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DAA Response to CP3/2008

Quality of Service at Dublin Airport

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Executive Summary

DAA is very focussed on delivering a good quality of service to its customers at Dublin Airport and welcomes CAR's decision to address the issue in its recent consultation paper CP3/2008.

The issue of the overall appropriate service level standard continues to be a subject of significant debate and lack of consensus with users, with clear differences between the expectation of the passenger as the ultimate user and that of some major airline users. Given these challenges, the most logical and practical starting point for CAR would be to build on the consensus around the passenger as being the end customer for all service providers at the airport and on that basis a key objective should be to encourage a standard of service that meets passengers' needs. In short, CAR should act primarily to champion the passenger's expectations of service quality.

Feedback from customers through direct day to day interaction, detailed qualitative and quantitative research and in the media shows that they expect the best international standards to apply at their capital city airport. It is important to acknowledge that many aspects of service quality at an airport are dependent on capital decisions and can vary depending on an airport's position in its investment cycle. If optimal operational service quality is to be achieved it must be an objective of facility design. In DAA's view this is best represented by the design standard equivalent to IATA Standard C. In the absence of the appropriate level of capex, airports are reduced to trying to resolve complex operational and quality of service issues by allocating additional staff resources. A more optimal solution is to achieve the correct balance between capex and opex whilst delivering the required service levels.

Quality standards must be broad enough to accommodate all categories of suppliers and customers and should relate to quantifiable measures. The kind of indicators which are likely to be of relevance are those which are used in Australia and incorporated in assessments already in use at Dublin Airport for example availability of gates, stands and airbridges; queueing times; equipment availability and standard of facilities. Bilateral agreements should not be permitted to provide service levels that are below the agreed minimum standard even at lower charges than the norm. To do so would place a disproportionate burden of cost on the majority of airlines who wish to operate to the generic standard and would also push passenger's needs and requirements into a position subordinate to the airline's focus on their commercial priorities.

At present, CAR is at a very early stage in formulating its approach to Quality of Service issues. From this early starting point and given the lack of evidence of a specific service quality problem to be addressed, it would be extremely difficult to design a proportionate and effective regulatory mechanism within the forthcoming price cap review. Instead the most pragmatic and logical approach would be for CAR to quantify and publish certain key aspects of service quality. These could initially be based on the performance targets agreed between the airport authority and airline users as part of the existing voluntary Service Level Agreements (SLAs). CAR could then consider how best to build upon these for the future.

A key issue for consideration will be the degree of influence and control that the airport can exert over service standards where the product/service is being delivered by another agency. Inputs of the various actors in service quality must be precisely

defined to avoid a situation whereby the airport would be penalised for actions or failures outside its direct control thus adding to regulatory risk and uncertainty.

It is vital that any costs (capital expenditure or operating expenditure) associated with delivering agreed service levels be quantified and a means of funding same established prior to their implementation. For example it would be inconsistent for airlines to simultaneously demand increasingly high standards of services, lower investment and reducing airport charges. In addition flexibility to adjust to downturns in performance due to changes in the environment must be built into DAA's opex budget at regulatory reviews if it is to have the resources to ensure that quality of service is maintained.

Introduction

In advance of the next price cap review, and the Issues Paper expected in October 2008, CAR has published a consultation document (CP3/2008) on the regulatory approach to quality of service at Dublin Airport. DAA welcomes CAR's focus on service quality issues. In a number of previous submissions, the company stated that it would be happy to work with the Commission in developing an objective system to monitor service standards in the future.

DAA has multiple customer groups, each of which has specific needs (airlines, passengers, ground handlers etc.). While DAA works closely with each of these customer groups to understand and meet their needs (details of this work is provided in Section 1), DAA's vision focuses on the ultimate customer – the passenger. DAA believes that delivering a quality travel experience to passengers yields benefits for all DAA's customers; the passenger is a 'shared' customer of airlines, ground handlers, transport companies etc. and the interests of all are served by ensuring the passenger is satisfied with the level of service received.

DAA's vision and mission put the customer and the customer experience centre stage:

Mission: To manage our airport business profitably, meeting customers' needs and creating gateways for 21st century Ireland.

Vision: Deliver a quality airport travel experience to the best international standards.

Delivering vision and mission requires DAA to understand who are customers are, what their needs are and what constitutes 'quality' in the airport travel experience.

There are multiple moments of contact at Dublin Airport, including, car parks, ground transportation, check-in, security, ATMs, pay stations, vending machines, signage, retail, restaurants, boarding gates and toilets. Different parts of the customer experience will therefore have different levels of significance to different customers; ground access may be the most significant concern for a person with reduced mobility, while clear and logical signage may be of most concern to someone who is in the airport for the first time. It is important to understand what aspects of the customer journey are of importance to customers, how DAA (or associated third parties) perform on these aspects and what we can do to improve or refine our performance. It is the customer's definition of what is important and what 'quality' means that matters.

This DAA submission follows the key questions posed by CAR in CP3/2008:

- Section 1 addresses how quality of service at Dublin Airport should be defined. This section of DAA's response also provides CAR with relevant evidence to enable it to accept DAA's assertions regarding its understanding of the service quality levels desired by passengers with confidence
- Section 2 discusses the issues surrounding the question of how service quality should be measured
- Section 3 provides DAA's views on how service quality should be treated for the purpose of future price caps at Dublin Airport.

1 How should Quality of Service Be Defined?

It is appropriate that the key focus of service quality should be at the level of the individual passenger. It is passengers that are the customers of virtually all companies based at the airport and it is they who ultimately pay the costs associated with using airport facilities and services.

Feedback from customers through direct day to day interaction, research and in the media shows that they expect the best international standards to apply at their capital city airport. Dublin Airport is seen to have important national standing and is viewed as a key part of the country's national identity. Furthermore, Dublin Airport is recognised as the first and last port of call for the majority of visitors to Ireland, whether they are travelling for leisure or on business. People expect our airport to be a positive reflection of the new, modern Ireland and that it will deliver standards commensurate with our position on the world stage. Business and tourism interests also have high expectations for the standard of service that should prevail at the airport. For example, a recent Forfas report¹, noted that Ireland requires efficiently functioning airports that benchmark well with competitor cities in terms of international connectivity, airport charges, quality of service and access to and from the airport.

In order to establish best international practice in service quality, Dublin Airport participates in an international airport service quality monitor run by Airports Council International, termed the ACI Airport Service Quality Monitor (ACI-ASQ). The current survey includes over 80 airports worldwide and the number of participating airports is growing annually. When deciding which of these airports Dublin should compare itself with, consideration is given to passenger volume, passenger profile (e.g. mix of transit, international and domestic passengers) and macro issues such as infrastructure, culture and economy. In this context, airports such as Zurich, Brussels, Copenhagen, Athens, Oslo, Stockholm, Stansted, Manchester, Vienna, Melbourne and Vancouver could be viewed as members of Dublin Airport's 'peer group'.

Based on their experience with customer journeys around the world, ACI ASQ has identified a number of key service areas (as cited in the CAR document). The performance of airports across these service areas is analysed by way of a customer-completed survey. Results are analysed on a quarterly basis.

These results (along with internal audits of service performance) provide a means by which quality at Dublin Airport can be monitored over time and compared to performance of our international peers. This analysis also provides information on the key drivers of customer satisfaction in individual airports – these can vary from airport to airport depending on a number of different variables including congestion or lack of it in key airport systems, current levels of performance and passenger profile. This provides guidance on where resources need to be allocated in order to address issues or improve service levels.

To supplement the ACI ASQ ongoing measurement of service quality, during 2007 DAA compared itself against eight other European airports in a separate exercise. The objective was to identify best practice by comparing passenger journeys and identifying opportunities and potential strategies for Dublin Airport. A key outcome of this study was the identification of a number of fundamental customer needs:

¹ Overview of Main Infrastructure Issues for Enterprise, Forfas, May 2008

Simplicity	straightforward processes, minimal changes in level and direction and obvious next steps.
Clarity	intuitive wayfinding, clear and uncluttered signage and pathways.
Cleanliness	well maintained facilities, with courteous and responsive staff.
Pleasantness	spacious and comfortable with good facilities (F&B, Retail, Entertainment)
Safety	a feeling of security at all times
Ease	without hassle, a relaxed and enjoyable journey

In order to deliver an acceptable basic level of service, these needs must be met throughout the whole customer chain.

Unfortunately, the issue of the overall appropriate service level standard continues to be a subject of significant debate and lack of consensus with users, with clear conflicts between the expectation of the passenger as the ultimate user and that of some major airline users. For example, though DAA's capital investment programme incorporates a design standard equivalent to IATA level C (which aims to facilitate a reasonable level of service), some airline users have expressed opposition to paying the costs associated with delivering this standard. Despite this, DAA believes that the use of this design metric is appropriate in the context of enabling the airport authority to deliver an appropriate service offering to the end customer.

Given these challenges it would be best for CAR to build on the consensus around the passenger as being all parties' ultimate customer and a key objective should be that service standards meet passengers' needs. It should be noted that airlines are often large, well resourced companies that are very capable of promoting their commercial requirements to airports and regulators. In this context CAR should act primarily to champion the passenger's expectations of service quality.

In having due regard to the level and quality of service offered at Dublin Airport and the reasonable interests of the current and prospective users of these services, there is a requirement to ensure that quality standards are broad enough to accommodate all categories of suppliers and customers. In particular it is important to ensure that services be of sufficient level and quality to facilitate current users without precluding the requirements of prospective users, which might be significantly different.

When considering representations from airlines in particular, it is important that CAR fully appreciates the wider context in which quality of service issues arise. In particular, if particular airlines argue that some aspects of quality of service should be lower than at present, it will be important for CAR to take account of the value that passengers place on these attributes of service quality, and also to compare this with the likely impact on DAA's costs and therefore airport charges. In many cases, material reductions in quality of service, which might have a significant adverse impact on passengers and other users, might lead to only a very small reduction in airport charges.

In DAA's view, current prevailing business contracts should continue to be the primary tool to define the standards which are required by individual airlines and for which they are willing to pay. While individual airlines might argue that they would like a level of service that is either higher or lower than average, it is important to note that many discretionary aspects of DAA's service are already charged for separately. These

include, for example, airbridges, CIP lounges, the number of check-in desks and apron parking time². Airlines can already select some aspects of service quality, therefore, and the effects of these decisions are reflected in the charges they pay.

In DAA's view, bilateral agreements should only relate to arrangements for additional service elements. No bilateral agreement should be permitted that arranges for service levels which are below an agreed minimum or "generic" standard at a lower price than standard charges as this would place a disproportionate burden of cost on the majority of airlines who wish to operate to the generic standard. It could also facilitate a kind of "race to the bottom" which would directly contravene passengers' requirements of service quality at the airport. As noted by the Commissions consultants Jacobs, so called "dedicated low cost facilities" are in general

"...designed to operate at a lower level of passenger service than is typically expected in more traditional facilities. Airports typically design facilities to operate at Level of Service (LOS) C during the peak, whereas LOS D and E are more typical in the facilities considered."^{3, 4}

In addition, CAR should ensure that it takes full account of any knock-on effects of changes in service quality, the impact of which may further dampen the overall impact on airport charges (which may already be quite weak). Reductions in service quality in one area might increase DAA's costs in other areas, for example if there is increased congestion to be managed. Some changes in service quality may also have implications for DAA's commercial revenues, for example if they reduce the time available for passengers to spend money, or have other impacts that are likely to affect passengers' inclination to spend money at the airport.

1.1 Understanding The Customer Experience

We have had the opportunity previously to communicate our approach to CAR and would like to put on record details of the efforts we undertake to ensure that our assessment of the required service standards at the airport is robust.

Contrary to the views of other parties that may be prompted by anecdotal commentary or commercial self interest, DAA's assessment of customer preferences in terms of the airport experience and associated quality of service standard is substantiated by an extensive programme of qualitative and quantitative research. This is undertaken throughout the year and delivered in partnership with leading independent research and data management agencies.

² Charges for aircraft turnarounds of less than 30 minutes are some 50% of those of services with longer turnaround times.

³ Review of Dedicated Low Cost Airport Passenger Facilities, Jacobs Consultancy, May 2007

⁴ IATA denotes the various design parameters C, D and E as facilitating the following conditions in the terminal:

- Level C: Good level of service, conditions of stable flow, provides acceptable throughput, related sub-systems in balance.
- Level D: Adequate level of service, condition of unstable flow, delay for passengers, conditions acceptable for short periods of time
- Level E: Unacceptable levels of service, conditions of unstable flow, sub-systems not in balance, represents limiting capacity of the system.

Research is completed at the airport to engage with the airport user and to understand and track their satisfaction with the airport service experience. It is also used to monitor DAA's performance and that of airport operators across a range of services including access & transportation, car parks, check-in, security, shopping, restaurants, baggage handling, immigration and customs. Research also provides data to aid capacity and operational planning and to benchmark Dublin against airports around the world.

Research is conducted to detailed guidelines to ensure robust outcomes. Specifically, research must be:

Representative	using appropriate methodology and strict sampling procedure
Timely	conducted on continuous basis and reported quarterly
Objective	conducted by independent research agencies, operating to ESOMAR⁵ and MRS⁶ standards including the completion of quality auditing (10% to 20% back-checking of data)
Relevant	research supports the delivery of our business vision and objectives and is based on customer and business needs.

The core objective of the programme is to provide actionable research to inform service development and investment decisions. Specific aims of the research programme include:

- to monitor customer perception and satisfaction with airport facilities and services
- to monitor compliance with Service Level Agreements with regard to key airport services
- to provide a benchmark of service delivery against other airports
- to provide market information on passenger travel behaviour and highlight opportunities for route development
- to explore issues relating to customer experience in-depth

Summary Research Outputs (Dublin only - estimated for full year 2007):

- 35,500 surveys/interviews (part of ongoing tracking surveys) for use in passenger profiling for service development, customer satisfaction tracking, route development, fares analysis, strategic & operational planning, service delivery monitoring. This equates to 0.16% of passengers. (This compares favourably with BAA which completes in excess of 70,000 surveys p.a. across their 7 airport group).
- 120-150 focus group participants for use in e.g. T2 design development, car park facilities development, signage & wayfinding schemes, accessibility research, toilet design etc.

⁵ ESOMAR is the world organisation for enabling better research into markets, consumers and societies

⁶ MRS is the world's largest association serving all those with professional equity in provision or use of market, social and opinion research, and in business intelligence, market analysis, customer insight and consultancy

- Service Level Agreement monitoring for key service areas including security queuing and speed of baggage delivery

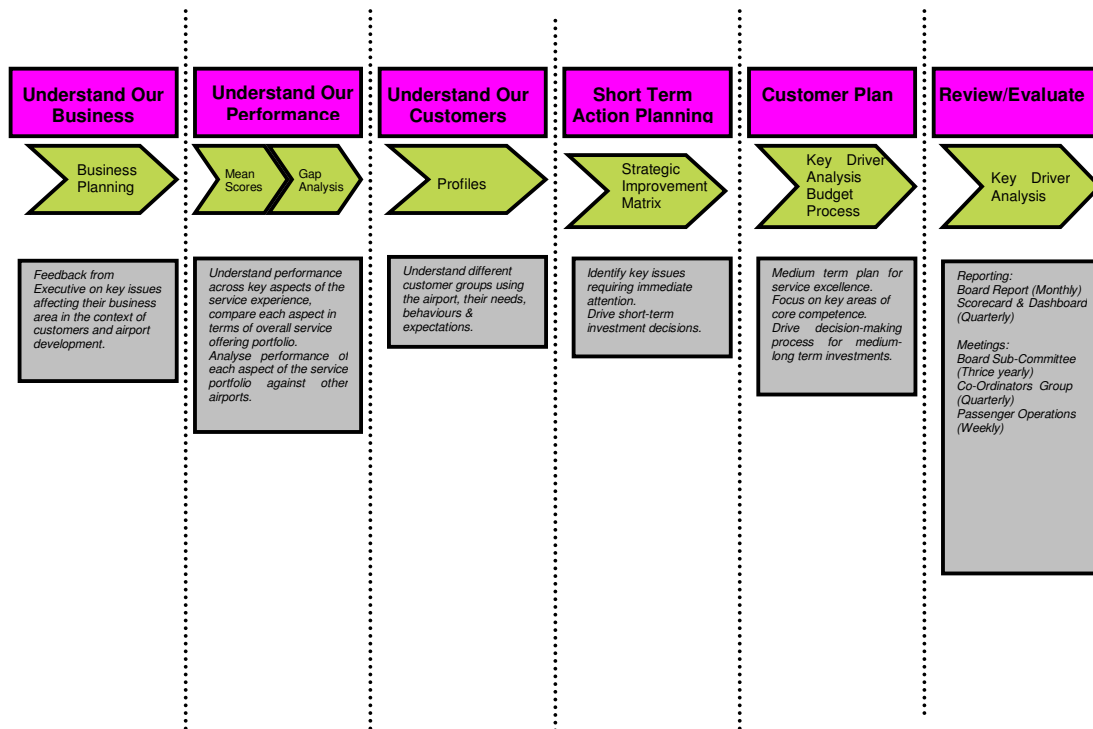
Customer research is supplemented by feedback from other sources and customer facing areas;

- Secondary research – industry analysis and reporting, peer group sharing and conferences
- Customer comments and complaints – ongoing feedback via DAA’s Customer Service and Quality Department
- Terminal Duty Reports – twice daily reports

In addition to the interaction with the passengers as end users, DAA has an extensive programme of interaction with airlines and groundhandlers to ensure that it is aware of their requirements and facilitates them where possible. These interfaces include the following:

- Planned meetings are held with the Airline Operators Committee (AOC) on a monthly basis. All key issues are discussed and timelines for delivery agreed. These are supplemented by ad hoc meetings as required. A recent example of this kind of interaction was the implementation of new EU legislation on PRMs which took effect from 26th July 2008. Following extensive consultation, a comprehensive tender process was put in place that was signed off by both airlines and disability groups. This process led to the appointment of OCS as the agreed service provider.
- DAA is meeting the recently formed DACC on a monthly basis to discuss future capex plans - a key influencer of service quality.
- Terminal Duty Manager interacts with airline handling duty manager/supervisors on a daily basis.
- Weekly correspondence in place between the terminal facilities manager and airlines in relation to desk plan allocation.
- Dublin Airport Terminal capacity group in place in conjunction with airlines and handling agents to consider options to increase hourly terminal capacity
- An Airside Terminal capacity is also in place to examine similar issues for airside.
- Figures are sought from airlines daily to assist with terminal planning. Weekly schedule capacities are issued to all stakeholders to assist planning
- 130 customer service agents are in place on a shift basis to assist with airline/handling agent queuing management issues.
- Service level agreements are in place and are currently being reviewed with the AOC SLA sub committee.
- A full Operational summer plan (including stand allocation plan) was compiled in consultation with all stakeholders including airlines and handling agents in March 2008. Copies of this plan were distributed to all concerned.

All customer insights are used to drive operational improvements and investment in service initiatives as illustrated in the flowchart below.



1.2 Quality of Service and Price Cap Regulation

In theory, as CAR has indicated in CP3/2008, airports subject to a traditional price cap would have an incentive to deliver lower quality (assuming higher quality has a higher cost) if there is no penalty for doing so. In practice, demands from a range of customers and airports' determination to avoid the negative impact on their business which the perception of "poor quality" brings, exerts considerable influence to limit the theoretical opportunity to reduce service quality. This point is borne out by a comment from the Commission's consultants BAH who, having reviewed the operational efficiency at Dublin Airport in the course of the last review, commented that

*"at airports the need for direct regulation of quality is less than in other regulated industries"*⁷.

In contrast to the theoretical context, the overwhelming evidence is that DAA has consistently acted to do all in its power to preserve a reasonable quality of service at the airport despite the challenges presented by spiralling traffic throughput and restrictions in available capacity. This was acknowledged by the Commission's consultants BAH who noted that

*"DAA has been taking operating decisions consistent with the aim to increase service quality"*⁸

Building on the insights from its research programme and in consultation with industry partners, DAA has put resources in place to assist passengers, streamlined processes, developed new facilities and encouraged efficient operations, in an effort to maintain and enhance the customer experience at the airport. Examples of these measures are as follows:

⁷ BAH, Dublin Airport Bottom Up Efficiency Study, May 2005, pg 73

⁸ ibid, pg 72

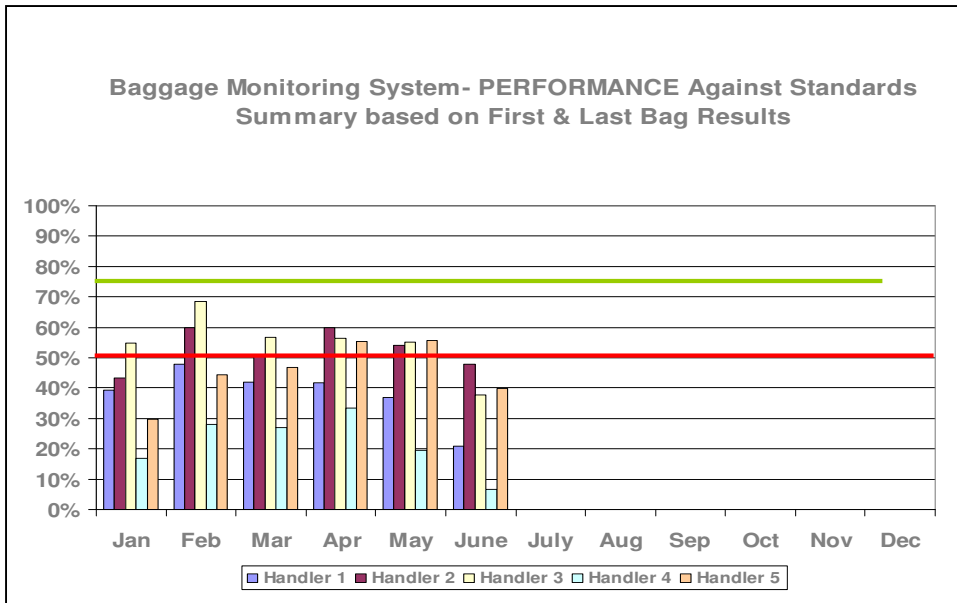
- Over 130 customer service staff deployed on the landside within the terminal and airside to assist passenger movement and wayfinding.
- Additional terminal space created to ease passenger movement with the relocation of Aer Lingus desks, Bank of Ireland, reduced lobby doors.
- 6 additional security machines put in place in security search areas
- Over 200 additional security staff recruited.
- Rosters in all front line areas are weighted in line with passenger demand.
- Capital investment priorities based on actual qualitative and quantitative research of passengers.
- All PRM facilities completely refurbished to include 60 car park spaces for people with disabilities in the short term car park block B
- New passenger seating in all piers
- Summer and winter media campaign to assist passengers on their way.
- Full traffic management programme in place to facilitate landside developments.
- Traffic marshals operational on kerbs and forecourts
- Queuing Strategy developed and operating since June 2007
- New airside eating facilities.
- On line booking for car park
- Upgraded website
- New automated flight information system
- New car park and taxi management system improving efficiency
- New way finding signage
- 4000 new passenger Trolleys
- Facilitation of airline deployment of new technology e.g. SSK, automated baggage check in, web check in etc.
- New Flight information display screens in all passenger areas landside/airside. This includes the Flight display board in departures.
- Enhanced retail provisions

DAA has also adopted innovative measures to encourage better service delivery on the part of third parties at the airport. A key example of this is the Baggage Incentive Scheme which was developed last year in agreement with airlines and ground handlers to try to improve:

1. Baggage standards for disembarking passengers
2. Data quality regarding baggage

A rebate (€0.02 for 75% of qualifying disembarking passengers) is payable when the baggage delivery statistics in a given month exceed 50% of agreed standards. Another higher level of rebate (€0.05 for all qualifying disembarking passengers) is payable when 75% of the agreed standards are reached.

The graph below for the first six months of 2008 shows that performance of many handlers was positively influenced by the introduction of the scheme, though performance has deteriorated somewhat with the advent of the busy summer season.



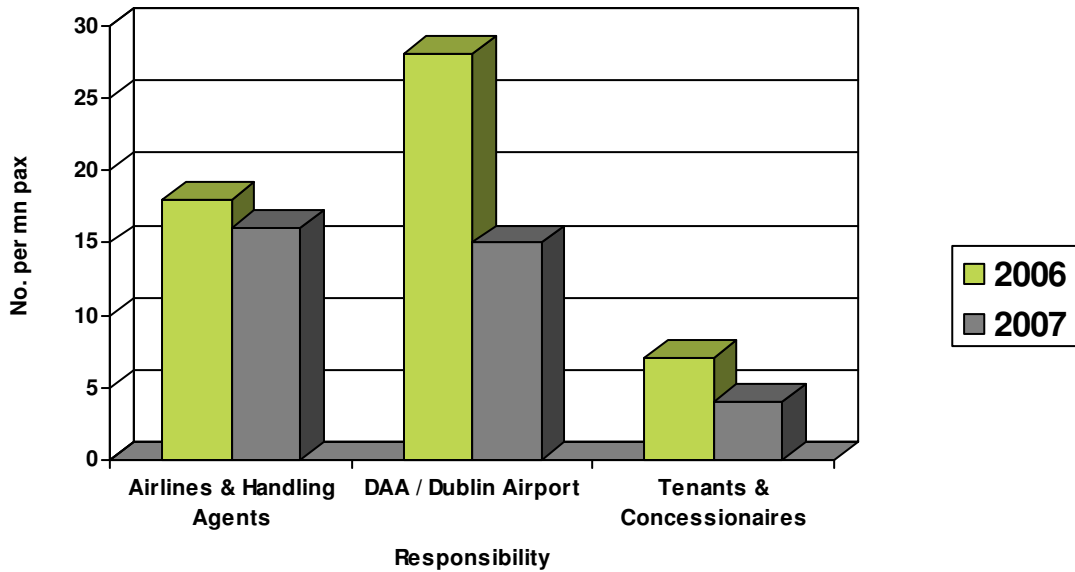
In developing the scheme DAA met with handlers on several occasions and, at their request, has developed additional supplementary baggage reports by time of day and by location. This data will help handlers to analyse their own data and assist them in delivering baggage to passengers in a more efficient manner. The scheme was initially introduced on a pilot basis to ensure that prior to full implementation all parties had a good understanding of its likely effects, a prudent approach that we commend to CAR in the context of any initiatives it may propose following consultation on this service quality issue.

The baggage incentive scheme is a good example of DAA's willingness to introduce targeted incentives in very specific areas of operations. It is most appropriate that such action take place at the level of the relevant parties who are best placed to understand the detailed operational interdependencies. In this context and to avoid any unintended or perverse outcomes, CAR should encourage such initiatives rather than prescribe the details of them itself.

1.3 Recent Performance on Service Quality at Dublin Airport

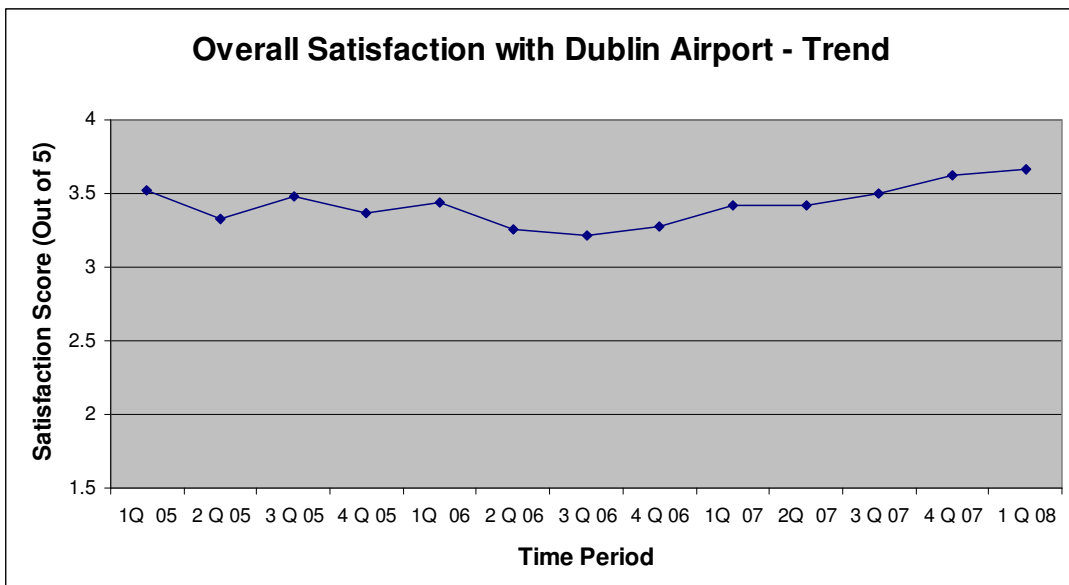
This commitment to continually improving the quality of service at Dublin Airport is borne out in the quantitative results. In an environment of growth and increased pressure on airport facilities and resources, recent performance was strong on key customer service areas:

- Complaints per million passengers during 2007 were almost half that of the 2006 figure (see below).

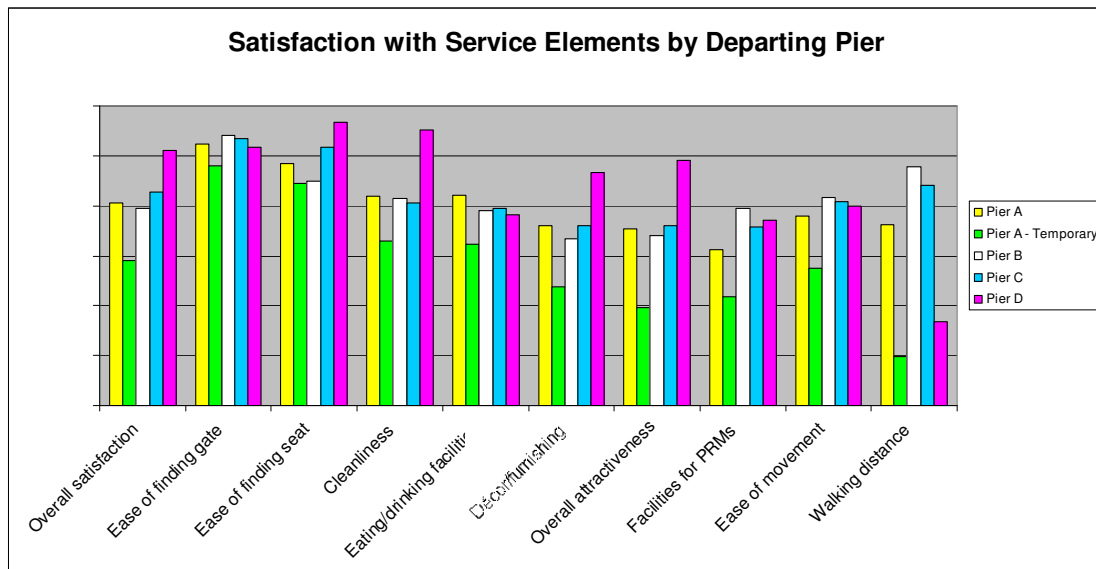


Source: DAA Customer Service & Quality Department

- The ACI Global Monitor shows continuous improvement in overall satisfaction from Q407 to Q108 (see below). Levels of overall satisfaction with their Dublin Airport experience are at their highest levels since early 2005.



- DAA has shown continuous improvement in its Q Mark⁹ results, receiving 78% in 2008, up from 75% in 2007. The overall assessor/auditor summary from the 2008 Q Mark Audit Report noted *“It is clear from the work undertaken by staff and managers throughout Dublin Airport that they are committed to meeting and exceeding the needs of the travelling public”*
- Early indicators show that Pier D is performing strongly with high levels of passenger satisfaction. Extended walking distances to the new area is the only issue raised by passengers.



- A stronger performance on baggage delivery was achieved in Q108 than in the previous quarter and same quarter last year. There remains, however, significant room for improvement and DAA is working with airlines and handlers through the Baggage Incentive Scheme to deliver this.
- Performance in passenger screening remains strong (based on analysis of SLA data). The standard set in the SLA has been met consistently during Q108, a stronger performance than Q107. The analysis shows that satisfaction with security search tracks satisfaction with wait times and performance against the SLA, i.e. when our observed performance is good, customer satisfaction is strong. During March 2007, a drop in performance of security screening occurred. Immediate corrective action was taken by DAA including the following:

⁹ The Q Mark scores participating organisations according to the following criteria:

1. Leadership & Commitment 200 points
2. Employee Engagement 150 points
3. Excellent Business Systems & Processes 200 points
4. Customer Experience 150 points
5. Results 300 points

To gain a level of recognition, an organisation must obtain an overall score of at least 550 points, or 55% of the 1,000 total points available.

- Additional staff recruited
- Start time for unit moved to an earlier time (4am)
- Two additional x-ray machines added
- Extended queuing space provided post a review of queue management
- Additional CSAs allocated to pre-security search area to assist passengers

This is another example of DAA's continuous focus on areas of key importance to airport users. However it is important to note that flexibility to adjust to downturns in performance due to changes in the environment must be built into DAA's opex budget at regulatory reviews if it is to have the resources to ensure that quality of service is maintained.

It is clear from the foregoing that DAA is focussed on passenger service. Maintaining this focus does not require a formal link between service quality and the price cap.

Ultimately, however, many aspects of service quality at an airport are dependent on capital decisions and can vary depending on an airport's position in its investment cycle. For a given amount of resource input, service quality output is likely to decline as volume increases, at least in the short term. We have seen how limitations placed on DAA's ability to invest in the early part of this decade resulted in significant capacity shortages across key processors, which in turn impacted negatively on service quality, particularly at peak times. If optimal operational service quality is to be achieved it must be an objective of facility design¹⁰. CAR must encourage DAA to make capital investments that are consistent with the level of service quality desired by all users, particularly passengers.

¹⁰ In DAA's view this is best represented by the design standard equivalent to IATA Standard C.

2 How should Quality of Service be Measured?

Airports present particular challenges in terms of specifying and measuring the quality of the output to be remunerated by airport charges. These were succinctly set out in a CAA consultation paper¹¹ on quality of service issues as follows

- Airports provide a wide heterogeneous set of outputs which range from quasi-public to private goods and which vary in the extent to which quality of service can be measured. There is a danger that perverse incentives can be introduced if service levels can be specified for some outputs but not for others. As an illustration, Martyn Booth, BAA Director of Corporate Strategy in 1992, noted that one of the four initial measures of service quality set by the BAA was availability of trolleys.

*The result was that you could not walk across a departure concourse without falling over row upon row of trolleys. Trolley availability was high; ease of passenger movement was not.*¹²

- The requirements of the airports' users differ – between airlines and passengers but also between airlines themselves and between different passenger groups - and where there is a conflict it can be difficult to determine whose interest should take precedence.
- There may be a problem in assuming that the preferences of passengers are fully represented by airlines
- Airport outputs are the result of a combined set of inputs from a group of service providers over which the airport has varying levels of influence and control.

It may be useful to consider the challenges in composing airport metrics in the context of a recent local example. There was much negative media comment about punctuality at Dublin Airport following a July report from the Association of European Airlines (AEA) on its members' punctuality performance in Q1 2008. It was widely alleged from the data that Dublin was the second worst airport in Europe for airline delays. However the metric was deficient as an indication of service quality on the part of DAA in a number of ways as follows:

- Only a small fraction of airlines using Dublin in Q1 provided information to the report¹³, making it an inappropriate base from which to judge the airport's performance.
- The report relates to intra-European services only i.e. it is not fully representative of all operations at the airport.
- Of the 33% of flights delayed; the AEA figures show that 15% were delayed for "reactionary" reasons (principally due to late arrival on the part of incoming aircraft); a further 7% were delayed due to weather and airline technical issues i.e. more than two thirds of the delayed flights were delayed for reasons that are clearly unrelated to DAA's performance.
- Some 11% of the flights delayed were delayed due to airport and air traffic control reasons and it is unclear from the data how this was apportioned between the

¹¹ CAA, *Quality of Service Issues*, December 2000

¹² Martin Booth, *Incentive Regulation – Keeping it Apart from Rate of Return*, CRI Seminar paper, June 1992

¹³ Out of the 33 AEA members only 12 Airlines who contributed to the report departed at Dublin Airport in Q1 and statistically they only covered 16% of the total number of Departed Schedule and Charter movements at Dublin Airport in Q1

agencies involved i.e. insufficiently precise information is available on which to base a metric for the purposes of measuring DAA's service quality.

Against this background, it is important to ensure that any service quality metrics developed for the purpose of monitoring service delivery on the part of DAA are soundly based, are statistically robust and are related to issues which DAA controls or has direct responsibility for.

It is important to appreciate that airports are not a self-contained system. They are part of an integrated range of activities in which each part impacts and depends upon the others. The overall performance of processing passengers, freight and aircraft depends on the collaboration of "partners" (e.g. airlines, handling agents¹⁴, customs, immigration and aerodrome navigation services). This was recognised by the Commission's consultants BAH in the course of the 2005 Determination viz:

*"in a complex environment such as an airport, the interplay between the actors is extremely important and it is necessary that all actors involved in a particular process fulfil their obligations to ensure the overall quality of the process is maintained"*¹⁵

DAA is very aware of this point. For example during the recent disruption to services that resulted from the IAA radar problems, DAA invited all airlines and groundhandlers¹⁶ at the airport to emergency meetings to discuss the implementation of contingency plans, management of passengers flows and information etc. Despite these kinds of interventions, deficiencies in service quality are frequently attributed to the airport authority even when responsibility for delivery of the particular service does not rest with it.

Therefore, a key issue for consideration is the degree of influence and control that the airport can exert over the service standards where the product/service is being delivered by the airlines and their handling agents. DAA's degree of influence over third party operators at the airport is often limited and in many instances there is no contractual basis upon which to undertake enforcement action. For example, as noted by BAH there are currently no mechanisms for enforcing existing service level agreements and airlines and handlers are reluctant to co-operate with DAA in publishing their performance against targets for the delivery of consistent service standards to the travelling public. In contrast DAA shares the results of its performance against SLA targets with the AOC. As a result there is far more visibility with respect to DAA's performance against SLA targets than that of other parties. CAR can play an important role in addressing this disparity, highlighting the areas where improvements are required and allocating the responsibility for addressing same to those best placed to deliver them.

¹⁴ DAA has little or no control over ground handlers and the level of service they provide as they are licensed by CAR who is the approving authority for ground handling licences under the European Communities (Access to the Groundhandling market at Community Airports) Regulations 1998 ("the Irish Regulations"). DAA has previously recommended that the Commission incorporate a provision for service standards as part of its process in licensing ground handlers and continues to offer its support to CAR were it to embark on such an initiative.

¹⁵ BAH, Dublin Airport Bottom Up Efficiency Study, May 2005, pg 72

¹⁶ DAA does not have power to compel attendance and some handlers did not provide representatives

In DAA's view, standards need to be broad enough to accommodate all categories of suppliers and customers, and should relate to basic quantitative measures. The kind of indicators which are likely to be of relevance are those which are used in Australia and incorporated in assessments already in use at Dublin Airport e.g. availability of gates, stands and airbridges, queueing times, equipment availability and standard of facilities, etc.

CAR has mentioned the IATA service standards in the context of its discussion of service quality measurements in CP3/2008. Whilst DAA supports the use of IATA standard C as a design parameter in facilitating the delivery of a reasonable standard of service quality to users at Dublin Airport, IATA planning standards were never intended for use in operational monitoring and should not be proposed for this purpose.

Finally, as the Commission is aware, the Government will be overseeing the procurement of an operator for T2. It is important that CAR is mindful of any service standards stipulated in the contractual arrangements when it is considering the service quality metrics that might be appropriate.

3 How Should Quality of Service Be Treated for the Purposes of Setting Future Price Caps at Dublin Airport?

3.1 DAA Recommendation

The most pragmatic and logical approach would be for CAR to quantify and publish¹⁷ certain key aspects of service quality. Publication of information in this way has been seen as providing substantive incentive effects in the UK regulated sector¹⁸. As well as issues of company pride and sense of achievement such effects include shareholder and analysts' perceptions and consequent capital market implications, the fear of poor performance being taken into account at the review and the somewhat distant but nevertheless credible possibility that performance could have some bearing upon the regulator's decision to make inset appointments.

Metrics could initially be based on the performance targets agreed between the airport authority and airline users as part of the existing voluntary Service Level Agreements (SLAs)¹⁹. These agreements address most of the key elements of airport service delivery and set out specific targets for queuing times, baggage delivery and equipment availability. For example, as part of the SLAs,

- DAA has given a commitment that the overall baggage handling system will be available 99% of the time during the hours of operation and performance against this standard is measured and reported on a monthly basis.
- The airlines have committed to having check-in desks open 2 hours in advance of standard departure time (SDT) for 95% of each airlines/handling agents' flights each day and that check in desks for all flights must open no later 1 hr 40 minutes in advance of SDT.

CAR could then examine how best to build upon these for the future and could also consider:

- addressing the different interests of users at Dublin Airport, and in particular establishing a consistent ongoing approach to recognising the interests of passengers and other users as well as airlines;
- building on DAA's existing quality of service monitoring to identify both trends over time and whether there is any significant disparity between the Quality of Service being provided and the interests of users (broadly defined).

Results from any monitoring programme may require qualification and further investigation. This has been recognised by the Australian regulator, the ACCC, which seeks to discuss the possibility of mitigating circumstances (whether favourable or otherwise) influencing the results of monitoring, with airport operators and, where relevant, third parties.

¹⁷ As noted earlier, the airport authority's performance against its SLA targets is already distributed, though currently the AOC will not agree to the identification of individual companies in the reports that detail actual performance against the agreed SLAs and which are circulated amongst AOC members.

¹⁸ John Bowdery, *Quality Regulation and the Regulated Industries*, CRI Discussion Paper, March 1994

¹⁹ Currently under review

“These discussions can be an important input into the ACCC’s monitoring of airport quality and will be reflected in the published reports”²⁰

DAA believes this to be a fair and measured approach which would play a valuable role in establishing the robustness of the outputs. It should be adopted by CAR if it decides to become more actively involved in monitoring service quality.

A methodological issue within this approach to quality regulation is whether or not the information generated by companies should be audited by the regulator. In general, regulators have tended to regard the data generated by the regulated entity to be more reliable than that they would be able to produce. However, in some cases (e.g. OFTEL in the UK) regulators have reserved the right to engage in some limited confirming research of their own. DAA agrees in principle that external validation measures, if cost effective, may be appropriate.

The benefits arising from DAA’s proposed approach as outlined above will outweigh the substantial costs to the Commission - and ultimately to users - which would be associated with fulfilling the information requirements required to move to a more prescriptive form of quality regulation. These are likely to include the costs associated with:

- Measuring the quality of service
- Setting standards which reflect the preferences of different users and the underlying incremental costs of quality and delivery
- Administering any system of penalty or reward for subsequent performance.

The approach recommended above would also be consistent with the CAR’s statutory requirement to place the minimum restrictions on Dublin Airport consistent with its duties and with the requirement for it to keep its own costs to a minimum.

3.2 A Formal Link Between DAA’s Price Cap and Quality of Service?

If regulators become unnecessarily involved in operational issues this significantly reduces the effectiveness of price cap regulation in promoting economic efficiency. It is premature for CAR to consider a formal link between DAA’s price cap and quality of service. The important reasons for this include:

- there is no evidence of a specific quality of service “problem” to be addressed, or indeed if there were to be a problem then whether the current quality of service at Dublin Airport is too high or too low compared to the optimum;
- there is not even any consensus at present on how quality of service should be defined, or how the different requirements of passengers, cargo users, groundhandlers and individual airlines should be reconciled;
- even if there were to be a “problem” with quality of service, CAR has not considered whether this problem is related to the lack of adequate physical facilities or is best addressed through measures other than a link with DAA’s price cap. Nor can any such consideration take place until the nature of any problem, if there is one at all, becomes clear;
- consequently, there has been no chance to set up and test the measurement systems that would be necessary to implement a formal service quality incentive. It

²⁰ ACCC, Airport Quality of Service Monitoring Discussion Paper, November 2007

is important that measurement systems are set up, and their outputs analysed for robustness, well in advance of any formal incentive mechanism being introduced;

- in addition, because of the lack of an agreed definition of service quality, or the measures necessary to support this definition, there is no data or track record on which CAR could base any targets or properly assess the trade offs between capex, opex and service quality.

At present, CAR is at an early stage in formulating its approach to quality of service issues. CP3/2008, for example, raises basic questions about how quality of service at Dublin Airport should be defined. CAR is right to raise these issues, and indeed to recognise that the definition of users includes passengers, groundhandling agents and others, in addition to airlines. But from this early starting point it would be extremely difficult to design a proportionate and effective regulatory mechanism within the forthcoming price cap review.

There are very important reasons, therefore, why CAR should not contemplate a formal link between DAA's price cap and quality of service measures during the next price control period. Even in the longer term, however, when some of the above problems may no longer apply, a formal incentive mechanism may not be appropriate. This may be because:

- there is no clear evidence of a general problem with quality of service at Dublin Airport that would justify the significant costs and distortions associated with the introduction of additional regulatory instruments;
- there are alternative, less intrusive or costly options for addressing any problems that emerge. These include monitoring and publication of quality of service data, or might incorporate action plans agreed between DAA and individual airlines to address any specific issues arising;
- to the extent that any general problems exist, they relate to areas that are not suitable for a formal link to DAA's price cap, for example because quality of service is difficult to measure robustly or because it is significantly affected by the actions of parties other than DAA; or
- the introduction of a formal link to DAA's price cap is likely to have significant unintended consequences, for example, encouraging DAA to focus on specific narrow aspects of quality of service.

Before proposing any formal link with DAA's price cap, therefore, CAR should ensure that such a measure is justified, and that there are not alternative, less intrusive and perhaps more effective ways of addressing any problems that arise. Any measures adopted should also have a material and positive impact on economic efficiency which CAR has emphasised is the essence of its statutory mandate²¹.

²¹ Section 4, CP9/2004