity, within a single terminal, to meet demand until almost 2015. Secondly, Terminal 2, when it is eventually needed could be a substantially smaller and more cost effective building.

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

Certainly not. If the first phase of Terminal 2 is intended to handle only 11.5mppa, it is reasonable to compare the costs in the first instance with those now proposed for phase 1 of Stansted Generation 2's new terminal with a planned capacity of 10mppa. According to the BAA's Development Proposal of January 2007, this is estimated to cost £242million, excluding roads, car parks and the cost of the runway itself. This equates to around €350 million. Moreover, Ryanair and other airline users of Stansted consider that even this terminal proposal to be over specified and 'gold plated'. €609 million is therefore a wholly unreasonable cost and is some ten times higher than a similar capacity facility in Frankfurt Hahn Airport. Other examples of airports develop low cost terminals include Bremen, Schipol, Marseille, Hahn, Charleroi, Lutton, Liverpool, etc. Many of these examples have already been sent to the CAR

It is impossible to describe as "reasonable" the terminal proposed by the DAA at Dublin Airport, which costs €609 million, some ten times that of a similar sized terminal in Frankfurt. Ryanair has provided other examples to the CAR, which also highlight that the new terminal in Cork was grossly expensive when compared to other similar facilities around Europe.

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?

This is again the wrong question and demonstrates that the CAR is taking the proposed T2 development as a fait accompli. The point is that the size of the facility is excessive in the first place and therefore any calculation of the cost on a per metre basis will be incorrect. It is also unclear how the benchmarking information has been derived or used as no details have been presented to users. Ryanair would consider that the inclusion of an airport like Heathrow, and potentially Gatwick, will have substantially distorted the benchmark. The cost per square metre stated appears very close to that used by BAA Stansted which all of the Stansted users, including Ryanair, considers to be grossly excessive for airports such as Dublin and Stansted with predominantly low fare traffic.

It would be preferable to use a metric based on cost per additional airport passenger as this is the basis upon which airlines are charged. Any other cost benchmark takes away any incentive for the airport to size the facilities cost effectively. This metric should, however, be based on recent developments of terminals, such as Hahn Airport and other examples of facilities (such as Bremen, Schipol, Marseille, Hahn, Charleroi, Lutton, Liverpool, etc.) that Ryanair has provided to the CAR, in order to meet the needs of users with the same balance of composition as Dublin. Using historic figures for terminals built to meet the historic requirements of full-service carriers would clearly be the wrong benchmark and would result in masking the huge inefficiency of this development.

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

It is clear from the analysis presented in answer to Q8 that the peaking issue appears to be a specific requirement of the 'anchor tenant' of Terminal 2, although Ryanair has raised serious questions concerning the accuracy of this claimed peakiness. This is not a general Dublin Airport problem as is clear from Chart 4.2 of CP1. It is certainly not a Ryanair problem, as the IMR report demonstrates clearly that Ryanair is among the more efficient users of Dublin Airport capacity.

Further analysis is required to identify what is driving this extraordinary peak in Terminal 2. The first recourse should be to ensure that Terminal 2 is only built when it is needed and then to a scale which is efficient and cost effective.

The CAR has published papers by CEPA examining in more detail the case for peak pricing, or congestion charging at Dublin Airport. This appears to start from the extraordinary position that a slot pair at Dublin is worth the same as a slot pair at one of the congested hubs in the USA, such as Chicago or New York. This is simply not so given the fact that slots are available at Dublin (despite the flawed finding of the CAR in respect of coordination at Dublin Airport) and therefore effectively have little or no value given that an airline can currently get them for free. Moreover, Dublin is not a hub so slot values would be materially lower, even if they were scarce, which they are not. Secondly, slot values are skewed where there are substantial mid to long haul operations because of the higher revenue earning potential of longer haul flights. Finally, an airport would need to have been operating at the limits of its runway capacity for many years for the values suggested by the CAR's consultants to be attainable.

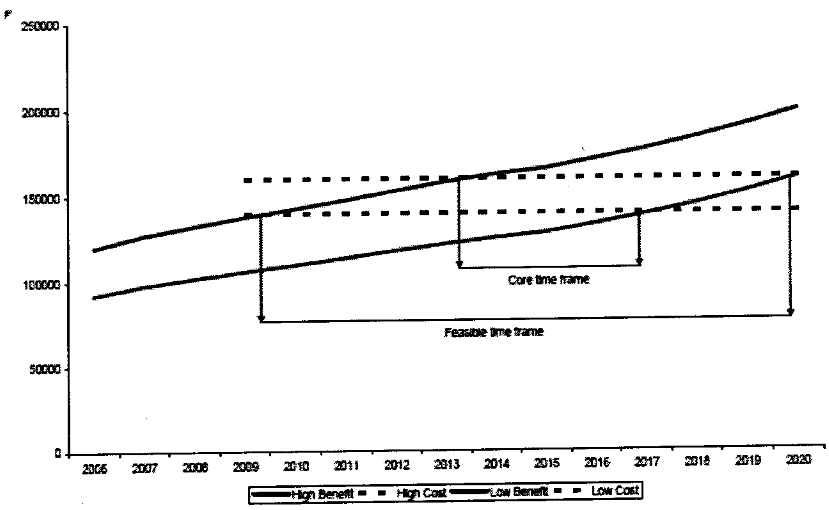
The analysis goes onto suggest that the development of Terminal 2 would allow passengers to spend 1 hour less at the Airport, giving a value to the saving of time. There is no evidence to suggest that terminal congestion is the reason for the apparently lengthy terminal dwell times at Dublin Airport. It might be reasonable to suggest that the reason that passengers arrive early is as a result of congestion on the access roads and the lack of effective and reliable public transport. CEPA makes a calculation that the savings would accrue to all passengers over two peak hours for the whole year. This is unrealistic in itself given that demand levels in winter are materially lower. There is simply no basis for the suggested savings.

A further justification is given for the congestion charges on the basis that passengers will be willing to pay €3 more for an improved quality of service. This is a false measure as there will be substantial difference between the willingness to pay of passengers on different types of airlines and different types of trip. For low fare airlines, such as the majority of customers at Dublin, there is clear evidence that increased charges will result in reductions in demand. CEPA goes on to assume that all Dublin Airport passengers, including arriving as well as departing passengers will be willing to pay this supplement for quality. This is clearly unrealistic and takes no account that 95% of Dublin Airport passengers pass through the terminals when they are operating below capacity. There is simply no quality deficit to be remedied.

CEPA goes on to use most of the same building blocks to undertake a cost benefit analysis of the proposed investment in Terminal 2 and Runway 2 at Dublin. This includes notional benefits to displaced passengers due to lack of capacity in addition to the other supposed benefits. Whilst Ryanair considers the value of benefits is substantially overstated in the CEPA analysis, it is illuminating to look at the results of the analysis. CEPA demonstrates that, even on its exaggerated estimate of benefits, construction of Terminal 2 is not justified on the basis proposed until at least 2014 as shown in Figure 3.2 of its report given the need to include the consequential costs of apron development within the Terminal 2 cost estimates. On the basis of a more realistic assessment of benefits, the project would not be justified until much later.

Analysis conducted by CEPA for CAR demonstrates conclusively that there is no case for the development of Terminal 2 on the scale proposed until at least 2014.

Figure 3.2: The T2 base case (€'000)



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?

Before embarking on such a strategy, the CAR would need to satisfy itself as to what is driving growth in peak hour demand. Peak pricing can only be justified in exceptional circumstances where there are no efficient alternatives. In its examples, CEPA confuses off-peak discounts designed to stimulate new demand with a form of congestion charging, which it is not at airports such as Luton.

As a based carrier, Ryanair will not accept to be punished by the introduction of peak pricing as based carriers have no choice as to when they operate in order to maximise their aircraft utilisation. Furthermore, imposing peak pricing at Dublin airport would simply reward DAA's inefficiency.

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

This question also demonstrates how out of touch the CAR is in terms of these developments. Why has the CAR not asked airlines if they wish to avail of a "lower quality experience". This year, for example, Ryanair based 10 further aircraft and delivered 3 million additional passengers using a temporary forward passenger facility adjacent to Pier A and receives no rebates. Ryanair and its passengers do not require a higher standard of service than offered by the generality of Terminal 1 at Dublin and will not pay for the claimed higher level of quality in Terminal 2. A policy which says users pay for better facilities should mean that airlines operating from demonstrably lower quality facilities should receive rebates. As noted previously, several airports around Europe (including Bremen, Schipol, Marseille, Hahn, Charleroi, Lutton, Liverpool, etc.) are developing low cost facilities and lower airport charges. This has not happened at Dublin Airport as a result of the DAA's abuse of its dominant position and the regulatory failure by the CAR.

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

There may be merits in this approach, provided that there are enough committed customers willing to pay a premium for a higher standard facility. Ryanair supports the development of appropriate low cost terminals at airports offered at lower charges than Dublin currently charges. Ryanair has previously indicated it would be willing to construct its own low cost terminal at Dublin. It would accept a charges differential on that basis.

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?

The CAR should not allowing any increase in the cap where the airport monopoly is clearly trying to maximise capital spending in order to increase airport charges. Because DAA is a monopoly it is refusing to meet the reasonable requirements of its users at a time when the trend across European airports is to develop low cost, efficient 2nd terminals (e.g., Marseille, Bremen, Schiphol, Liverpool, Frankfurt Hahn, Lutton, Brussels Charleroi, etc.).

If there is a case for differential pricing, it must be by reference to the quality of service which airlines are willing to pay for. Airlines are best placed to form a view of the extent to which their passengers will be willing to pay for a particular level of service. Ryanair, as the largest user of Dublin Airport should be given the choice of lower cost, more basic facilities that would attract a much lower price. This is currently not happening at the moment because the DAA is refusing to consider or meet the requirements of its users.

Moreover, if an airline indicates its willingness to underwrite a particular development and is subsequently unable to pay for this facility, either due to going out of business or having been acquired by another airline who does not wish to pay the excessive costs of the facility, then it should be the airport operator that bears this risk, not the users who either opposed the plan or have refused to use it.

Callaghan, Jim

From: maresa quilton [maresaquilton@aviationreg.ie]
Sent: 06 March 2007 18:33
To: kieran baker
Subject: [Retrieved]Update of website of the Commission [html-removed]

Hi all,

Following publication of CP1, there was a request for more information relating to traffic forecasts. The CAR today publishes redacted versions of supporting materials provided by the DAA when it submitted its CIP relating to traffic forecasts, planning schedules and gating requirements. The CAR is also making available on its website the DAA's 2006 traffic forecast.

Happy reading.

Best wishes

Maresa Quilton

Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2
Ph: 01 6611700 Direct line: 01 634 6831 Fax 01 6611269
mailto: maresaquilton@aviationreg.ie - http://www.aviationreg.ie
<http://www.aviationreg.ie/>

RYANAIR
THE LOW FARES AIRLINE

Corporate Head Office,
Dublin Airport,
County Dublin,
Ireland.
Telephone: +353 1 8121212
General Fax: +353 1 812 1213
sita; DUBHQFR
Reservations: +353 1 2497700
Website: www.ryanair.com

Department Fax Numbers
Finance: 01 8121373
Sales & Marketing: 01 8446625
Flight Operations: 01 8444404
Engineering: 01 8121338
Reservations: 01 6097902

8th December 2006

Mr Declan Collier
Chief Executive
Dublin Airport Authority
Head Office
Dublin Airport
Co Dublin
Fax: 814 4120

Dear Declan,

Dublin Airport CIP 2006-2009

I refer to your updated CIP covering the period 2006-2009. In the Foreword to this document the DAA makes great play of the process of reviewing the Master Plan for Dublin Airport in the light of the Government's Aviation Action Plan of May 2005. It highlights that you have engaged consultants and programme managers of international renown to assist you. However, this process has not involved any real consultation with users of Dublin Airport. The "consultation" that has taken place is the same form of sham consultation that led to the DAA spending €180 million on a 3 million passenger capacity in Cork. This is wholly unacceptable and will lead to more unnecessary cost and inefficiency at Dublin.

The document states that the original 2005 plan has changed because of *"major changes in factors such as mix, home based carrier fleet development and market share"*. Yet the needs and requirements of Ryanair, the DAA's largest airline customer, have not been taken account of and comments made on the previous CIP have been wholly ignored. I set out below a summary of the key points raised in respect of the previous CIP:

- The need for a ready reckoner to demonstrate the impact of various projects on airport charges;
- The need for low cost facilities to reflect the fact that the vast majority of growth is in low fares services base at Dublin Airport;
- Lack of adequate consultation to determine the needs of users and to discuss how these needs will be met;

- Questions regarding the basis and accuracy of the DAA's traffic forecasts;
- Detailed questions regarding the need for several individual projects that still appear in the 2006 CIP.

Now we are presented with a revised CIP which represents virtually a 100% increase in cost, which users are expected to bear, over a 5 year period. This is wholly unacceptable and cannot in any way be accounted for through the alleged changed requirements by the main airlines using Dublin Airport over the year since the previous CIP, which was in itself unacceptable, was published.

The 2006 document claims to provide users with all the detail underpinning the plan. It does not, as we will make clear.

It is imperative that there is a full and proper consultation on the CIP prior to the process of charges determination by the CAR. This must consider in detail:

- User requirements in detail, including growth projections, fleet plans, changes in the pattern of traffic, level of service requirements;
- The current capacity of Dublin Airport, including those facilities such as Pier D now under construction;
- Capacity bottlenecks and how to alleviate them through operational or other measures in order to maximise the capacity of existing facilities before any new build;
- Alternatives for overcoming such bottlenecks considered through a full cost benefit appraisal, including their impact on charges to users and potential for commercial revenue generation to offset costs.

None of this has been done by the DAA and users are presented with a document that does not provide adequate detail and are asked to "take it or leave it". Indeed, the DAA has gone ahead with several of the major projects when it claims to be in consultation with users. For example, I note that DAA announced that it has applied for planning permission for the €50 terminal 1 expansion before it has even discussed design options and costs with users. Indeed, I questioned why there was so much retail space in the planned layout instead of maximising the amount of passenger processing in the facility, which would then contribute to greater utilisation of T1, particularly given the fact that Pier D will introduce 10 million worth of stand capacity. However, my comments were ignored at the meeting.

It is unacceptable for the DAA to be requesting any further price increase based on this document until proper consultation has taken place and user requirements are reflected in the projects. Only once this process has been completed will users be able to consider whether the plan put forward is appropriate to meet their needs at Dublin Airport.

Prior to commencing on this detailed consultation process, we have a number of initial questions and requests for further information attached, which are necessary to enable us to comment on the plan as presented. This information is needed before Christmas in order that we can engage properly with the forthcoming review of charges proposed by the CAR.

Yours sincerely,

Jim Callaghan
Head of Regulatory Affairs and Company Secretary

CC: Cathal Guiomard, Commissioner for Aviation Regulation

General

1. Please explain statements that capacity at Dublin Airport is under *"severe stress"* when analyses undertaken to support the capacity declaration for S2007 have demonstrated that there was substantial spare capacity in most system elements, including the runway and major areas of the terminal.

2. Please supply a full reconciliation back, project by project, to the previous CIP. What has changed, what were the drivers of change, what are the cost implications?

3. Please set out in full the levels of service used by the DAA for each element of terminal and runway capacity. Please explain when these were agreed with users.

4. Please give details of the claimed "unprecedented level of user consultation" on T2 design. Who was this with and when?

5. Please explain precisely what is meant by the phrase that the Government's Independent Verification Consultants confirmed that the T2 design conforms to *"best international practice"*?

6. Please set out in detail the basis for the assessment that developments within the CIP will generate increased commercial revenue, how much additional revenue will be generated and from what facilities? Will this commercial revenue offset expenditure on capacity development within the 'single till'?

7. How much of the planned expenditure in 2006 has been carried out? What are the consequential implications for future years in terms of pre-existing commitments?

8. Please set out in detail the 68% of projects which are already well advanced and *"unlikely to change"*? Please set out the commitment dates and completion dates for each of these projects and detail what consultation took place with users about the need for and cost of the scheme prior to commitment.

9. Please set out in detail what elements of the need for additional airport capacity at Dublin have changed since the publication of the Aviation Action Plan in 2005. Why have development costs doubled? Please set out in detail the changed requirements in terms of:

   - Stand numbers and sizes.

   - Busy hour rates for arrivals and departures through the terminal by area.

10. In terms of passenger forecasts, the graph within the CIP suggests that the forecast passenger numbers in 2014 of 28 mppa are unchanged from the previous CIP. Please explain why this gives rise to changed/enlarged facility requirements for terminal, apron and runway capacity at Dublin Airport.

11. Please explain what assumptions have been made about any changes in the peak profile of demand at Dublin Airport on a seasonal and diurnal basis.

12. On what basis is increased transatlantic traffic as a percentage of the total projected? If transatlantic traffic makes up only 10% of total passengers at the Airport, why is it necessary to have facilities to accommodate such traffic in Piers D, E and a refurbished B?

13. Please explain how changes in the coordination status of Dublin Airport give rise to accelerated demand for more capacity?

14. Please explain how the design standard of IATA level C was chosen. Was this discussed with low fare airlines? What cost savings could be achieved by adopting a lower design standard for all or part of the terminal areas?

15. Please set out in detail the specific triggers for each scheme in terms of hourly passenger or movement or stand demand numbers, setting out clearly the capacity provided by the existing facilities and when the capacity threshold is expected to be exceeded.

16. There appear to be discrepancies between the capacity utilisation chart for the terminal in the CIP (p.22) and those produced by Arups for the purpose of discussions with airlines about capacity in S2007. These show capacity shortfalls, e.g. check-in, baggage hall and piers, which do not feature in the more recent Arups work and suggest more problems than actually exist. Please explain the discrepancy and set out the consequences of the additional available capacity on the timing and scope of schemes within the CIP.

17. Please set out in full assumptions regarding net revenue generation from commercial property development as this should only proceed if it can be demonstrated that revenue exceeds cost, i.e. there will be a net benefit to the single till. If not development should be funded entirely by third parties outside the CIP.

18. Please set out similar information to demonstrate that investment in retail will generate incremental revenues in excess of cost and hence contribute to a net benefit to the single till. Guaranteeing these revenues should form an integral part of any regulatory settlement.

19. Please set out full details of the cost benefit appraisal of the options for Terminal 2, particularly in terms of the costs and benefits of schemes which would have retained the existing Pier C in use. Further investigation is required to determine whether there are other options which would not involve the loss of current wide-bodied aircraft capacity on Pier C.

20. The limited net gain in stand capacity over the existing + Pier D is very inefficient. What is the cost per incremental contact gate on this configuration compared to the alternatives?

21. Please explain the basis of the airfield plan produced by P&W as this appears to suggest that short haul aircraft on short turn around times will be parked

further from the terminal areas than long haul aircraft. This is perverse in terms of the share of Dublin Airport traffic and in terms of check-in times and other aspects of customer service on short haul flights.

22. To what extent would better use of the land area between the two runways provide for a more rational airport layout overcoming some of the problems identified above.

23. Could the phasing of development be adjusted so the need for more substantial new terminal and pier facilities is delayed until after the second runway is built? For example, the DAA recently announced that it had applied for planning permission for an extension to T1. What is the maximum passenger processing capacity that could be provided from such an extension (not necessarily DAA's current design, on which it has not consulted with users).

24. More detailed explanation is needed in respect of the timing of the second runway and the assertion that a move to full coordination will delay the requirement. Why is the sustainable capacity of 10/28 set as low as 44 movements per hour?

25. With whom is DAA consulting about the runway capacity strategy and how does this fit within the overarching CIP consultation? Reference is made to consultation to follow the publication of the CIP. The text also suggests that projects for RETs as included in the last CIP have been dropped – where are the cost savings?

26. How was the anchor tenant for Terminal 2 selected? Is this the most optimal use of new capacity or would the optimum solution for the Airport be for a different mix of anchor tenants? What would have been the cost saving of leaving the 'anchor tenant' in existing facilities designed for their use and developing a customised low cost second terminal instead?

27. Please set out a full value for money comparison between the option of extending Terminal 1 to match Pier D capacity versus the option of building Terminal 2 first. What are the comparative costs per mppa?

28. Please supply benchmark costs for the proposed Terminal 2. How do costs compare with proposed terminal developments at Stansted, Luton, Liverpool, Manchester, Frankfurt Hahn, and Marseille T2.

29. Please supply benchmark costs for other major infrastructure elements – piers, car parks, aprons, etc.

30. Please describe outputs from each project in terms of hourly and annual capacity increases as well as m^2. Please set out clearly the demand triggers or other requirements for each project.

31. For each scheme, please set out the options considered and the costs and benefits of each in terms of meeting the identified requirement.

32. Where IRRs are quoted, as for T1 retail, it is unclear whether this is the incremental IRR for the retail/commercial element or the IRR of the whole

project, with some underpinning assumption about aeronautical revenues. More information is needed about the extent to which commercial revenues offset project costs.

33. Why are DAA funding the fit out of retail units when more usually this would be by the retailers themselves with the airport providing only shell and core?

34. Please supply copies of the various supporting documents referred to in Section 20 of the CIP.

Individual Projects

35. Please clarify the stand demand and supply values set out on page 32. It is not clear what the net number and mix of stands is at present and at each of the years 2007 to 2010. Why are there two sets of 'minus' values for Delta and how do these relate to the net total?

36. The strategy adopted by this CIP appears to dispose of some of the current stand and pier infrastructure, some of which is quite recent such as Pier C, in order to facilitate the position and scale of Terminal 2. Why has such a strategy been adopted as this is wasteful of current serviceable facilities and introducing a level of replacement CAPEX that is unnecessary had a more cost effective and coherent approach been adopted. Can you then explain why this wasteful and expensive approach has been proposed?

37. There is a major emphasis on the provision of several wide bodied stands for long haul operations including pier/gate facilities. Not withstanding that some of these wide bodied stands will be MARS configured for two smaller alternative aircraft types, this provision and resultant major adaptations of the stands, taxiways and buildings appears highly disproportionate to the relatively modest 10% contribution that long haul traffic has to the forecasts. Why then has so much long haul stand, pier and taxiway provision been included and why cannot existing long haul facilitation be retained rather then replaced as proposed?

38. The cost of the Terminal 2 facility is entirely excessive. Why have costs approximately quadrupled (including the redundancy cost of Pier C) from DAA's initial estimates just 11 months previous to the announcement of T2?

39. There are several enabling schemes within the CIP to make way for the Terminal 2 site, for example the cars hire relocations. Please provide details regarding all related enabling costs associated with Terminal 2 in order to provide the real cost of this scheme? It appears that the real cost of Terminal 2 will then in fact be much higher than the €609m suggested; which in itself is grossly excessive.

40. The €30m provision for the Customs and Border Protection 'US Pre-clearance' facility is excessive. Why is this facility being proposed at DUB when the principle beneficiaries will be the US Airports themselves where Immigration capacity for DUB originating passengers will not be required?

What evidence is there that passengers will not choose to fly on a US flight from DUB if such facilities are not provided?

41. Not withstanding the proposed T1 extension CIP 7.002, we believe there is considerable scope for extending the throughput of Terminal 1 to 30mppa at least. This would be aided by improved allocation of facilities to users to gain the maximum return from current and future investment. This includes but is not limited to how the current check-in and new Area 14 will be used and how the new Pier D will be utilised. In so doing it would then be possible to delay the timing of a second terminal to a much later date and still meet the needs of the users and facilitate the forecast. Please explain why this approach has not been considered?

42. Regarding all capacity related schemes in the CIP it is not clear what incremental capacity each provides and what the mutual dependencies may be. For example, some can only be provided or are only necessary if others are progressed. Please clearly set out the current capacity capability of DUB, where the pinch points are, what utilisation and management solutions can be implemented to ensure the maximum possible return can be realized and what then additional capacity can be derived and when from the schemes proposed.? The CIP as set out makes it difficult to appreciate this.

43. It would appear that much of the CIP is driven by a busy hour interpretation of the forecast demand coupled to a predicted peak stand mix. It is important that we have the confidence in this base data, the assumptions applied and its interpretation as the solutions required must meet the needs cost effectively and in full. As things stand we do not have this information and hence have little confidence that the right solution for DUB is being proposed. Please provide this information as soon as possible.

York Aviation LLP

Note on Dublin Airport Stand Capacity

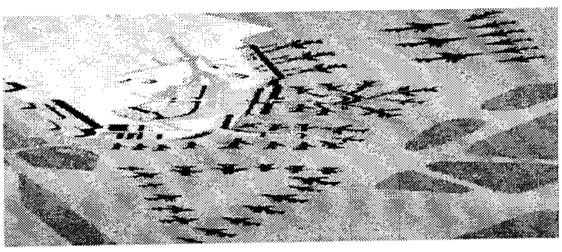
The Commission has asked about stand demand at Dublin Airport, particularly for overnight parking.

DAA Position

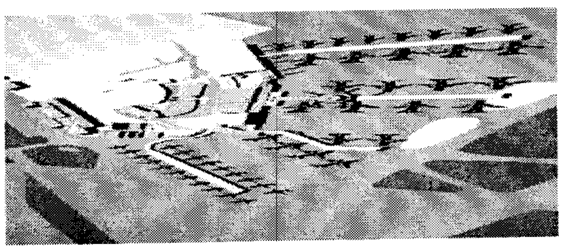
We have examined the latest Capital Investment Programme (CIP) for Dublin Airport and various airport capacity presentations from the DAA website. This appears to present contradictory information about the number of stands which will be available in future years.

There is a particular complication in that DAA tends to show up to 50% of stands occupied by wide bodied aircraft, when in fact such traffic is projected to make up only 10% of the passenger demand at Dublin by 2015, and a lower proportion of movements by definition because of the larger aircraft used. Furthermore, aircraft engaged in long haul services will not normally be on the ground overnight, contributing to the overnight stand demand peak for aircraft departing Dublin early in the morning. By showing large numbers of stands occupied by wide bodied aircraft, the capacity for narrow bodied aircraft will be substantially understated.

2005



2015



The relevant number of stands to consider in response to the question posed by the Commission is the capacity for narrow bodied aircraft. We believe presentations made by the DAA assume a significant number of stands are occupied by wide bodied aircraft and hence understate the capacity available for overnight parking by narrow bodied aircraft. The approach adopted by DAA could well understate the true capacity for overnight based narrow bodied aircraft by 25% if it assumed that up to half of the stands are occupied by a single wide bodied aircraft rather than two narrow bodied aircraft.

It is also clear from the DAA CIP that it assumes that the profile of demand over the day will be largely static, i.e. the same proportion of demand will want an early morning departure in 2010 as today. This would not normally be the case; as airports grow there is normally some degree of spreading of peak periods throughout the day and the year.

We believe, therefore, that presentations by DAA showing stand demand and capacity over the period to 2010 or 2015 may be misleading in terms of mix of aircraft and structure of assumed demand.

New Capacity

Although we have been unable to verify the total number of stands available for narrow bodied aircraft at Dublin Airport currently, an approach to assessing whether there is in fact an issue is to consider new capacity and new demand.

Summer 2007 demand has been accommodated following the recent Slot Conference in Dallas and there remains spare capacity as detailed in an earlier note. Hence, it is only necessary to examine 2008 and later in terms of further scope for new entry.

According to DAA, Pier D will add 19 narrow bodied aircraft stands from autumn 2007 (i.e. for summer 2008). We believe this is 14 net additional stands once the impact on existing facilities is taken into account (according to the DAA web-site). DAA is reported as stating that Pier D will add capacity for 10 million passengers per annum (mppa).

In addition, DAA's design for Terminal 2 and Pier E will add 19 narrow bodied stands, albeit at the expense of the loss of the existing 6 stands on Pier C. We believe this loss of stands to be unnecessary and that an alternative terminal development scheme could more cost effectively provide the necessary capacity without this loss of valuable existing stands and pier. According to DAA, they expect this additional capacity to be in place by 2009.

Therefore, by 2009, even on DAA's inefficient plans, there will be a net additional 27 narrow bodied aircraft stands associated with pier capacity adding capacity equivalent to 15-20mppa according to DAA. DAA also plans to build additional remote stands for overnight parking over this time period.

Demand

DAA's passenger forecasts show demand increasing from around 20 million passengers per annum (mppa) to around 26 million passengers per annum by 2010, i.e. an increase of 6 mppa, significantly less than the capacity of the additional stands which it is providing.

It is also important to note that based on Ryanair's plans for route development at Dublin Airport over the period, it expects to allocate an additional 5 aircraft to Dublin, equating to 1.5mppa. Total additional capacity offered by Aer Lingus's planned fleet additions is 2mppa, to be deployed between Dublin and Cork. At best, we would expect Ryanair and Aer Lingus combined to generate an additional 3mppa at Dublin Airport over the period to 2010. **Ryanair and Aer Lingus combined would, therefore, take up only half of the growth being forecast by DAA to 2010. The remaining 3 mppa growth must be coming from new entrants or other carriers expanding at Dublin.**

Conclusions

1. **Analyses by the DAA showing that stand capacity is being fully taken up over the period to 2010 understate the number of stands available by assuming too many stands are occupied by wide bodied aircraft.**

2. **The new capacity being built over the period to 2009 will have capacity for around between 10 and 20 additional mppa each year on the basis of use by narrow bodied aircraft of the types commonly in use at Dublin in the peak.**

3. **DAA's projections of stand utilisation assume growth in demand of 6mppa by 2010.**

4. **Ryanair and Aer Lingus will only provide around half of the increased demand.**

5. **By definition, then, projections of stand capacity and usage at Dublin Airport over the period to 2010 already assume substantial new entry by airlines competing with Ryanair and Aer Lingus.**

lc/7.12.06

Corporate Head Office,
Dublin Airport,
County Dublin,
Ireland.
Telephone: +353 1 8121212
General Fax: +353 1 8121213
sita; DUBHQFR
Reservations: +353 1 2497700
Website:www.ryanair.com

Department Fax Numbers

Finance:	01 8121373
Sales & Marketing:	01 8446625
Flight Operations:	01 8444404
Engineering:	01 8121338
Reservations:	01 6097902

ab/MOL/3056

9th March, 2007

STRICTLY PRIVATE AND CONFIDENTIAL

Mr Cathal Guiomard
Commissioner
Commission for Aviation Regulation
3rd Floor
Alexandra House
Earlsfort Terrace
Dublin 2

Fax No. 6611269

Dear Cathal,

Your letter dated 7 March refers.

Your attempts to rewrite history or the sequence of our correspondence simply won't wash. Your letter dated 29 September was replied to by me on 9 October. You sought no further information from us in relation to the low cost terminal developments at Luton, Liverpool, Frankfurt Hahn, Brussels Charleroi or Marseille, although you are now clearly aware of these. It is not unreasonable for airline users to expect that the Commission for Aviation Regulation – particularly with your penchant for consultants fees and reports – contact these airports directly to verify the cost and capacities of these low cost terminals and their cost. We have already given you the information which these airports have provided directly to us.

Further I have now ascertained with the management of Fraport Frankfurt Hahn Airport that the cost of their proposed new terminal building and associated works will in fact be less than €60m. Frankfurt Hahn Airport have confirmed that they will be happy to give the CAR a presentation on this facility, its size, its passenger capacity and its costings, should you wish to make direct contact with them. Naturally, Ryanair would be happy to provide the CAR with return flights to/from Frankfurt Hahn if you would like to examine how a 15 MPPA terminal can be designed, developed and built for less than €60m. Your claim that Ryanair has not provided you with information about low cost second terminal facilities at other European airports is utterly untrue.

I note that your latest letter again fails to address the ludicrous proposed T1 extension which is an attempt by the DAA monopoly to develop retail space to replace what it loses as a result of closing Pier C. This additional space is not required by users, does not meet the needs of users, and its cost should not be included in the regulated asset base.

Ryanair will be making a comprehensive submission later on today to your paper CP1/2007 which was published on 9 February last. Regrettably our submission will be somewhat incomplete because of the repeated refusal of the DAA to provide us with meaningful information on traffic forecasts. The surprising decision of the CAR to publish some of this traffic forecast information at 18.30 after office hours on 6 March last – almost one month after you published CPI/2007 but just 3 days prior to the deadline for users submissions – gave us very little time to respond to this incomplete late information. This late publication of this incomplete traffic forecast information does the CAR no credit whatsoever. Perhaps you might explain why these traffic forecasts were not included in the Commission's paper CP1/2007 when published on 9 February last? Furthermore why have you not forced the DAA to respond to the other information requested in Ryanair's letter to the DAA dated last December.

The behaviour of the CAR, in the late publication of this information, and its failure to attend so called consultation meetings where the DAA have consistently stone walled their customers, proves that the CAR has failed to meet its statutory obligations towards users.

Yours sincerely

Michael O'Leary
Chief Executive