



New Determination for Dublin Airport Initiation of Consultation

**Presentation by
The Commission for Aviation Regulation
Friday 1st October 2004
at Great Southern Hotel, Dublin Airport**

Subject to this Act, the Commission shall be independent in the exercise of its functions.

The principal function of the Commission shall be to regulate airport charges and aviation terminal services charges.

Re: Sections 6 and 7 of the 2001 Act

ENACTED JULY 2004

DIRECTS COMMISSION FROM THE DUBLIN
APPOINTED DAY (1 OCT 2004)

TO MAKE A NEW DETERMINATION ON AIRPORT
CHARGES AT DUBLIN AIRPORT

AS SOON AS PRACTICABLE, NOT LATER THAN 12
MONTHS AFTER “DAD”

PUBLICATION TODAY OF CP6 AND CP7 SETTING OUT
ISSUES AND PROCESS LEADING TO MAKING OF A
NEW DETERMINATION



SEPTEMBER 2001 – SEPTEMBER 2006



SEPTEMBER 2001: €5.60



FEBRUARY 2002: €5.38 (APPEALS PANEL)



MARCH 2004: €5.29 (2 YEAR REVIEW)



**FIRST DETERMINATION TO REMAIN IN EFFECT UNTIL
MAKING OF NEW DETERMINATION**

NEW STATUTORY OBJECTIVES, NEW STATUTORY FACTORS CONTAINED IN STATE AIRPORTS ACT

2001 Act	Substitution as set out in the 2004 Act
the Commission shall aim to facilitate the development and operation of cost-effective airports which meet the requirements of users	(1) the objectives of the Commission are as follows – 1) to facilitate the efficient and economic development and operation of Dublin Airport which meet the requirement of current and prospective users of Dublin Airport, 2) to protect the reasonable interests of current and prospective users of Dublin Airport in relation to Dublin Airport, and 3) to enable Dublin Airport Authority to operate and develop Dublin Airport in a sustainable and financially viable manner
and shall have due regard to -	(2) In making a determination, the Commission shall have due regard to
	a) the restructuring including the modified functions of Dublin Airport Authority,
a) the level of investment in airport facilities at an airport to which the determination relates, in line with safety requirements and commercial operations in order to meet current and prospective needs of those on whom the airport charges may be levied	b) the level of investment in airport facilities at Dublin Airport, in line with safety requirements and commercial operation in order to meet the needs of current and prospective users of Dublin Airport,

b) a reasonable rate of return on capital employed in that investment, in the context of the sustainable and profitable operation of the airport	
c) the efficient and effective use of all resources by the airport authority	
d) the contribution of the airport to the region in which it is located	
e) the level of income of the airport authority from airport charges at the airport and other revenue earned by the authority at the regulated airports or elsewhere	c) the level of operation income of Dublin Airport Authority from Dublin Airport, and the level of income of Dublin Airport Authority from any arrangements entered into by it for the purposes of the restructuring under the State Airports Act 2004
f) operating and other costs incurred by the airport authority at the airport	d) costs or liabilities for which Dublin Airport Authority is responsible,
g) the level and quality of services offered at the airport by the airport authority and the reasonable interest of the users of these services	e) the level and quality of services offered at Dublin Airport by Dublin Airport Authority and the reasonable interest of the current and prospective users of these services,

	f) policy statements, published by or on behalf of the Government of a Minister of the Government and notified to the Commission by the Minister, in relation to the economic and social development of the State
h) the cost competitiveness and operational efficiency of airport services at the airport with respect to international practice,	g) the cost competitiveness of airport services at Dublin Airport
i) imposing the minimum restrictions on the airport authority consistent with the functions of the Commission, and	h) imposing the minimum restrictions on Dublin Airport Authority consistent with the functions of the Commission, and
j) such national and international obligations as are relevant to its functions	i) such national and international obligations as are relevant to the functions of the Commission and Dublin Airport Authority.

33. - (1) In making a determination the objectives of the Commission are as follows-

- (a) to facilitate the efficient and economic development and operation of Dublin Airport which meet the requirements of current and prospective users of Dublin Airport
- (b) to protect the reasonable interests of current and prospective users of Dublin Airport in relation to Dublin Airport, and
- (c) to enable Dublin Airport Authority to operate and develop Dublin Airport in a sustainable and financially viable manner



How does CAR meet all three?

Due Regard to Restructuring



REFERS TO AUTONOMY OF CORK/SHANNON



CAN NOT HAPPEN BEFORE APRIL 2005



HOW SHOULD CAR HAVE “DUE REGARD”?

2004 Yield Table

Dublin Airport Yield Calculation for 2004	€
RAB at 1 January 2004	614,129,455
Multiplied by WACC	6%
Return on Capital	36,847,767
<i>Plus:</i>	
Depreciation	35,724,796
OPEX	146,145,591
less reduction in OPEX due to efficiency gains	-16,808,886
<i>Plus:</i>	
Security adjustment	5,628,590
Regulatory Fees	1,228,639
Subtotal	208,766,497
<i>Plus: taxation</i>	6,466,876
<i>Less: gross commercial revenues</i>	-128,052,159
Maximum Allowable Revenue	87,181,214
<i>Divide by: passenger forecast</i>	16,780,000
Unadjusted Maximum Average Revenue per Passenger	5.20
Carry forward of formulaic adjustments:	
K	-0.06
W	0.15
Adjusted Maximum Average Revenue per Passenger	5.29



TWO HYPOTHETICALS



“Rate of Return” (deleted)



Costs and “liabilites” (added)

Deletion of Statutory Factor

NO DUE REGARD TO “REASONABLE RATE OF RETURN ON CAPITAL EMPLOYED”

2004 Yield with no Rate of Return	€
Depreciation	35,724,796
OPEX	146,145,591
<i>less</i> reduction in OPEX due to efficiency gains	-16,808,886
<i>Plus:</i>	
Security adjustment	5,628,590
Regulatory Fees	1,228,639
Subtotal	171,918,730
<i>Plus:</i> taxation	6,466,876
<i>Less:</i> gross commercial revenues	-128,052,159
Maximum Allowable Revenue	50,333,447
<i>Divide by:</i> passenger forecast	16,780,000
Unadjusted Maximum Average Revenue per Passenger	3.00
Carry forward of formulaic adjustments:	
K	-0.06
W	0.15
Adjusted Maximum Average Revenue per Passenger	3.09

AMENDMENT OF STATUTORY FACTOR: DUE REGARD TO COSTS OR “LIABILITIES”

“LIABILITIES” IS NEW FACTOR

HOW SHOULD CAR HAVE “DUE REGARD”?

Existing $Y = €5.29$

$$= YU_{04} + W + K$$

New $Y = YU_{04} + W + K + D$

$$D = €2.44$$

$$\Rightarrow Y = €7.73 ?$$

PROCESS LEADING TO THE MAKING OF A NEW DETERMINATION

- ===== SUBMISSIONS TO CP7 – BY 1 NOVEMBER
- ===== COMMISSION PUBLISH SUBMISSIONS, PROVIDE OPPORTUNITY FOR COMMENT
- ===== COMMISSION TO REACH PRELIMINARY CONCLUSIONS ON STATUTORY CHANGES BY END OF DECEMBER
- ===== WILL THEN PUBLISH PROCESS AND TIMETABLE FOR MAKING OF THE DETERMINATION

CONTEMPORANEOUS WITH CONSULTATION ON
STATUTORY CHANGES.

BEGIN WITH A CAPACITY REVIEW OF DUBLIN
AIRPORT .

METHODOLOGY OF CAPACITY REVIEW TO BE
PRESENTED ON 7th OCTOBER AT DUBLIN AIRPORT.

DRAFT CAPACITY ANALYSIS TO BE COMPLETED BY
EARLY 2005.

ART Capacity Assessment of Dublin Airport 2001



“Dublin Airport will have capacity for 20 million passengers at the end of 2001, upon completion of the current building programme”.

ART submission to CAR, 24th July 2001, pg 53

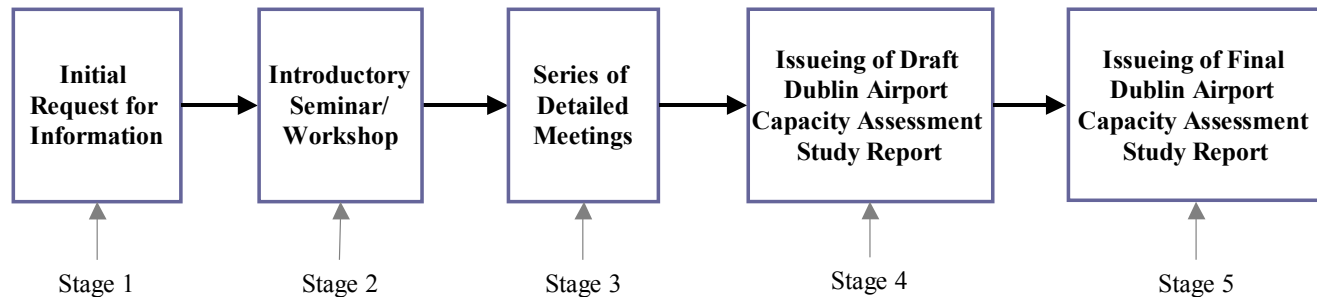
ART Capacity Assessment of Dublin Airport 2004



Dublin departures concourse has a current capacity of 12 million passengers per year

ART submission to CAR, August, 2004

Phases of Consultation Process



Review Of Operational Efficiency

CONTEMPORANEOUS WITH CONSULTATION ON
STATUTORY CHANGES

TO BE UNDERTAKEN BY BOOZ | ALLEN | HAMILTON

EFFICIENCY STUDY TO BE COMPLETED BY EARLY
2005



RETAINED BY COMMISSION



PRESENT INDEPENDENT VIEW ON FINANCIAL ASPECTS OF RE-STRUCTURING



PUBLISHING TODAY AN INDEPENDENT REPORT



FOR PURPOSES OF PROVIDING CONTEXT TO CONSULTATION PROCESS