Decision on the Interim Review of the 2014 Determination of Airport Charges at Dublin Airport Related to the North Runway

Commission Paper 4/2017

28 April 2017

Commission for Aviation Regulation

3rd Floor, Alexandra House

Earlsfort Terrace

Dublin 2 D02 W773

Ireland

Tel: +353 1 6611700

Fax: +353 1 6611269

E-mail: info@aviationreg.ie

Table of Contents

1. Executive Summary

1.1 This paper sets out our decision on the Interim Review of the 2014 Determination relating to the timing of remuneration of the North Runway project at Dublin Airport. This decision follows the public consultation on our Draft Decision (CP1/2017) published in January 2017. Prior to this, in December 2015 we showed substantial grounds for the Interim Review (CP2/2015), and in October 2016 we decided the scope of the review would be limited to the timing of remuneration (CP6/2016).[1]

1.2 We have reviewed the 2014 Determination and have decided to replace the trigger which remunerated the North Runway project. The revised trigger better aligns remuneration of the project with the timeline for delivery of the project. We have removed the demand element of the trigger as the required 25 million passengers in a 12-month period has now occurred. We have split remuneration into three tranches, each entering the price cap when a certain milestone event is achieved, these are shown in Table 1. The amount added to the price cap will be adjusted to reflect actual passenger numbers at the time of the trigger being reached.

1.3 The three milestones are designed to reflect key project deliverables: a) preparatory works complete so that work on the main project can commence, b) delivery of an operational runway and c) house buy-out complete representing completion of the project delivery.

Table 1: Triggers and Construction Milestones of the North Runway

Milestone	Key Deliverable	Est. Proportion of Expenditure	Allowed Capex	Amounts added to Price Cap
M1	Main Works Start	10%	€24.7m	(€0.06 * (25,000,000/PAX_{M1})) in the year after M1.
M2	North Runway Fully Operational	85%	€209.7m	(€0.50 * (25,000,000/PAX_{M2})) in the year after M2.
M3	House Buy-out Complete	5%	€12.3m	(€0.03 * 25,000,000/PAX_{M3})) in the year after M3.

1.4 This decision complies with our statutory requirements and is consistent with the aims of the 2014 Determination. The review was motivated by our statutory objective to protect the interests of current and future users; the previous trigger would have resulted in users paying for the project for a number of years before receiving the benefit. In realigning remuneration with the timeline of the project, this decision protects the interests of users. In addition, the decision facilitates the efficient development of the airport and is consistent with our objective to enable the airport to operate and develop in a sustainable and financially viable manner.

1.5 While this decision is consistent with the Draft Decision, there are two differences: 1) for the volume risk realignment, we have decided to adjust the amount entering the price cap at the time of the milestones being achieved rather than conducting a lookback, and 2) we have refined the evidence required to show the milestones have been achieved.

1.6 The next Section gives the background to the review. Section 3 states the decision while Section 4 addresses the submissions received in the consultation. We demonstrate that the decision is financially viable in Section 5. Section 6 sets out a process for moving away from the 50/50 risk sharing for the project outturn cost. Section 7 sets out how this decision is consistent with our statutory objectives. The revised price cap formula is stated in Appendix 1, this replaces the price cap formula from the 2014 Determination.

[1] http://www.aviationreg.ie/_fileupload/2015/review/2015-12-22%20Decision%20on%20Conducting%20Review.pdf
http://www.aviationreg.ie/_fileupload/2016/scope/2016-10-13%20Decision%20on%20the%20Scope%20of%20the%20Interim%20Review.pdf
http://www.aviationreg.ie/_fileupload/2017/Draft%20Decision%20Interim%20Review%20Trigger.pdf

2. Background on the Interim Review

Substantial Grounds and Scope of the Interim Review

2.1 In December 2015, the decision on substantial grounds (CP2/2015) established that this Interim Review was required to preserve the objectives of the 2014 Determination by amending the North Runway trigger which allowed remuneration of the capital costs of €247m of the North Runway. The trigger was set to add €0.59 to the price cap in the year following Dublin Airport serving 25 million passengers in a 12-month period.

2.2 In 2015 Dublin Airport reached the trigger volume of 25 million passengers. This was ahead of all forecasts and would have allowed full funding of the capital costs of the North Runway for a significant period in advance of its construction. Following agreement with the Commission in 2016, Dublin Airport did not collect the €0.59 in 2016 and does not plan to do so in 2017. In CP1/2017, the Commission estimated that, if not amended, the 2014 trigger would have resulted in users paying about €16m in 2016 for remuneration of the North Runway without having received any benefit.

2.3 The decision on the scope of the Interim Review (CP6/2016) published in October 2016 limited the review to the timing of the trigger for the remuneration of the North Runway and, if necessary for the operation of the trigger, milestone reporting and monitoring conditions. It did not expand the scope to the aspects proposed by stakeholders in the first half of 2016 such as the cost allowance, the 50/50 risk sharing mechanism for over/under-spends, the tendering process, capacity assessment and the length of the runway.

Draft Decision of the Interim Review

2.4 In January 2017, the Draft Decision proposed replacing the 2014 trigger for the North Runway at Dublin Airport with three triggers based on three major project milestones, namely commencement of construction of the main project, commissioning of the Runway and project closure. In particular, the proposed triggers allowed the remuneration of 10% of the North Runway project allowance (€24.7m) in the year that follows the start of construction of the main project, 85% of the allowance (€209.7m) in the year after the North Runway has become fully operational and 5% of the allowance (€12.3m) in the year after the house buyout closes and the project is complete.

2.5 The Draft Decision stated that it is the view of the Commission that constructive engagement between Dublin Airport and users on project cost would produce a better outcome than the 50/50 risk sharing that is currently in place. The outcome of engagement and the efficiency of spend could both be assessed by the Commission before deciding on the amount to enter the RAB. At this time the 50/50 rule remains in place. The Draft Decision set out the proposed criteria to be fulfilled by this process for consultation, transparency and efficiency assessment.

2.6 In early March 2017, the Commission received submissions to this consultation from Aer Lingus, Dublin Airport and Ryanair. The Commission expresses its appreciation to all parties for their submissions which assisted the Commission in arriving at this decision.

3. Decision to Amend the 2014 Determination

3.1 The Commission has reviewed the 2014 Determination of the Maximum Level of Airport Charges at Dublin Airport and has decided to amend it in relation to the North Runway trigger in order to protect the reasonable interests of current and prospective users.

3.2 The trigger in the 2014 Determination would have negatively affected the interests of users who would have paid the full funding costs of the North Runway for a number of years before receiving the benefit of the project. The North Runway is expected to be operational in 2020, the 2014 trigger would have resulted in circa €16m being collected from users in each year from 2016 onwards without users receiving any benefit in return.

3.3 The revised trigger better aligns remuneration of the project with the timeline for delivery of the project. We have removed the demand element of the trigger, as the required 25 million passengers in a 12-month period has now occurred. We have split remuneration into three tranches, each entering the price cap when a certain milestone event is achieved, these are shown in Table 3.1. The triggers allow the remuneration of 10% of the North Runway project allowance (€24.7m) in the year that follows the start of works of the main project, 85% of the allowance (€209.7m) in the year after the North Runway has become fully operational, and 5% of the allowance (€12.3m) in the year after the house buyout closes and the project is complete.

3.4 The amount added to the price cap will be adjusted to reflect actual passenger numbers at the time of the trigger being reached. The original trigger amount of €0.59 was calculated using 25m passengers per annum. Passenger numbers in 2016 were 28m and are expected to grow further in 2017. Therefore, this adjustment is needed to ensure that the total collected from users corresponds with the appropriate remuneration of the capital allowance. Once the trigger event has occurred, the volume risk is allocated to Dublin Airport, which is in line with our current treatment of all capital projects.

Table 3.1: Triggers and Trigger Amounts

Milestone	Key Deliverable	Est. Proportion of Total Expenditure	Allowed Capex	Amounts added to Price Cap
M1	Main Works Start	10%	€24.7m	(€0.06 * (25,000,000/PAX_{M1})) in the year after M1.
M2	North Runway Fully Operational	85%	€209.7m	(€0.50 * (25,000,000/PAX_{M2})) in the year after M2.
M3	House Buy-out Complete	5%	€12.3m	(€0.03 * 25,000,000/PAX_{M3})) in the year after M3.
	Total	**100%**	**€246.7m**	

Where: *PAX_{M1} is the number of passengers served by Dublin Airport in the year M1 is achieved*
PAX_{M2} is the number of passengers served by Dublin Airport in the year M2 is achieved
PAX_{M3} is the number of passengers served by Dublin Airport in the year M3 is achieved

3.5 The three milestones are designed to reflect key project deliverables: a) preparatory works complete so that works on the main project can commence, b) delivery of an operational runway and c) house buy-out complete representing completion of the project delivery. The evidence required to show accomplishment of each element is shown in Table 3.2.

Table 3.2: Evidence Required to show Attainment of Milestones

Milestone	Event	Evidence of Accomplishment
M1	Main Works Start	1. Letter of discharge from Fingal CC for all pre-commencement conditions 2. Signed contract for Construction Package 2 and evidence that work on Package 2 has commenced (this could be off-site design work) 3. Completion of Works Certificate for Enabling Works Construction Package
M2	North Runway Fully Operational	1. Dublin Airport issues Taking Over Certificate 2. Capacity Declaration for Dublin Airport is based on dual parallel runway operation, and additional movements are available as a result of the North Runway 3. Copy of anonymised airline invoice including runway movement charges, for scheduled operations, for movements undertaken on the North Runway – this shows the runway is being used for revenue generating flights 4. Dublin Airport letter to Fingal CC stating insulation schemes have closed; Fingal CC acknowledgement
M3	House Buy-out Complete Project Complete	1. Dublin Airport letter to Fingal CC stating house buy-out scheme has closed; Fingal CC acknowledgement 2. Dublin Airport confirm that the Project is complete

Future Determinations

3.6 The 2014 Determination volume based trigger of 25m passengers in a 12-month period has been reached. If Dublin Airport complete the project, then it will be remunerated. This decision deals with the timing of remuneration only. This should give Dublin Airport, and investors, certainty that the project will enter the RAB and be remunerated, provided that the milestones have been achieved.

3.7 At the time of future determinations, if the milestones are to yet to be reached they will carry forward but the values may be adjusted to reflect the cost of capital, passenger forecasts and price indexation at that time.

3.8 Once milestones are reached, the capital allowance associated with them enters the RAB and is treated in the same way as other capital expenditure. When the project is complete the RAB will be adjusted to take account of outturn spending and the allowance. The allowance is discussed further in Section 6.

Depreciation

3.9 When the final adjustments are made to the RAB in relation to the three tranches of capital expenditure we will adjust asset lives so that all three tranches reach end of life in the same year, that is, 50 years after the attainment of M2. These adjustments will be net present value neutral and will be made when the depreciation profile for the project is being finalised on project completion.

Crosswind Runway (Runway 16/34)

3.10 All other conditions relating to the North Runway as stated in the 2014 Determination still apply, for example those concerning the cross-wind runway. For clarity, Paragraph 7.68 of the 2014 Determination stated "[t]o protect the interests of current and prospective users, the allowance for the Northern Runway in future determinations will be conditional on DAA operating an airport that is capable of remaining open to the arriving traffic in conditions that the existing airport configuration currently serves."[2] This condition must be satisfied for the continued remuneration of the project, revisited at each future determination.

[2] http://www.aviationreg.ie/_fileupload/2014final/2014%20Final%20Determination.pdf

4. Submissions Received

4.1 This Section summarises the changes from the Draft Decision, the submissions which we received on the Draft Decision, and gives the views of the Commission. Submissions relating to financial viability and constructive engagement on outturn costs are addressed in Sections 5 and 6 respectively.

Changes from the Draft Decision

4.2 Like the draft, this decision replaces the 2014 trigger with three triggers based on major project milestones. While it is consistent with the Draft Decision it differs from the Draft Decision in the following ways:

- The volume adjustment is made at the time of the milestone being reached rather than at the next determination. This reduces the need for complicated calculations on depreciation at future determinations. Once the trigger amount has been calculated volume risk reverts to Dublin Airport. This change is shown in Table 4.1.
- The evidence required to show that a milestone has been achieved has been refined (the aims of the milestones remain the same). These revisions are shown in Table 4.2.

4.3 In addition, to address issues raised in the submissions we have provided some additional clarity around how the decision will carry forward in future and how the project will enter the RAB.

Table 4.1: Triggers and Construction Milestones of the North Runway

Milestone Number	Name	Draft Decision	Final Decision
M1	Main Works Start	€0.06 the year after M1	(€0.06 * (25,000,000/PAX_{M1})) in the year after M1
M2	North Runway Fully Operational	€0.50 the year after M2	(€0.50 * (25,000,000/PAX_{M2})) in the year after M2
M3	House Buy-out Closure	€0.03 the year after M3	(€0.03 * 25,000,000/PAX_{M3})) in the year after M3

Where: PAX_{M1} *is the number of passengers served by Dublin Airport in the year M1 is achieved*
PAX_{M2} *is the number of passengers served by Dublin Airport in the year M2 is achieved*
PAX_{M3} *is the number of passengers served by Dublin Airport in the year M3 is achieved*

Table 4.2: Evidence Required to show Attainment of Milestones

Milestone	Evidence of Accomplishment- Draft Decision	Evidence of Accomplishment- Final Decision
M1	1. Receipt of letters of discharge from Fingal County Council for all pre-commencement conditions, 2. Evidence of physical work onsite for main project, and 3. Evidence that enabling works are complete.	1. Letter of discharge from Fingal CC for all pre-commencement conditions 2. Signed contract for Construction Package 2 and evidence that work on Package 2 has commenced (this could be off-site design work) 3. Completion of Works Certificate for Enabling Works Construction Package
M2	1. Construction and commissioning of the North Runway are complete, 2. The North Runway is fully operational resulting in additional movements being available for slot allocation, 3. The North Runway is being used for revenue generating scheduled flights, and 4. The house and school insulation schemes are complete.	1. Dublin Airport issues Taking Over Certificate 2. Capacity Declaration for Dublin Airport is based on dual parallel runway operation, and additional movements are available as a result of the North Runway 3. Copy of anonymised airline invoice including runway movement charges, for scheduled operations, for movements undertaken on the North Runway – this shows the runway is being used for revenue generating flights 4. Dublin Airport letter to Fingal CC stating insulation schemes have closed; Fingal CC acknowledgement
M3	1. Dublin Airport issues formal notification that buyout scheme has closed, 2. Other mitigation measures are complete, and 3. The Project is complete.	1. Dublin Airport letter to Fingal CC stating house buy-out scheme has closed; Fingal CC acknowledgement 2. Dublin Airport confirm that the Project is complete

Submissions on the Draft Decision

Legal Status of Milestones

Dublin Airport

4.4 Dublin Airport asked the Commission to clarify "the legal status of milestones, particularly with regard to whether they could be altered or dropped in the next regulatory determination."

Response by the Commission

4.5 The original trigger for remuneration of the North Runway, as set out in the 2014 Determination, was reached in 2015 when passenger numbers at Dublin Airport surpassed 25 million in a 12 month rolling period.

4.6 In CP2/2015, the Commission stated that the "commencement of construction and opening for operation [of the North Runway was] some time away", and decided to "amend the runway trigger to better align remuneration with the reality of the timeline of the project".[3] In CP2/2015 the Commission decided that this review would "only be concerned with the timing

[3] http://www.aviationreg.ie/_fileupload/2015/review/2015-12-22%20Decision%20on%20Conducting%20Review.pdf

of the trigger" and would "not examine the 25m passengers element of the trigger or the cost of the project".

4.7 This decision is therefore concerned with giving certainty to Dublin Airport as to when remuneration occurs and not if it occurs. Dublin Airport has certainty that if it delivers the project milestones it will be remunerated.

4.8 To address Dublin Airport's concern that triggers will be dropped in future determinations, in Paragraph 3.7 above we state "at the time of future determinations, if the milestones are yet to be reached they will carry forward but the values may be adjusted to reflect the cost of capital, passenger forecasts and price indexation at that time."

Timing of Remuneration

Aer Lingus

4.9 Aer Lingus supports "the principle that users pay for the project when the benefits are available to be realised."

Dublin Airport

4.10 Dublin Airport proposes that "the number of milestones should be expanded to …somewhat reduce the very significant swing in regulatory policy from pre-funding to almost wholly post-funding of this investment."

Ryanair

4.11 Ryanair states that "pre-funding does not exist in competitive environments" and "the proposal to include €24.7m in the RAB before the northern runway is fully operational should not be included in the final decision."

Response by the Commission

4.12 The objective of price cap regulation is to replicate the results of a competitive environment as closely as possible. Pre-funding is not a feature of competitive markets as customers pay for new capacity when they realise the benefits. By aligning remuneration of the North Runway project to when, for the most part, the benefits of the project are available to be realised we have protected the interests of current and future users.

4.13 We have retained the approach of the draft to allow the preparatory costs to be remunerated once they are complete and the main project has commenced. While this means 10% of the allowed cost will likely enter the RAB prior to the runway being operational, it incentivises Dublin Airport to get the project to the "start of works" stage in a timely manner. The final 5% of the North Runway allowance shall be remunerated only after the closure of all aspects of the project.

Number of Triggers

Dublin Airport

4.14 Dublin Airport proposes that the number of milestones should be expanded to six "to allow for a smoother price cap and to protect the financial viability of daa under all possible scenarios […] which would also protect airlines from a higher cost of debt […] in future determinations". Dublin Airport also claims that this would reduce the swing in regulatory policy away from pre-funding.

Response by the Commission

4.15 The Commission has decided to maintain the three milestones as proposed in the draft. We considered the reasons raised by Dublin Airport to increase the number of triggers but we were not convinced that such a change would be in the interest of users, nor do we conclude that it would be necessary to enable the financial viability of Dublin Airport. We address financial viability in Section 5.

4.16 The largest of the three triggers (Trigger 2) would not result in an unprecedented increase in the price cap; the largest increase to date occurred in 2010 when the price cap increased by 26%. By comparison, trigger 2 would only result in about a 6% increase in the price cap (depending on when it occurs).

4.17 At the time of the 2014 Determination, the Commission proposed a smoother price path in order to give parties price stability moving from one determination to the next. However, at that time Ryanair expressed the view that smoothing the price cap was inconsistent with previous decisions and stated that the spike in the price cap in 2010 was not re-profiled. Aer Lingus also expressed its preference for a large price cap adjustment (downwards at that time) in line with the building blocks instead of the proposed price smoothing. Other than that of Dublin Airport, no submission in response to the Draft Decision took issue with the magnitude of Trigger 2.

4.18 The bulk of the increase in price from this decision is expected to occur in the next determination period, for which the price cap is still unknown; consequently, the price path and the effect of the runway triggers on that price path are unknown.

Depreciation of Trigger 3

Dublin Airport

4.19 Dublin Airport proposes that "the final 5% of North Runway should either be remunerated:

- from the attainment of M2 so as to allow full remuneration if the price cap adjustment for M3 remains at €0.03; or
- by recalculating the price cap adjustment which would remunerate €12.35m (5% of total allowance) over 47 years if remuneration commences on attainment of M3".

Response by the Commission

4.20 As in the draft, 5% of North Runway expenditure is to be remunerated on the attainment of the third milestone. This incentivises Dublin Airport to conclude the project. Therefore, the reason for a shortened asset life of 50-X years (where X are the years elapsed from the satisfaction of Trigger 2 to that of Trigger 3) is to avoid having 5% of project expenditure that depreciates for X years more than the North Runway infrastructure. Based on the timeline for delivery of the project, there is likely to be 3 years between the satisfaction of Trigger 2 to that of Trigger 3. This implies that the final 5% of the allowance would be remunerated over 47 years.

4.21 Remuneration of 5% of the North Runway allowance over, for example, 47 years as opposed to 50 years is net present value neutral. The allowed spend will fully depreciate and earn a return corresponding to the allowed cost of capital set by the Commission.

Volume Risk

4.22 The €0.59 increase in the price cap set out in the 2014 Determination was calculated using a forecast of 25 million passengers per year; in 2016 passenger numbers were 28 million. If there was no adjustment, Dublin Airport would over collect on the trigger. In the Draft Decision, we said we would do a look back and adjust the depreciation profile to take account of any over collection, thus removing the volume risk. Then, the intention was that at the time of the first determination after the trigger was met, the allowance would enter the RAB and the volume risk would revert to the airport as per the current treatment of all other capital expenditure.

Dublin Airport

4.23 Dublin Airport claims that "no substantial grounds for a reappraisal of the bearing of volume risk have been established" and states that "the volume risk should be borne by the daa because:

- it is consistent with regulatory policy to date;
- price increases as a result of volume risk adjustment in periods of demand contraction may not be [commercially] feasible;
- the CAR proposal is asymmetrical with regard to potential protections afforded to airlines / Dublin Airport; and
- the introduction of complex mechanisms for RAB adjustment/ price cap calculation should be avoided."

Response by the Commission

4.24 As stated in CP2/2015, this Interim Review is only concerned with the timing of remuneration; the Commission did not recalculate an updated price cap increase based on the latest passenger outturns, which reached 28 million in 2016, nor for the most recent estimated cost.

4.25 Because of the unprecedented passenger growth, the Commission identified a mismatch between the €0.59 being calculated using 25 million passengers and Dublin Airport recovering that amount from significantly more passengers as shown in Table 4.3. If, for example, outturn passenger numbers are 30 million when Triggers 1 and 2 enter the price cap and 33 million when Trigger 3 enters the cap, the per-passenger over collection would reach €0.10. Allowing this substantial per passenger over collection would not be in the interest of current and future users.

Table 4.3: Examples of Per-passenger Over-collection

Draft Parameters	M1	M2	M3	Total
Draft Trigger	€0.06	€0.50	€0.03	€0.59
Reconciliation Example				
Outturn Passengers	30m	30m	33m	-
Outturn Revenues	€1.7m	€15.2m	€1m	€17.8m
Over collection of revenues	€0.3m	€2.5m	€0.2m	€3m
Per passenger over collection	1c	8c	1c	10c

4.26 In its submission, Dublin Airport proposes an adjustment to the trigger amount at the time the milestone is reached based on outturn passengers in that year. This would achieve a similar outcome to the proposal in the Draft Decision. We agree with Dublin Airport that this is a cleaner mechanism with a similar outcome, and have adopted the suggestion.

4.27 Once the allowance for each milestone goes into the RAB it will be treated in a similar way to all other capital expenditure.

Evidence of Accomplishment

4.28 The Draft Decision proposed three major milestones for the draft triggers and corresponding evidence of accomplishment, which are summarised in Table 4.2 at the start of this section. The table also shows our final decision on the evidence of accomplishment. Each piece of evidence pertaining to a milestone must be provided to the Commission before we will deem that a trigger has been achieved.

Aer Lingus

4.29 Aer Lingus states that the proposed evidence of accomplishment of milestone 2 is inadequate. Specifically with regard to the North Runway being fully operational resulting in additional movements being available for slot allocation it states that this "could refer to a slot allocation at times that are of no material benefits to users". It proposes that any cost recovery should be "conditional upon independent confirmation, following […] a comprehensive business case, that the new runway will deliver substantial benefits to users compared to the maximum benefit […] from current infrastructure."

4.30 Aer Lingus suggests that the accomplishments should restate the CAR's requirement as stated in the 2014 Determination in relation to Runway 16-34.

4.31 Aer Lingus claims that there are bottlenecks that should be urgently addressed such as the availability of stands and taxiways, and suggests that "the Accomplishments should include a pre-condition that the maximum economically viable capacity of the current infrastructure is realised in advance of triggering any increase in airport charges (including the €0.06 linked to M1)."

4.32 In a letter to the Commission to clarify its initial submission on the proposed evidence of accomplishment, Aer Lingus states that evidence for triggering M1 should also be required to show that:

- Construction of the runway will not result in any material operating restrictions at the airport.
- Other infrastructure such as stands and taxiways must be adequately addressed.
- The maximum economically viable capacity of the current two runway configuration is realised.

4.33 It further suggests that M2 should only trigger once "the annual passenger numbers exceed the number of passengers that could be handled once other infrastructure constraints are addressed, and all of the reasonable capacity enhancements to the existing runway configuration […] are delivered"

Dublin Airport

4.34 Dublin Airport suggests the following substitutions:

- Relating to M1, the "evidence of physical work onsite for main project" for "signed contract for Construction Package 2".
- Relating to M2, "the North Runway is fully operational resulting in additional movements being available for slot allocation" for "capacity declaration for Dublin Airport is based on dual parallel runway operations".

4.35 In relation to the other proposals, Dublin Airport sets out appropriate documentation to provide evidence of attainment.

Response by the Commission

4.36 The Commission acknowledges airport users concerns about the possible decommissioning of Runway 16-34; paragraph 3.10 above reiterates that a requirement for continued remuneration of the North Runway is to comply with the conditions stated in the 2014 Determination.

4.37 With regard to Aer Lingus' concern about a possible negative outcome for users caused by operating restrictions pertaining to the North Runway, the Commission notes that these restrictions have been known since 2007, and substantial grounds have not been established for re-examining this issue at this time.

4.38 In relation to Aer Lingus' concerns about a possible increase in the price cap without a significant increase in overall capacity, the Commission understands that Dublin Airport plans to address current infrastructural bottlenecks this year, through the supplementary capex process which we put in place in late 2016.

4.39 While, conducting a capacity assessment to identify infrastructural bottlenecks at Dublin Airport is out of scope of this Interim Review, a separate full capacity assessment is currently being carried out by the Commission for the purpose of assisting the Commission in declaring slot coordination parameters. That study will examine pinch points in the airport infrastructure and high level solutions, and should therefore provide guidance as to where pinch points exist and how they might best be addressed.

4.40 The regulatory model employed by the Commission already incentivises Dublin Airport to maximise its capacity utilisation so as to maximise its revenues. In addition, evidence available to the Commission suggests that the runway capacity at Dublin Airport is currently constrained in a number of hours across the day.

4.41 With regard to Aer Lingus' proposal that a further demand based trigger be required for M2, we note that the 2014 demand based trigger of 25 million passengers has already been met. The thrust of this interim review is not to reappraise the level of passenger throughput at which a new runway is required, but rather to prevent excessive pre-funding through better aligning remuneration with the timeline for delivery of the project. Therefore, it would not be appropriate to add a further demand based trigger as part of this review.

4.42 The Commission agrees that the documentation proposed by Dublin Airport to demonstrate accomplishment as set out in the Draft Decision is generally suitable and practical. We therefore include some elements of this documentation as evidence of accomplishment.

4.43 With regard to the substantive changes proposed by Dublin Airport, the Commission agrees that a signed contract for Construction Package 2 provides evidence that work on the main project has started, work which may be conducted off site.

4.44 Based on the submissions received on evidence of accomplishment of M2, we will now require evidence that the capacity declaration for Dublin Airport is based on dual parallel runway operation, and that additional movements are available as a result of the North Runway.

Length of Runway

Ryanair

4.45 Ryanair claims that "the length of the proposed northern runway was not consulted on in the 2014 Determination", and that "this non-engagement has resulted in an unnecessarily long and excessively costly runway."

Response by the Commission

4.46 CAR established in CP6/2016 that users had previous opportunities to express their views on the length of the runway, and therefore it was decided that it is out of scope of the review.

5. Financial Viability

5.1 In the Draft Decision, we stated our view that the proposed adjustment to the runway trigger was consistent with our statutory objective to enable the financial viability of Dublin Airport. We have not been persuaded by the response received from Dublin Airport that this conclusion was incorrect. Dublin Airport's submission was the only one to address financial viability.

5.2 The approach used for assessing financial viability is consistent with the 2014 Determination. This decision will alter the cash flow profile of the regulated entity; therefore, we must satisfy ourselves that it is consistent with the financial viability conclusions of the 2014 Determination.

Dublin Airport

5.3 Dublin Airport identified a number of concerns with our analysis of the financial viability of Dublin Airport to 2019 such as:

- "the exclusion of dividend payments to the shareholder post-2015 (2016 to 2019 period).
- CAR has used the base year figures of 2013 [of commercial revenues and opex] used in the 2014 Determination. At a minimum, CAR should have used 2015 regulated entity results […]; and
- Runway expenditure has been under-estimated in the cash flow, with the allowance of €247m used, rather than the more recent estimate of €320m."

5.4 Additionally, Dublin Airport states there are "other factors which must be taken into account […] for which CAR would not have daa's current information:

- an allowance for additional capital expenditure for capacity enhancement projects for which no allowance was made in CIP 2015-2019. CAR has said in CP7/2016, if projects are allowed through the new supplementary capex process, remuneration will begin from the following determination period;
- Runway expenditure profile; […] daa will be incurring expenditure in advance of reaching milestones i.e. daa could have incurred expenditure relating to more than a single milestone within the calendar year; and
- 2016 results should be used as a base to which to apply commercial revenue and opex elasticities for future period forecasts (2017 to 2019)."

5.5 After taking account of these factors, Dublin Airport provides analysis which shows that "while the FFO/Net Debt is still relatively positive in scenarios 1 and 2, it greatly declines under a recessionary passenger scenario (scenario 3) and in 2019 does not meet the targets set by Standard & Poor's (S&P) for a BBB credit rating."

5.6 Dublin Airport states that "if CAR were to introduce the additional milestones as suggested in Section 5.3, the additional revenues would reduce risk exposure and support a more gradual increase in remuneration [… and] would additionally help maintain the regulated entity's credit rating at BBB in a potential recessionary scenario".

5.7 Dublin Airport argues that "in changing this decision (particularly after the project has commenced), the regulatory environment is made unpredictable/unstable and sends out a negative message to bond markets and others sources of debt financing."

Response by the Commission

5.8 The Commission is satisfied that this decision is consistent with its objective of enabling the financial viability and sustainability of Dublin Airport. Below we reply to the points raised by Dublin Airport.

5.9 The Commission did not include dividend payments in its financial viability model. The Commission has a duty to enable the financial viability of the airport but this does not include the duty to ensure a minimum level of dividends. In arriving at a price cap the Commission includes an amount for the cost of equity (which includes dividends) It can be expected that dividend policies take account of changes in business conditions. For example, following the sharp decline in passenger numbers in 2009 and 2010, Dublin Airport suspended dividends between 2009 and 2016.

5.10 We note that the National Aviation Policy states that "[d]ividend policy should take account of issues such as current and projected profitability, capital investment plans and pension funding." By way of example, the ESB agreed its dividend policy with the government in 2013. It states that "sustaining a minimum BBB+ credit rating is a key policy objective for the Company, and […] this should be a priority consideration when considering dividend payments under the policy".

5.11 The Draft Decision included analysis of a potential recessionary scenario, modelled on that which occurred in 2009-2010, whereby passenger growth was 0% in 2017 before falling by 12% and 8% in 2018 and 2019 respectively. Table 5.1 sets out the effect of removing the dividend payments for 2018 and 2019 from the analysis of the recessionary scenario provided by Dublin Airport.

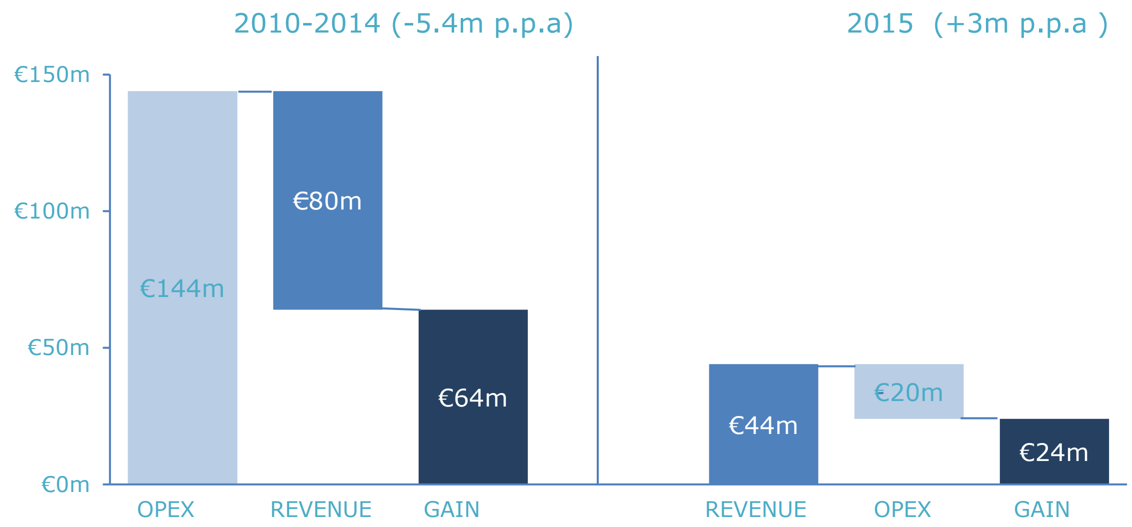
5.12 When the dividend payments are removed, the FFO/Net Debt ratio climbs back above the 13% target set by Standard & Poor's (S&P) for a BBB credit rating. Thus, even if the Commission were to fully accept all other assumptions made by Dublin Airport regarding financial viability in such a scenario, the key FFO/Debt ratio would remain above 13%. This is before we consider how else Dublin Airport might respond appropriately to such a recessionary scenario.

Table 5.1: Analysis of the FFO/Net Debt Ratio under a Recessionary Scenario

	2017	2018	2019
Draft Decision	34%	29%	25%
Dublin Airport analysis	26.3%	17.5%	12.8%
Dublin Airport's numbers with dividend payments removed 2018 2019	26.1%	18%	13.5%

5.13 The Commission takes no issue with Dublin Airport's suggestion that the 2015 outturns for commercial revenues and operational expenditure should have been used, nor with using 2016 outturns as a base from which to apply commercial revenue and opex elasticities for future period forecasts. Figure 5.1 shows that in practice, Dublin Airport is able to assume the risk of considerable passenger variance from the numbers forecast. For instance, when passenger numbers were 13% higher than the forecast in 2015, Dublin Airport earned an extra 22% in commercial revenue and 8% in aeronautical revenue. At the same time, opex grew by 10%. The gain compared to the forecast, in a single year, was €24m. When traffic declined by 5.4m passengers between 2010 and 2014, Dublin Airport was able to achieve efficiencies and reduce its Opex by €144m which compensated for a decrease in revenues of €80m and yielded a €64m EBITDA gain.

Figure 5.1: Airport Takes the Volume Risk, and Responds Accordingly



Source: Dublin Airport Regulatory Accounts, CAR Calculations. Data in July 2014 prices.

5.14 Dublin Airport has demonstrated that it can take actions to compensate for revenue decline under a recessionary scenario. If passenger numbers decline, the airport can decide not to invest in projects that cease to be necessary and/or achieve operational efficiencies.

5.15 The Commission did not use the most recent North Runway cost estimate of €320m given that this is not the capex allowed for this project, and the result of the competitive tender for construction is still not known.

6. Outturn Cost Reconciliation and Constructive Engagement

Dublin Airport

6.1 Dublin Airport states that the capital allowance, which is currently €247m with the risk of cost overruns or underruns shared equally between Dublin Airport and airlines, should be reassessed at a future date. It broadly welcomes the approach set out in the Draft Decision as to how the allowance might be reassessed through consultation by the airport and assessment by the Commission, as appropriate to the cost driver.

6.2 With regard to the potential cost drivers set out in the Draft Decision, it states the following:

- Where a change in cost is driven by a change in the cost of materials, the Commission "must give adequate consideration to the level of Construction Price Inflation/tender returns".
- Changes in cost due to a change in the scope of the project which is required to fulfil new regulatory requirements "must encompass changes in estimated costs associated with mitigation schemes, as agreed with planning authorities/affected community as well as those required to comply with EASA regulations on Aerodrome design and operation". It further states that certain regulatory scope changes are not suitable for consultation if it is not feasible to present users with options as to how a requirement might be satisfied.
- Where a change in scope is not driven by a change in regulatory requirements, daa states that the requirement for 80% of users to agree to the change may create perverse incentives for them to oppose a change which would actually be beneficial for them, if they believe that daa will proceed with the scope change regardless. Thus users would only have to remunerate 50% of the costs incurred by daa, rather than 100% of the efficient cost if 80% of them had agreed with the change.

Ryanair

6.3 Ryanair states that "*the 50/50 'risk-sharing' mechanism does not provide the DAA monopoly with a strong incentive to maintain control of costs*", and that this principle does not exist in competitive markets. Ryanair characterises previous consultations with daa as "*highly unsatisfactory*", and states that there is no incentive for daa to engage constructively with users on reviewing the allowance. It takes the view that daa should be required to deliver the North Runway for no more than the initial allowance of €247m.

Decision of the Commission

6.4 As stated in the Draft Decision, there are two paths by which a final allowance for the North Runway may be reached. The first is the approach we set out in the 2014 Determination, with an allowance of €247m and any variance from that allowance being shared equally between the airport and users. The Commission noted in CP6/2016 that there are currently no substantial grounds to review this element of the Determination and consequently it does not fall within the scope of this interim review.[4]

6.5 This approach was introduced to deal with cost overruns on Terminal 2. These overruns were not explicitly predicted in advance of the commencement of construction. However, in the case of the North Runway, Dublin Airport predict that the cost of the project will be 30% higher

[4] http://www.aviationreg.ie/_fileupload/2016/scope/2016-10-13%20Decision%20on%20the%20Scope%20of%20the%20Interim%20Review.pdf

than the 2014 allowance of €247m. Therefore, unlike Terminal 2, there is an opportunity for the airport to engage constructively with users in relation to the drivers of this change in costs in advance of them being incurred.

6.6 The Commission restates the view that constructive engagement has the potential to lead to a mutually beneficial outcome for Dublin Airport and users. Users would be afforded the opportunity to ensure that the airport is fully aware of their requirements in relation to actual changes in the scope of the project. Rather than paying for 50% of all cost overruns even where these are inefficiently incurred, users would only pay for efficiently incurred costs and would have full knowledge in relation to the drivers of those costs. Dublin Airport would be fully remunerated for efficient capital spending which was incurred to deliver the runway as desired.

6.7 Thus we maintain the thrust of the decision set out in the draft, leaving open a route to move away from the 2014 allowance and risk sharing mechanism to set a revised allowance. Such a move would be based on transparency, consultation appropriate to the cost driver, and an assessment of efficiency. There are two significant changes from the Draft Decision:

- Where a change in scope is required to comply with a regulatory agreement negotiated by Dublin Airport, daa must show how it sought to obtain the best available agreement for users.
- Where a change in scope is proposed to better meet the needs of users, rather than requiring agreement from users representing 80% of passengers, we set out a process of constructive engagement to be followed by the airport. This is similar to the supplementary capex process set out in CP7/2016.

Cost drivers

6.8 With regard to changes solely due to the cost of materials, whether due to construction price inflation or other factors, users should be fully appraised of these changes, in detail, and the resulting effect on the cost of the runway. The Commission would assess the evidence relating to such changes, such as the cost offers made by bidders for the construction of the runway, together with views expressed by users.

6.9 Scope changes to satisfy regulations imposed by bodies with which the airport must comply, whether mandated or negotiated, will constitute regulatory scope changes. Where the airport is uncertain as to whether a specific scope change should be deemed regulatory or non-regulatory in nature, it should seek the view of the Commission.

6.10 Where a change in scope is required to comply with mandated regulations which have been introduced since the runway plan was developed, such as EASA aerodrome regulations, Dublin Airport should consult with users on:

- The regulatory requirement(s) that has changed.
- The options available to meet the requirement and the costs associated with these options. Where the airport believes that there is no option as to how to meet a requirement, it should clearly explain why this is so. This refers to a situation where a requirement can only be met through a very specific change or set of changes.

6.11 Where a change in scope is required to comply with an agreement negotiated between Dublin Airport and a regulatory authority since the runway plan was developed, Dublin Airport should consult with users on:

- The regulatory body in question and the timing, nature, and purpose of the agreement.
- How Dublin Airport sought to maximise value for users through obtaining the best outcome available, having regard to the position taken by the regulatory authority.
- The options available to meet the requirement and the costs associated with these options. Where the airport believes that there is no option as to how to meet a requirement, it should clearly explain why this is so. Again, this refers to a situation where a requirement can only be met through a very specific change or set of changes.

6.12 In relation to non-regulatory scope changes, the supplementary capex consultation process set out in CP7/2016 should be used as a guide in relation to non-regulatory scope changes; these are changes in the scope of the project to better meet the needs of users.[5] Following the consultation process, the Commission would assess the proposed costs for efficiency. This may lead to a revised estimate of the efficient cost of delivering a runway which meets the needs of users.

6.13 For any such non-regulatory scope changes, the airport must consult on:

- The need/merit of the proposed changes.
- Details and a timeline relating to delivery of the proposed changes.
- A detailed business case including detailed cost information. This must allow users to make a full assessment of the costs and benefits of each proposed change.
- Detailed business cases and cost information relating to different options to address a need, where such options are available.

6.14 Following the airport's consultation, the Commission will:

- Assess the consultation and information sharing undertaken by Dublin Airport to ensure that it has followed the appropriate process as outlined in this paper.
- Individually assess the merit of the proposed changes.
- Assess cost efficiency.
- Consult with users, as set out in statute, on potentially amending the future treatment of the North Runway with regard to the €247m allowance and the 50/50 risk sharing mechanism as set out in the 2014 Determination.

6.15 Where the Commission approves a change in the scope of the project, it will:

- Require Dublin Airport to report on delivery with regard to the timeline set out during consultation.
- Make provision for recovery of the efficient costs as part of the subsequent determination process, at the earliest.

6.16 In summary, analysis of these three drivers of cost, when considered together with the scope of the project set out in the 2014 Determination, would enable the Commission to set a revised efficient allowance for a runway which best meets both the needs of users and regulatory requirements.

[5] http://www.aviationreg.ie/_fileupload/supplementary%20capex%20decision/2016-12-09%20Decision%20on%20process%20for%20supplementary%20capex%20allowances.pdf

In conclusion

6.17 If it were to occur, constructive engagement in this manner would constitute a significant change from the time the allowance was set in 2014, giving rise to substantial grounds to review the treatment of outturn expenditure on the North Runway in future determinations. It should be noted that such a move towards constructive engagement can only occur once, and consequently can only once give rise to substantial grounds to conduct such a review.

6.18 We reiterate that for genuine constructive engagement to take place, consultation on regulatory and non-regulatory scope changes must take place in advance of cost incurment.

6.19 Having set a revised allowance as outlined above, the Commission would follow the reasoning of the RAB roll-forward principles when reconciling outturn expenditure on the North Runway. These principles are set out in detail in Appendix 3 of the 2009 Determination.[6]

[6] http://www.aviationreg.ie/_fileupload/2009_CP4_Final%20Determination_4DEC.pdf

7. Compliance with Statutory Requirements

7.1 This decision complies with our statutory requirements. Our statutory objectives, as well as the statutory factors to which we must have regard, are set out in Section 33 of the 2001 Aviation Act, as amended by Section 22(4) of the 2004 State Airports Act. Below we set out how this decision complies with the statutory objectives and factors that apply.

Statutory objectives

7.2 When amending a determination for airport charges, we have three statutory objectives. They must be read together and in light of one another.

To protect the reasonable interests of current and prospective users of Dublin Airport in relation to Dublin Airport

7.3 The new North Runway triggers protect the interest of current and future users. It is estimated by the Commission that the 2014 trigger would have resulted in users paying about €16m in 2016 for the remuneration of the North Runway without having received any benefit. The new triggers will protect the interest of current and future users by ensuring that, for the most part, users will only pay for the North Runway when the benefits are available to be realised. The triggers allow very little prefunding therefore users only start paying for the bulk of the project after the North Runway is commissioned and becomes fully operational.

To facilitate the efficient and economic development and operation of Dublin Airport which meet the requirements of current and prospective users of Dublin Airport

7.4 The new North Runway triggers facilitate the efficient and economic development of Dublin Airport by giving certainty of remuneration for the project to allow it to proceed and facilitate the meeting of requirements of current and prospective users by providing the right incentives to Dublin Airport for the timely delivery of a fully operational North Runway. This objective is also met by ensuring the depreciation profile returns the capital employed by the project over its lifecycle.

To enable Dublin Airport Authority to operate and develop Dublin Airport in a sustainable and financially viable manner

7.5 Section 5 sets out how this decision satisfies this statutory objective. This decision does not change the 2014 Determination's statement on this objective: "The annual price cap is sufficient to allow DAA to recover all forecast, efficient operating costs as well as allowing for some depreciation charges and a return on capital (as measured by the RAB). Some investment costs will not be fully depreciated by end 2019, these remaining costs will be included in the closing RAB in 2019 with the intention that such costs will be remunerated through airport charges at a later date." In assessing this objective, we have used the same criteria as the 2014 Determination and satisfied ourselves that this decision does not prevent Dublin Airport from being operated in a sustainable and financially viable manner and in particular does not negatively affect its ability to raise finance.

Statutory Factors

7.6 In arriving at the final triggers for the North Runway, the Commission has had due regard to the following relevant statutory factors.

The level of investment in airport facilities at Dublin Airport, in line with safety requirements and *commercial operations in order to meet the needs of current and prospective users of Dublin Airport*

The level of operational 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 restructuring under the State Airports Act 2004

Costs or liabilities for which Dublin Airport Authority is responsible

7.7 Our financial viability analysis of the triggers has due regard to the capital expenditure requirements relating to the North Runway and the ongoing levels of investment of the CIP of Dublin Airport for 2015-2019, as well as the operational income, cost and liabilities that were allowed in the 2014 Determination. The Commission considers that they constitute an efficient level of investment, income and cost that meet the interests of current and prospective users, as well as the safety requirements and commercial operations needs of Dublin Airport.

The cost competitiveness of airport services at Dublin Airport

7.8 The triggers have due regard to the cost competitiveness of airport services at Dublin Airport by ensuring that, for the most part, users will only pay for the North Runway when it is commissioned and the benefits are available to be realised. The effect of this Review, therefore, will be to improve the cost competitiveness of airport services at Dublin Airport, as, over the next number of years, the price cap will be lower than would have been the case had the Interim Review not taken place.

Submissions on Statutory Requirements

Ryanair

7.9 Ryanair is of the opinion that the Draft Decision did not have due regard to two of the Commission's statutory objectives related to protecting the needs and interests of current and prospective users because "users will be required to pay the DAA [… for] infrastructure that airport users have confirmed is unnecessary".

Response to Comments

7.10 Above we set out how this review of the 2014 Determination complies with our statutory requirements. This review and the amendment of the 2014 Determination is limited in scope, it is concerned with the timing of remuneration of the project. The specifications of the project, including the length of the runway are not in scope.

Appendix 1: Revised Price Cap

Below the revised price cap for the period 2015 to 2019 is stated. Additions to the price cap are highlighted in ***bold italic text***. The previous trigger for the North Runway has been deleted, these deletions are shown using strike through text (~~sample~~).

Notes

2016

The 2014 Runway Trigger has been deleted from the 2016 price cap formula. In CP2/2015, we advised Dublin Airport not to include the €0.59 trigger amount when setting prices for 2016.[7] Dublin Airport followed this advice. Later in 2017, when we assess compliance with the 2016 price cap, we will be using the price cap as restated below. As Dublin Airport followed our advice not to include the €0.59 the amended price cap should not result in over or under collection. None of the revised trigger milestones were reached in 2015, therefore the restated price cap for 2016 does not include the revised trigger.

2017

In setting prices for 2017 Dublin Airport continued to follow the advice for the Commission not to include the €0.59, therefore, similar to 2016, the revised price cap should not result in over or under collections. None of the revised trigger milestones were reached in 2016, therefore the restated price cap for 2017 does not include the revised trigger.

Revised Price Cap

DAA shall ensure that, for each year of the regulatory period 2015–19, the level of revenue collected from airport charges, expressed as a per passenger yield, does not exceed the maximum permitted revenue per passenger, P_t, as set out by the following formulae. In the event that DAA should collect more than permitted, it shall arrange to rebate users within 90 days of the year ending a sum sufficiently large such that the revenues collected net of this sum, on a per passenger basis, do not exceed the maximum permitted revenue per passenger.

[7] http://www.aviationreg.ie/_fileupload/2015/review/2015-12-22%20Decision%20on%20Conducting%20Review.pdf

Regulatory Period 1 January 2015 to 31 December 2015

The maximum permitted revenue per passenger for the regulatory period 1 January to 31 December 2015 shall be equal to:

P_{2015} = (€10.30+$Trigger_{2015}$)*(1+CPI_{2014})*QS_{2015}

Where:

$Trigger_{2015}$ = the sum of

€0.10 if declared peak capacity in the busy hour reaches 37 departures prior to the end of 2015 (this remunerates the additional line-up points project); plus

€0.07 if prior to the end of 2015 Hold Baggage Screening Standard 3 is mandated for terminal 2 by regulatory authorities; plus

€0.06 if prior to the end of 2015 Pier 2 is segregated, provided this segregation is mandated by a regulating authority

CPI_{2014} is the percentage change (whether positive or negative) in the consumer price index between July 2014 and October 2014.

QS_{2015} = one minus the sum of

0.0005 * number of days in 2015 when passengers in a terminal that is open have to queue for more than thirty minutes to pass through passenger security, subject to this sum never exceeding 0.015 (1.5%); plus

0.00025 * number of days in 2015 when access to the outbound element of the baggage handling system is denied to an airline or airlines for more than thirty consecutive minutes due to a single event system failure, subject to this sum never exceeding 0.0075 (0.75%); plus

0.000625 * number of quarters in 2015 when the incoming element of the baggage handling system is available for less than 99% of operational hours, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*all passengers' overall satisfaction with the airport*' category of the ACI survey in 2015, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*ease of way-finding through airport'* category of the ACI survey in 2015, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*flight information screens*' category of the ACI survey in 2015, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*cleanliness of airport terminal*' category of the ACI survey in 2015, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.5 in the '*cleanliness of washrooms*' category of the ACI survey in 2015, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.3 in the '*comfort of waiting/gate area*' category of the ACI survey in 2015, such that the value never exceeds 0.0025 (0.25%); plus

0.00025 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the '*courtesy/helpfulness of airport staff (excluding check-in & security)*' category of the ACI survey in 2015, such that the value never exceeds 0.001 (0.10%); plus

0.000375 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the '*courtesy/helpfulness of security staff*' category of the ACI survey in 2015, such that the value never exceeds 0.0015 (0.15%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.1 in the 'Internet Access / Wi Fi' category of the ACI survey in 2015, such that the value never exceeds 0.0025 (0.25%).

Regulatory Period 1 January 2016 to 31 December 2016

The maximum permitted revenue per passenger for the regulatory period 1 January to 31 December 2016 shall be equal to:

P_{2016} = (€9.87+$Trigger_{2016}$)*(1+CPI_{2015})*QS_{2016}+k_{2014}

Where:

$Trigger_{2016}$ = the sum of

~~€0.59 if passenger traffic exceeds 25mppa in a 12 month period prior to the end of 2015 (this remunerates the northern runway project); plus~~

€0.10 if declared peak capacity in the busy hour reaches 37 departures prior to the end of 2016 (this remunerates the additional line-up points project); plus

€0.07 if prior to the end of 2016 Hold Baggage Screening Standard 3 is mandated for terminal 2 by regulatory authorities; plus

€0.06 if prior to the end of 2016 Pier 2 is segregated, provided this segregation is mandated by a regulating authority

CPI_{2015} is the percentage change (whether positive or negative) in the consumer price index between July 2014 and October 2015.

QS_{2016} = one minus the sum of

0.0005 * number of days in 2016 when passengers in a terminal that is open have to queue for more than thirty minutes to pass through passenger security, subject to this sum never exceeding 0.015 (1.5%); plus

0.00025 * number of days in 2016 when access to the outbound element of the baggage handling system is denied to an airline or airlines for more than thirty consecutive minutes due to a single event system failure, subject to this sum never exceeding 0.0075 (0.75%); plus

0.000625 * number of quarters in 2016 when the incoming element of the baggage handling system is available for less than 99% of operational hours, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*all passengers' overall satisfaction with the airport*' category of the ACI survey in 2016, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*ease of way-finding through airport'* category of the ACI survey in 2016, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*flight information screens*' category of the ACI survey in 2016, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*cleanliness of airport terminal*' category of the ACI survey in 2016, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.5 in the '*cleanliness of washrooms*' category of the ACI survey in 2016, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.3 in the '*comfort of waiting/gate area*' category of the ACI survey in 2016, such that the value never exceeds 0.0025 (0.25%); plus

0.00025 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the '*courtesy/helpfulness of airport staff (excluding check-in & security)*' category of the ACI survey in 2016, such that the value never exceeds 0.001 (0.10%); plus

0.000375 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the *'courtesy/helpfulness of security staff'* category of the ACI survey in 2016, such that the value never exceeds 0.0015 (0.15%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.1 in the '*Internet Access / Wi Fi'* category of the ACI survey in 2016, such that the value never exceeds 0.0025 (0.25%).

k_{2014} is a correction per passenger to be made in the regulatory year 2016 on account of any under collection by DAA in the regulatory year 2014 (capped at 5% of P_{2014}). It is derived from the following formula:

$$k_{2014} = \text{minimum}((P_{2014} – P_{2014,outturn}),(0.05*P_{2014}))*$$

$$* (1+I_{2014}) * (1+I_{2015}) * (22{,}371{,}476/Pax_{2016})$$

where $P_{2014,outturn}$ is the outturn revenue per passenger in 2014; Pax_{2016} is the Commission forecast for total annual passengers at Dublin Airport in 2016, Pax_{2016} is as set out in this Determination. 22,371,476 is the 2014 passenger forecast from the 2009 Determination.

I_{2014} is the average daily three-month interest rate between 1 November 2013 and 1 November 2014 using the Euribor rate or some other suitable measure, and I_{2015} is the average daily three-month interest rate between 1 November 2014 and 1 November 2015 using the Euribor rate or some other suitable measure.

Regulatory Period 1 January 2017 to 31 December 2017

The maximum permitted revenue per passenger for the regulatory period 1 January to 31 December 2017 shall be equal to:

P_{2017} = (€9.45+$Trigger_{2017}$)*(1+CPI_{2016})*QS_{2017}+k_{2015}

Where:

$Trigger_{2017}$ = the sum of

~~€0.59 if passenger traffic exceeds 25mppa in a 12 month period prior to the end of 2016 (this remunerates the northern runway project); plus~~

€0.10 if declared peak capacity in the busy hour reaches 37 departures prior to the end of 2017 (this remunerates the additional line-up points project); plus

€0.07 if prior to the end of 2017 Hold Baggage Screening Standard 3 is mandated for terminal 2 by regulatory authorities; plus

€0.06 if prior to the end of 2017 Pier 2 is segregated, provided this segregation is mandated by a regulating authority

CPI_{2016} is the percentage change (whether positive or negative) in the consumer price index between July 2014 and October 2016.

QS_{2017} = one minus the sum of

0.0005 * number of days in 2017 when passengers in a terminal that is open have to queue for more than thirty minutes to pass through passenger security, subject to this sum never exceeding 0.015 (1.5%); plus

0.00025 * number of days in 2017 when access to the outbound element of the baggage handling system is denied to an airline or airlines for more than thirty consecutive minutes due to a single event system failure, subject to this sum never exceeding 0.0075 (0.75%); plus

0.000625 * number of quarters in 2017 when the incoming element of the baggage handling system is available for less than 99% of operational hours, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*all passengers' overall satisfaction with the airport*' category of the ACI survey in 2017, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*ease of way-finding through airport'* category of the ACI survey in 2017, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*flight information screens*' category of the ACI survey in 2017, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*cleanliness of airport terminal*' category of the ACI survey in 2017, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.5 in the '*cleanliness of washrooms*' category of the ACI survey in 2017, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.3 in the '*comfort of waiting/gate area*' category of the ACI survey in 2017, such that the value never exceeds 0.0025 (0.25%); plus

0.00025 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the '*courtesy/helpfulness of airport staff (excluding check-in & security)*' category of the ACI survey in 2017, such that the value never exceeds 0.001 (0.10%); plus

0.000375 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the *'courtesy/helpfulness of security staff'* category of the ACI survey in 2017, such that the value never exceeds 0.0015 (0.15%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.1 in the '*Internet Access / Wi Fi'* category of the ACI survey in 2017, such that the value never exceeds 0.0025 (0.25%).

k_{2015} is a correction per passenger to be made in the regulatory year 2017 on account of any under collection by DAA in the regulatory year 2015 (capped at 5% of P_{2015}). It is derived from the following formula:

$$k_{2015} = \text{minimum}((P_{2015} - P_{2015,outturn}),(0.05 * P_{2015})) * (1+I_{2015}) * (1+I_{2016}) * (Pax_{2015}/Pax_{2017})$$

where $P_{2015,outturn}$ is the outturn revenue per passenger in 2015; Pax_{2015} and Pax_{2017} are Commission forecasts for total annual passengers at Dublin Airport in 2015 and 2017 respectively, as set out in this Determination

I_{2015} is the average daily three-month interest rate between 1 November 2014 and 1 November 2015 using the Euribor rate or some other suitable measure, and I_{2016} is the average daily three-month interest rate between 1 November 2015 and 1 November 2016 using the Euribor rate or some other suitable measure.

Regulatory Period 1 January 2018 to 31 December 2018

The maximum permitted revenue per passenger for the regulatory period 1 January to 31 December 2018 shall be equal to:

P_{2018} = (€9.06+$Trigger_{2018}$)*(1+CPI_{2017})*QS_{2018}+k_{2016}

Where:

$Trigger_{2018}$ = the sum of

~~€0.59 if passenger traffic exceeds 25mppa in a 12 month period prior to the end of 2017 (this remunerates the northern runway project); plus~~

(€0.06 * (25,000,000/PAX_{2017})) if M1 has been accomplished prior to the end of 2017 (this remunerates the first tranche of the North Runway project); plus

(€0.50 * (25,000,000/ PAX_{2017})) if M2 has been accomplished prior to the end of 2017 (this remunerates the second tranche of the North Runway project); plus

(€0.03 * (25,000,000/ PAX_{2017})) if M3 has been accomplished prior to the end of 2017 (this remunerates the third tranche of the North Runway project); plus

€0.10 if declared peak capacity in the busy hour reaches 37 departures prior to the end of 2018 (this remunerates the additional line-up points project); plus

€0.07 if prior to the end of 2018 Hold Baggage Screening Standard 3 is mandated for terminal 2 by regulatory authorities; plus

€0.06 if prior to the end of 2018 Pier 2 is segregated, provided this segregation is mandated by a regulating authority.

Where PAX_{2017} =outturn number of passengers served by Dublin Airport in 2017

CPI_{2017} is the percentage change (whether positive or negative) in the consumer price index between July 2014 and October 2017.

QS_{2018} = one minus the sum of

0.0005 * number of days in 2018 when passengers in a terminal that is open have to queue for more than thirty minutes to pass through passenger security, subject to this sum never exceeding 0.015 (1.5%); plus

0.00025 * number of days in 2018 when access to the outbound element of the baggage handling system is denied to an airline or airlines for more than thirty consecutive minutes due to a single event system failure, subject to this sum never exceeding 0.0075 (0.75%); plus

0.000625 * number of quarters in 2018 when the incoming element of the baggage handling system is available for less than 99% of operational hours, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*all passengers' overall satisfaction with the airport*' category of the ACI survey in 2018, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the ‘*ease of way-finding through airport’* category of the ACI survey in 2018, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the ‘*flight information screens*’ category of the ACI survey in 2018, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the ‘*cleanliness of airport terminal*’ category of the ACI survey in 2018, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.5 in the ‘*cleanliness of washrooms*’ category of the ACI survey in 2018, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.3 in the ‘*comfort of waiting/gate area*’ category of the ACI survey in 2018, such that the value never exceeds 0.0025 (0.25%); plus

0.00025 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the ‘*courtesy/helpfulness of airport staff (excluding check-in & security)*’ category of the ACI survey in 2018, such that the value never exceeds 0.001 (0.10%); plus

0.000375 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the *‘courtesy/helpfulness of security staff’* category of the ACI survey in 2018, such that the value never exceeds 0.0015 (0.15%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.1 in the ‘*Internet Access / Wi Fi’* category of the ACI survey in 2018, such that the value never exceeds 0.0025 (0.25%).

k_{2016} is a correction per passenger to be made in the regulatory year 2018 on account of any under collection by DAA in the regulatory year 2016 (capped at 5% of P_{2016}). It is derived from the following formula:

$$k_{2016} = \text{minimum}((P_{2016} – P_{2016,outturn}),(0.05*P_{2016}))*$$

$$(1+I_{2016}) * (1+I_{2017}) *(Pax_{2016}/Pax_{2018})$$

where $P_{2016,outturn}$ is the outturn revenue per passenger in 2016; Pax_{2016} and Pax_{2018} are Commission forecasts for total annual passengers at Dublin Airport in 2016 and 2018 respectively, as set out in this Determination

I_{2016} is the average daily three-month interest rate between 1 November 2015 and 1 November 2016 using the Euribor rate or some other suitable measure, and I_{2017} is the average daily three-month interest rate between 1 November 2016 and 1 November 2017 using the Euribor rate or some other suitable measure.

Regulatory Period 1 January 2019 to 31 December 2019

The maximum permitted revenue per passenger for the regulatory period 1 January to 31 December 2019 shall be equal to:

P_{2019} = (€8.68+$Trigger_{2019}$)*(1+CPI_{2018})*QS_{2019}+k_{2017}

Where:

$Trigger_{2019}$ = the sum of

~~€0.59 if passenger traffic exceeds 25mppa in a 12 month period prior to the end of 2018 (this remunerates the northern runway project); plus~~

(€0.06 * (25,000,000/PAX_{2018})) if M1 has been accomplished prior to the end of 2018 (this remunerates the first tranche of the North Runway project); plus

(€0.50 * (25,000,000/ PAX_{2018})) if M2 has been accomplished prior to the end of 2018 (this remunerates the second tranche of the North Runway project); plus

(€0.03 * (25,000,000/ PAX_{2018})) if M3 has been accomplished prior to the end of 2018 (this remunerates the third tranche of the North Runway project); plus

€0.10 if declared peak capacity in the busy hour reaches 37 departures prior to the end of 2019 (this remunerates the additional line-up points project); plus

€0.07 if prior to the end of 2019 Hold Baggage Screening Standard 3 is mandated for terminal 2 by regulatory authorities; plus

€0.06 if prior to the end of 2019 Pier 2 is segregated, provided this segregation is mandated by a regulating authority

Where PAX_{2018} =outturn number of passengers served by Dublin Airport in 2018

CPI_{2018} is the percentage change (whether positive or negative) in the consumer price index between July 2014 and October 2018.

QS_{2019} = one minus the sum of

0.0005 * number of days in 2019 when passengers in a terminal that is open have to queue for more than thirty minutes to pass through passenger security, subject to this sum never exceeding 0.015 (1.5%); plus

0.00025 * number of days in 2019 when access to the outbound element of the baggage handling system is denied to an airline or airlines for more than thirty consecutive minutes due to a single event system failure, subject to this sum never exceeding 0.0075 (0.75%); plus

0.000625 * number of quarters in 2019 when the incoming element of the baggage handling system is available for less than 99% of operational hours, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*all passengers' overall satisfaction with the airport*' category of the ACI survey in 2019, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*ease of way-finding through airport*' category of the ACI survey in 2019, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*flight information screens*' category of the ACI survey in 2019, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.9 in the '*cleanliness of airport terminal*' category of the ACI survey in 2019, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.5 in the '*cleanliness of washrooms*' category of the ACI survey in 2019, such that the value never exceeds 0.0025 (0.25%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.3 in the '*comfort of waiting/gate area*' category of the ACI survey in 2019, such that the value never exceeds 0.0025 (0.25%); plus

0.00025 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the '*courtesy/helpfulness of airport staff (excluding check-in & security)*' category of the ACI survey in 2019, such that the value never exceeds 0.001 (0.10%); plus

0.000375 * number of quarters that Dublin Airport does not receive a score of at least 3.8 in the *'courtesy/helpfulness of security staff'* category of the ACI survey in 2019, such that the value never exceeds 0.0015 (0.15%); plus

0.000625 * number of quarters that Dublin Airport does not receive a score of at least 3.1 in the '*Internet Access / Wi Fi*' category of the ACI survey in 2019, such that the value never exceeds 0.0025 (0.25%).

k_{2017} is a correction per passenger to be made in the regulatory year 2019 on account of any under collection by DAA in the regulatory year 2017 (capped at 5% of P_{2017}). It is derived from the following formula:

$$k_{2017} = \text{minimum}((P_{2017}–P_{2017,outturn}),(0.05*P_{2017}))*$$

$$(1+I_{2017}) * (1+I_{2018}) *(Pax_{2017}/Pax_{2019})$$

where $P_{2017,outturn}$ is the outturn revenue per passenger in 2017; Pax_{2017} and Pax_{2019} are Commission forecasts for total annual passengers at Dublin Airport in 2017 and 2019 respectively, as set out in this Determination

I_{2017} is the average daily three-month interest rate between 1 November 2016 and 1 November 2017 using the Euribor rate or some other suitable measure, and I_{2018} is the average daily three-month interest rate between 1 November 2017 and 1 November 2018 using the Euribor rate or some other suitable measure.

Accomplishment of North Runway Triggers

Dublin Airport need to show accomplishment of the North Runway milestones by providing the following information to the Commission. Achievement of a milestone triggers an increase in the price cap in the following year as per the above formula.

Table A1: Evidence Required to Show Accomplishment of North Runway Project Milestones

Milestone	Event	Evidence of Accomplishment
M1	Main Works Start	1. Letter of discharge from Fingal CC for all pre-commencement conditions 2. Signed contract for Construction Package 2 and evidence that work on Package 2 has commenced (this could be off-site design work) 3. Completion of Works Certificate for Enabling Works Construction Package
M2	North Runway Fully Operational	1. Dublin Airport issues Taking Over Certificate 2. Capacity Declaration for Dublin Airport is based on dual parallel runway operation, and additional movements are available as a result of the North Runway 3. Copy of anonymised airline invoice including runway movement charges, for scheduled operations, for movements undertaken on the North Runway – this shows the runway is being used for revenue generating flights 4. Dublin Airport letter to Fingal CC stating insulation schemes have closed; Fingal CC acknowledgement
M3	House Buy-out Complete Project Complete	1. Dublin Airport letter to Fingal CC stating house buy-out scheme has closed; Fingal CC acknowledgement 2. Dublin Airport confirm that the Project is complete