COMMISSION DECISION ON 2010 – 2014 DUBLIN AIRPORT CHARGES

Press Statement, 4 December 2009

The Commission for Aviation Regulation has today published its final determination on airport charges at Dublin airport for the period 2010 – 2014. The determination will come into force from 1 January 2010.

The table below shows the Commission's final determination. The maximum revenue per passenger in 2009 under the current determination is €7.39 per passenger.

	2010	2011	2012	2013	2014
Maximum revenue per passenger if T2 **not operationally ready**	€8.93	€8.11	€7.90	€7.70	€7.50
Maximum revenue per passenger if T2 **operationally ready 1 November 2010**	€9.32	€10.44	€10.23	€10.03	€9.83

Background

The Commission sets the maximum revenue per passenger that the Dublin Airport Authority (DAA) can collect at Dublin airport, this is also known as the 'price cap'. The price cap is set at a level that allows the DAA to operate the airport on an efficient basis, including an allowance for the cost of investing in airport infrastructure to meet the needs of current and future users.

The price cap represents the **maximum** amount that the DAA can charge on a per passenger basis for each year between 2010 and 2014. It is open to the DAA to charge passengers **less** than this price cap, according to business decisions, as the DAA has done in the past. It is also open to the DAA to charge passengers on a **differential basis** for the facilities that they might or might not want to use, subject to the constraints of competition law and ICAO rules.

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On 27 October 2009, the Minister for Transport issued a Direction to the Commission, under section 10 of the Aviation Regulation act 2001. The full text of the Ministerial direction is available on the Commission's website:

http://www.aviationreg.ie/_fileupload/2009-10-29%20Ministerial%20Direction.pdf

The Commission is satisfied that its final determination complies with the Ministerial direction.

Passenger growth at Dublin airport

The impact of the recession on the entire aviation sector is well documented. In 2009 passenger numbers at Dublin airport are expected to be 12 – 13% down on 2008 levels: 20.5 million passengers as compared with 23.5 million in 2008.

For the current determination, the impact of the fall in passenger numbers is large: when the proportion of fixed costs at an airport are high, fewer passengers means higher charges as these costs are spread amongst a smaller number of passengers.

The Commission has endeavoured to minimise the impact of these changes by setting stringent operating cost targets for the DAA, as well as through the use of annuitised depreciation and capital investment triggers. For example, capital investment triggers means that about €100+ million of investment in Terminal 2 at Dublin airport remains at the risk of the DAA until passenger numbers exceed 33 million per annum.

Sustainable, Financial Viability of the DAA

The fall in passenger numbers has obviously caused a significant fall in revenues for the DAA. This has resulted in the DAA's financial outlook being weaker than anticipated when it commenced work building a second terminal.

For 2010, the Commission has felt it necessary to make a one-off adjustment to the price cap to allow the DAA to collect an additional €0.68 per passenger. It has done this by increasing the depreciation allowance for 2010. The DAA does not benefit in the long run from this adjustment: although passenger charges are higher in 2010, they are somewhat lower in later years.

Terminal 2

The DAA expects Terminal 2 (T2) at Dublin airport to be operationally ready from November 2010. This is almost one year later than the timetable set out in the Government's May 2005 *Aviation Action Plan* and envisaged by the DAA in 2006/07 when the T2 project was presented to users.

The 2010 – 14 price cap has made an allowance for the costs of investing in and operating the new terminal, the bulk of which comes in from 2011, the (expected) first full year of operation. The annual uplift to the price cap for T2 in a full operating year is €2.33. **The price cap will not include any uplift for T2 if the terminal is not operationally ready.**

New investments 2010 – 14

The Commission has made an unconditional allowance for 2010-14 capital investment at Dublin airport of **€38 million per annum**. The bulk of this allowance is for ongoing maintenance, refurbishment and environmental works at Dublin airport. The Commission has allowed a real return on assets of 7%.

In addition to an unconditional capital allowance, the Commission has also made a **conditional allowance of €288m for a new second runway at Dublin airport**. The DAA will only be able to recover the costs of this investment if passenger numbers over a 12-month period during 2010-14 exceed **23.5 million per annum**. The Commission's current forecast for annual passenger numbers during this period peaks at 22.4 million in 2014.

Operating costs at Dublin airport

The Commission has assessed the scope for operating cost savings at Dublin airport over the 2010 – 14 period. The Commission's final conclusions are informed by consultancy reports commissioned from Indecon Economic Consultants/Jacobs (for Terminal 1) and Booz & Co. (for Terminal 2). The following observations underlie the determination:

- There is scope for the DAA to realise efficiency savings during the 2010-14 period corresponding to about 4% of 2008 operating costs in real terms (10% in nominal terms)
- That the DAA's 2008 per-FTE payroll costs, assuming no increase in real wages, should be applied between now and 2014
- For T2 FTEs, the real wages are with reference to benchmark data from the general economy rather than existing contracts at Dublin airport

Quality of service at Dublin airport

The determination makes a direct link between the quality of service users receive at Dublin airport and the level of the price cap. The annual price cap may be up to 4.5% (3.5% in 2010) lower than would otherwise be the case if the DAA consistently failed to meet the quality of service targets set. The targets relate to a number of different aspects of service quality, including:

- Security passenger search time
- Out-bound and inbound baggage handling systems
- Airport cleanliness, ease of way-finding, courtesy/helpfulness of airport staff and overall satisfaction with the airport

Cathal Guiomard, the Commissioner, says the following:

- *"This determination, the Commission's third since 2001, has posed a number of significant challenges. Its timing coincides with the prospective completion of a very large infrastructure project – Terminal 2 at a cost of €600+ million – and a global recession that has hit Irish air travel particularly hard."*

- *"With fewer passengers to share the costs of investing in and operating the airport, prices in the earlier years of the determination are higher than they otherwise might be. Assuming passenger growth to 2014, prices would be expected to fall back to 2009 levels, except for the impact of Terminal 2. In a full year of operation, the determination allows for an extra €2.33 per passenger to be collected in order to recoup the costs of the new terminal."*

- *"The impact of the decline in passenger traffic on airport charges has been reduced by challenging but feasible efficiency targets set for the DAA: a 10% nominal reduction in the operating costs of existing facilities in 2010, no real wage increase to 2014, and pay costs for T2 set with reference to benchmark data from the general economy rather than existing contracts at Dublin airport."*

- *"In addition, as the Commission has signalled since 2007, part of the recovery of T2's capital costs are deferred to later years. About €100m+ of the terminal's costs will be recovered only when traffic through the airport warrants a facility of the size of T2."*

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