bmi Response to Commission Paper 5/2007

bmi would like to make the following comments on Commission Paper 5/2007:

- **Over-forecasting of projects**
  Those projects put out to tender already have come in under forecast. Are other projects over-forecasted?
  With the commission's proposal to allow the DAA to keep any excess of actual cost v. project cost in the RAB for 5 years, this encourages over-budgeting.

  CAR is proposing to reduce pier D project costs in the RAB but only at the time of the next determination. Whilst bmi does not disagree with the CAR's stance that the DAA can benefit from savings on projects or bear the costs of project cost over runs, we do object to unused contingency costs and duplication of costs being left in the RAB, as this encourages over-budgeting in the case of the former and allows mistakes to enter the RAB in the case of the latter. The DAA should be allowed to benefit up to the next price determination from genuine cost savings though.

- **Acceleration of depreciation of assets in the RAB**
  Why is this acceleration being allowed to happen? Why should assets be written down quicker? If they're being made redundant then this needs explaining.
  If it's because the DAA requires funds or due to capex funding then this isn't the way to obtain such funds.
  The CAR, in it's duty to ensure that the DAA is financially viable, should not solely look at revenue generation but also cost savings by the DAA.
  If additional depreciation is assumed then future price caps must take that into account to avoid duplication of depreciation going forwards.

- **Other pricing structures to recover Box 2 costs.**
  bmi will comment on these in the proposed workshops to be held by the Commission later this year.

- **Trigger Pricing**
  bmi support the proposal to charge users only from the inception into service of the terminal.

  bmi agrees with the caveat that the DAA should be incentivised to stop funding a project that is no longer required anymore, but which was at the outset. For example should the green lobby succeed in taxing air travel to a prohibitive level which dramatically cuts passenger travel and T2 capacity consequently is not required, then bmi doesn't want the DAA to complete the project at more cost. This then becomes a sunk cost that unfortunately needs to move into the RAB. Better to have this though, than even more cost moving into the RAB for a terminal that isn't required.

- **Time Profiling of charges**
  bmi welcomes the back loading of charges.

- **Peak Period Pricing**
  The majority of airport fees are generated by those passengers passing through at peak periods. Peak period pricing means that the peak period passenger group (the most important group to the airport) are impacted twice – by volume and by the peak price.

  Just because demand is relatively inelastic doesn't mean that this should be used as a means of charging excess prices to those passengers. The EU business passenger is an important passenger group at DUB and these key customers shouldn't be penalised through peak period pricing.

- **Differential Pricing**
  If it is the case that the terminal doesn't provide the increased level of service, and it is only size diving the cost we would expect unit cost reductions. Any cost increases would need to be explained & fully transparent.
  The benchmarking process showed that it was expensive.

  This is still unclear for all participants in the process. P15 & p85 of the CAR's response mentions T2 costs being driven primarily due to its size. However then on P17 CAR talks about the airport moving from it's present position of 'comparatively low charges & low levels of service quality' to 'one of charges being approx. 17% higher, but at much higher levels of service'. P86 goes on to debate differential pricing between T1 & T2 in the context of the different service offerings.

  It is still very unclear what level of service is being provided. It would be beneficial if the actual service offering could be stated and that this could be aligned with an appropriate project cost.

  If the T2 cost is purely size related, then bmi would expect a reduction in the project cost (as currently per the benchmarking it is excessive) and differential pricing need not apply.
  If on the other hand T2 cost is driven primarily by service level then differential pricing should be integrated into the tariff structure.

- **DAA traffic forecasts**
  According to RR&V, the DAA traffic forecasts were unreasonably low. Realistic forecasts need to be made so as to ensure that not only is T2 is justified but to ensure that the regulatory price cap is made on a realistic forecast of passengers. The DAA couldn't justify T2 on x number of passengers and then subsequently the CAR sets the price cap based on y number of passengers.

  So consequently the traffic forecasts do need to be increased in line with the independent consultants (RR&V).

- **Busy Hour Estimate**
  bmi welcomes the findings of the CAR (namely the sensitivity analysis on load factors & choice of busy hour) and recommends the scaling back of T2 to the 53,891sq/m rather than the proposed 74,555sq/m. This would still allow T2 to be built, which is required due to the forecasts mentioned, but not to the excessive size that has, to date, been proposed.

  RR&V's findings appear to be that the terminal is certainly required, but the throughput of passengers will not be as excessive in the busy hour as first thought, allowing for a smaller terminal but which will allow for a throughput of more passengers than originally forecast.

- **Proposed Charging Structure**
  bmi welcomes the sharing of the burden of risk between the parties in the form of deferring some of the RAB cost dependent on passenger traffic. However given that the traffic forecasts look under-forecast, the projected 30million for the airport as a whole will be reached quicker than projected. The issue then is when, rather than if, the €152m of box 2 costs will enter the RAB. The risk then lies primarily with the users who must either absorb this cost or pass it onto Dublin's passengers.

  The CAR's statutory objectives of protecting the interests of airport passengers whilst ensuring the DAA remains financially viable & stable can be met more clearly by reducing the allowance for the cost of T2 to reflect reduced terminal sq/m and associated excess costs.

Conclusion:
bmi does support T2 build but still not in it's current format, and not at any cost. More than ever the evidence presented points to a project with costs included that cater for an increased service level and for a size of airport that is 28% too large (according to busy hour passenger departures). Consequently bmi would be looking for a reduction in the cost allowed of T2 build due to:

- Excess costs still evident from the benchmarking that has not been taken into account.
- Busy hour review by RR&V that points to over forecasting of throughput of passengers at this time.
- Unreasonably low traffic forecast

Just to let the cost be accepted into the RAB but to defer some of that cost would ignore the very useful information that has come out of the CAR's findings.