



Commission for Aviation Regulation publishes its decision on maximum price cap for Dublin Airport

Price cap on charges to fall by 19% by 2019

The Commission for Aviation Regulation has today (7 October) published its final determination on charges at Dublin Airport for the period 2015-2019.

Decision

The determination requires airport charges to fall by 4.2% per annum over the next five years, before adjusting for inflation. The table below sets out the maximum revenue per passenger that the Dublin Airport Authority (DAA) will be allowed to collect at Dublin Airport in each of the next five years.

Price cap change

	2015	2016	2017	2018	2019
Max revenue per passenger (€)	10.30	9.87	9.45	9.06	8.68
Annual change %	-4.2	-4.2	-4.2	-4.2	-4.2

July 2014 prices

Commission's role

In coming to its decision, the Commission is required to protect the interests of current and prospective users of Dublin Airport, facilitate the Airport's efficient and economic development and enable the DAA to operate the Airport in a sustainable and financially viable manner.

"Our approach to setting the price cap is one of 'incentive regulation' – encouraging DAA to realise efficiencies, with a view to ultimately passing the benefits on to users. DAA out-performed the targets set in the Commission's 2009 determination and it is now time for users to enjoy the benefits of this lower cost base in the form of reduced airport charges" according to John Spicer, Acting Commissioner for Aviation Regulation.

Reasons for Reducing the Price Cap

The Commission last set a price cap in 2009. Three drivers underpin the Commission's decision to reduce the cap over the next five years

- The evidence shows that DAA has been able to beat previous targets for operating costs comfortably. This new determination is an opportunity for users to start realising the benefits from the cost savings DAA has achieved. This factor alone would merit a reduction of some €1.25 in the cap.

-The cost of raising capital has fallen since the last determination. Yields on bonds are at historically low levels. This means that the return on capital needed to allow DAA to fund past and future investments can be lower. This change alone points to a price cap that is lower by almost €1 than it otherwise would be.

-The expectation of higher passenger numbers means DAA should be able to enjoy economies of scale in the coming years. This is because there are more people to share the cost of past investments and for many activities at the airport, the extra passengers do not require a correspondingly large increase in operating costs. Economies of scale for operating costs along with efficiency gains in the future would warrant a further reduction in the price cap of about €1.

These downward drivers have been offset somewhat by the need for higher allowances for capital costs. Past investments have to be paid for, most notably the costs of building Terminal Two. The Commission has structured the repayment of that facility such that more of the costs would be recovered over time as more passengers used the airport.

The determination also allows for €341m in capital investment in Dublin Airport over the next five years, an average annual spend that is 50% higher than it has been in the last four years. There is a further allowance to build a parallel runway, should the need arise.

John Spicer added: "Our determination sets a target for DAA in 2019 that entails passing on cost savings – lower operating costs and lower financing costs – to users. While the Commission has decided to reduce the price cap in each year up to and including 2019, we still expect DAA to raise about €1.8bn from airport charges and commercial revenues over the next five years. This is 12% more than the revenues it was able to collect in the last five years.

The significant fall in passenger numbers in 2009 was an important factor in the large increase permitted at that time. It is only right that the charges should start to come down now that passenger numbers are starting to grow again.

Our determination is aligned with the draft National Aviation Policy and its ambitions for Dublin Airport and we have allowed most of the investments DAA proposed in its capital investment plan."

In finalising its draft determination, the Commission considered new information that has become available, reviewed representations received from interested parties and ensured that the determination complied with the Ministerial Direction received in September. More information on the changes since the Draft Determination is set out in the Notes to the Editor.

John Spicer concluded: "The approach to regulation we have followed in making this determination is similar to the approach in previous determinations, with a focus on economic efficiency. It is similar to that used by other sectoral regulators around the world tasked with protecting the interests of users by regulating the charges of a firm with a monopoly or strong market position.

Our final decision is the culmination of a work programme that started over a year ago. We have published two consultation papers and invited comments to those. Thirty-three parties made representations following our draft determination, more than have responded to any previous Commission consultation paper. Our work has benefitted from this level of engagement with

interested parties, and we have carefully considered all of the representations received prior to finalising our determination.”

Ends

Notes to Editor

Timeline to Final Determination

Under the Aviation Regulation Act 2001, as amended, the Commission for Aviation Regulation is responsible for setting the maximum level of airport charges at Dublin Airport. This announcement is the fourth determination made by the Commission.

In July 2013, the Commission published an Issues Paper, inviting parties to comment on how the Commission should proceed to make the determination.

http://www.aviationreg.ie/fileupload/2013_07_31_CP_2_Issues_Paper.pdf

In May 2014, the Commission published its Draft Determination for public consultation.

<http://www.aviationreg.ie/fileupload/2014-05-29%20Draft%20Determination%20Airport%20Charges.pdf>

The representations the Commission received to these consultation papers are available on its website. <http://www.aviationreg.ie/regulation-of-airport-charges-dublin-airport/2014-determination.576.html>

In September 2014, the Minister for Transport, Tourism and Sport issued a direction to the Commission under Section 10 of the 2001 Act.

<http://www.aviationreg.ie/fileupload/2014ddresponses/2014-09-16%20Ministerial%20Direction.pdf>

Changes since the Draft Determination (published on 29 May 2014)

The final determination entails a higher price cap than proposed in the draft determination due to an upward revision of estimates for both operating costs and capital costs. In doing so, the Commission has addressed concerns expressed about the need for DAA to meet safety and security standards and corresponded with the Irish Aviation Authority about its licensing requirements for the airport. The Commission has satisfied itself that the price-cap calculations make allowance for sufficient numbers of security guards and future investments DAA may need to make to satisfy security needs.

Aside from increasing the allowance for security staff, the Commission has also increased operating costs to allow for settlement of the IASS pension dispute and to avoid the need for outsourcing of staff.

A bigger adjustment was also made for capital costs, with an extra €47m in capital expenditure in the next five years than allowed in the draft determination (€341m instead of €294m). The general sentiment from representations received was for more capital expenditure projects proceeding than had been originally allowed. This change is also consistent with the draft National Aviation Policy's goals for Dublin airport, with allowances now made for DAA to build a larger transfer facility and cater for larger planes.

The capital cost allowance is also higher because the Commission has increased the opening Regulatory Asset Base. The single biggest change in this area concerns its treatment of the over-spend on Terminal Two relative to the Commission's 2007 allowance. In making this change, the Commission had regard to regulatory precedent elsewhere. One way the Commission sought to satisfy itself that its determination would enable DAA to secure investor confidence is to review whether its approach to regulation accords with the approach other regulators use.

The effect on the price cap of these increases in operating costs and capital costs is partially offset by an increased passenger forecast since May. With passenger numbers for 2014 to date 6% higher than expected (and looking likely to exceed what was previously forecasted for 2015), the Commission has revised its passenger forecasts up. This change was signalled in the draft determination, where the Commission indicated it would update passenger number forecasts based on more recent data.

The price cap continues to require DAA to meet certain quality of service standards. The Commission has stuck with the broad quality service regime proposed in the draft determination (which is the same as in 2009), but has revised down some of the targets proposed in the draft determination. While the Commission wants DAA to provide a good quality of service, it does not intend for DAA to suffer a financial penalty unless it offers a service that would be worse than most of its peers.