CAR announces proposals to give strong incentives to the DAA to invest in additional airport infrastructure

Strengthened DAA financial position means higher charges need only apply when T2 opens

Cathal Guiomard, Commissioner for Aviation Regulation (CAR), announced today (21st May 2007) his office's draft decision from the interim review of charges at Dublin Airport.

A four week public consultation period on the draft decision has now commenced; full details are outlined at www.aviationreg.ie .

Background
The Commission decided to review the level of charges at Dublin Airport because of the need to consider the Dublin Airport Authority's (DAA) 2006 Capital Investment Plan (CIP2006), which had not been available to the CAR when setting the Determination of September 2005 (on airport charges from 2006 to 2009).

Objectives of CAR's Proposals

The CAR's draft decision contains proposals that are intended to achieve three main objectives:

- To provide incentives for DAA to carry out much needed infrastructure investments to boost capacity at Dublin Airport.
- To protect the interests of passengers by ensuring that they do not have to over-pay for investment in infrastructure that potentially provides them with little or no incremental benefit.
- To enable the DAA to recover allowed costs associated with CIP2006 such that DAA remains financially viable within the period of the current price cap and beyond.

Proposals regarding current (2006-09) price cap

Mr Guiomard noted in his review that Dublin Airport's financial position has significantly improved since 2005 for reasons including passenger traffic growing well ahead of forecasts. Detailed financial modeling by the CAR indicated that, even without an immediate price increase, the DAA would be able to undertake the investments associated with CIP2006 while remaining financially viable within the period of the current price control.

He said: "We have concluded that Dublin Airport's ability to obtain the funds to allow its investment plans to proceed will not be compromised by leaving the price cap at its current level of €6.34 per passenger."
He added: "Our financial modeling indicates that a key financial ratio for the DAA (the ratio of funds from operations [FFO] to debt) would not fall below the 15% rate associated with an investment grade credit rating."

Mr Guiomard stated that airport users should begin to pay for T2 and associated assets once the additional services were in use. As this regulatory period (2006-2009) only covers the construction period of T2, it was neither appropriate, nor financially necessary, to impose additional charges at this stage.

Flexibility for T2 funding options after 2009 while passengers protected from potential over-payment

In the proposals, Mr. Guiomard also set out the thinking on charges for the period 2010 to 2014. The CAR favours a profile of charges that lets the DAA start collecting revenues when users begin to realise the benefits of Terminal 2.

The draft proposals give clear guidance to the DAA and to airport users as to how the costs of the DAA's investments might be recovered in the years after 2009, in particular on:

- The scale of the investment costs that CAR proposes to write into the Regulatory Asset Base (RAB);

- When these costs are proposed to be written into the RAB; and

- The mechanism for recovery of these costs over the lifetime of the assets.

On T2's capacity, Mr. Guiomard pointed out that Dublin Airport proposes to build a larger passenger terminal than appears to be evidenced by user demand (thus seeming to provide considerable excess capacity) rather than opting for a smaller facility and adding an extension at a later date if the traffic growth mandated further capacity expansion.

He said: "It is not the role of a price regulator to dictate to a regulated firm the location, scale or design of a project. The DAA, in full consultation with its users, are the organisations best placed to do so. Therefore the CAR′s proposals do not seek and do not require any change to the DAA′s plans or designs for T2. Instead, what our proposals do address is *the regulatory treatment* of the T2 that the DAA proposes to build in line with the Government's Aviation Action Plan."

The CAR's proposals allow the DAA sufficient flexibility to recover the costs of T2 and related investments, either:

- Earlier through some form of differential charging mechanism whereby those airlines who value the additional extra peak time capacity that exceeds that CAR's demand estimates contribute towards the cost of this additional capacity, or

- Further down the line through an airport-wide charge, should demand materialise to such an extent that it is clear that all airport users benefit from the scale of T2.

If that latter route it taken, he explained that phase one is proposed to apply between the opening of the facility in 2009 and the year when 30 million passengers use the airport. In this first phase, "**Box 1**" of the allowed cost of T2 (**€430 million** or about 70%) will be included in the RAB for recovery from all airport customers uniformly.

In the second phase, "**Box 2**" of payment (**€152 million** or about 30% of the cost) would enter the RAB when and if the airport traffic reaches 30 million passengers as predicted by the DAA. In this way, the DAA bears some element of the commercial risk associated with the development.

Mr Guiomard concluded that the publication of these draft proposals opened a four-week period of consultation. Following that period, the CAR will consider the representations from interested parties with a view to preparing the office's final decision as soon as feasible thereafter.

Ends

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