



Maximum Levels of Airport Charges

Price Caps for 2007

Commission Paper CP11/2006

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1. SUMMARY

This Paper reports a price cap at Dublin Airport for 2007, according to the formulae set out in the Commission's Varied Determination, CP5/2006, published on the 22 June 2006.

Regulated charges are set in advance of the regulator knowing the actual volume and composition of business. It is therefore possible that some under- or over-shooting of the price cap will occur. The price cap formula, which anticipates annual adjustments to the price cap, is structured to take account of this possibility.

The price caps for airport charges in 2007 are as follows:

- i. The average revenue per passenger yielded by way of airport charges levied at Dublin airport should not exceed €6.39
- ii. An airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport should not exceed €15.50 per tonne.

2. PURPOSE OF THE PAPER

In its Determination, published as CP3/2005 on 29 September 2005, the Commission for Aviation Regulation ("the Commission") set the price caps for the four year period 2006 – 2009. The Minister for Transport established an Appeal Panel ("the Panel") on 9 February 2006, following receipt of requests to do so from two parties. The Panel referred the 2005 Determination back to the Commission for review. Following this, the Commission undertook a review and published its response in CP5/2006, a Varied Determination on 22 June 2006. Annex I of CP5/2006 sets out the 2006 Varied Determination.

This Paper presents the price cap for 2007.

3. BACKGROUND

The Commission's Determinations are specified in such a way that, at the end of each regulatory period, compliance with the price cap for that period is measured. A new price cap is derived for the next regulatory period. The calculation of the price cap is derived by amending the previous period's cap for the following: inflation; an X factor which includes, inter alia, annual improvements in efficiency; the difference between the Commission's actual and budgeted costs and expenses per passenger, as recovered through the airport charges; and, the degree of over- or under recovery of charges in the previous period.

The previous compliance paper, CP10/2004 provides a brief synopsis of compliance over the years 2001 - 2004. Following on from this, the aim of this Commission Paper is similar to that of previous compliance statements, as it assesses the Dublin Airport Authority's ("DAA") pricing, compared to the price cap allowed in 2006. This Paper calculates and presents the price caps for 2007 at Dublin Airport.

Table 1

	2005	2006	2007
Revised Maximum Yield (YU)*	5.15	6.2	6.69
Maximum Yield (Y)**	4.81	6.2	6.39
CPI		3.9	
X		-4	-4
Interest 2005		1.91	
Interest 2006		2.63	
Interest 2004		1.83	
Total Revenues	95,354,488.41		
Passenger Outturn	18,450,439		
Actual Yield (Y*)	5.17		
Passenger forecast		20,729,705	
K (Y-Y*)		-0.34	
CAR Audited Expenditure (E*)		2,630,795	
CAR Modelled Expenditure (E)***		1,262,819	
W for 04 with interest		-0.03085	
W for 05 with interest		0.06902	
Total W		0.03817	
* Unadjusted for the correction (K) and budgetary (W) factors.			
** After the application of the K and W factors.			
*** A Forecast of the CAR's spending that is already included in the price cap			

4. 2005 PRICE CAP COMPLIANCE

The Commission compared the 2005 price cap with the DAA's pricing, following the receipt of relevant information. The 2005 price cap is €4.81, after adjustment for the correction (K) and budgetary (W) factors.

The DAA's information is broken down into the following categories:

- Total revenues in respect of the following airport charges levied at Dublin airport:
 - Airport security,
 - Aircraft parking,
 - Airbridge,
 - Passenger service,
 - Runway movements, and
- Total passengers using Dublin airport.

According to the information received:

- i. The DAA's average revenue per passenger yielded by way of airport charges levied at Dublin airport was €5.17 per passenger.
- ii. The DAA did not levy an airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin airport.

Based on the information supplied to the Commission by the DAA, average per passenger revenues was €5.17, in 2005, which is 36 cents above the price cap of €4.81. Accordingly, the price cap for 2007 has, through the K-term, been reduced by 36 cents after allowing for the payment of interest. In Table 1, this is shown as $K(Y-Y^*) = -€0.34$.

Although, in 2005, the DAA reduced passenger-related charges from €7.10 to €6, in order to stay within the price cap, increases in income from non-passenger related aeronautical charges (such as the runway movement charge) meant that overall per-passenger revenues remained above the price cap in 2005.

5. 2007 PRICE CAPS

To update the price cap to apply for the 12 months beginning 1 January 2007 in accordance with the formulae set out in the Varied 2006 Determination, the following information was required:

- i. The 2006 price cap;
- ii. Any difference between the Commission's actual and budgeted per passenger cost that is recoverable through airport charges;
- iii. The percentage change in the Consumer Price Index between October 2005 and October 2006;
- iv. The relevant X-factor;
- v. Any correction factor arising from over- or under-recovery of regulated airport charges during the 2004 and 2005 regulatory periods;
- vi. The average interest rate on three-month commercial paper issued between December 2004 and November 2005, and between December 2005 and November 2006, by the National Treasury Management Agency.

The 2006 price caps may be found in CP5/2006 and likewise the X-factors for 2006 (= -4);

The Consumer Price Index increased from 112.8 in October 2005 to 117.2 in October 2006, which gives a CPI inflation rate of 3.9%;

The average daily interest rate on three-month commercial paper issued between December 2004 and November 2005 was 1.91%, while that issued between December 2005 and November 2006 was 2.63%;

The difference between the Commission's budgeted and its final audited 2004 costs and expenses were adjusted for 2004 – 2006 interest. This figure was

added to the difference, with interest, between the Commission's 2005 audited and modeled¹ costs and expenses that are recoverable through airport charges to determine the total difference, with interest, between the Commission's costs and expenses.

With the passing of the State Airports Act 2004, Cork and Shannon Airports are no longer regulated by the Commission. All costs of airport regulation are now being applied to Dublin passengers. This is reflected in the W term.

Use of this information in conjunction with Annex I of CP5/2006 allows the computation of the regulatory requirements on the DAA in respect of airport charges for 2007, as follows. Details of these calculations are provided in Annex I.

- i. The average revenue per passenger yielded by way of airport charges levied at Dublin airport should not exceed €6.39
- ii. An airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport should not exceed €15.50.

¹ A forecast of the Commission's spending that is already included in the price cap.

6. ANNEX I

Regulatory Period 1 January to 31 December 2007

1. The airport authority shall ensure that, for the regulatory period 1 January to 31 December 2007, the average revenue per passenger yielded by way of airport charges levied at Dublin Airport shall not exceed:

$$\begin{aligned} Y_{07}^{Dub} &= YU_{07}^{Dub} + W_{05}^{Dub} + K_{05}^{Dub} \\ &= 6.69 + 0.03817 - 0.34 \\ &= \text{€}6.39 \end{aligned}$$

Where

Y_{07}^{Dub} is the maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2007;

$$\begin{aligned} YU_{07}^{Dub} &= Y_{06}^{Dub} \left(1 + \frac{\Delta CPI_{06} - X_{07}^{Dub}}{100} \right) \\ &= 6.20 \left(1 + \frac{3.90 + 4}{100} \right) \end{aligned}$$

ΔCPI_{06} is the percentage change (whether of a positive or negative value) in the Consumer Price Index between that published in October 2005 and October 2006 = 3.9.

$X_{07}^{Dub} = -4$, as defined in CP5/2006

W_{05}^{Dub} is the difference, with interest, between the Commission's estimate for its 2004 Annual Compliance Statement of its actual 2004 costs and expenses, and its final audited 2004 costs and expenses, plus the difference, during the period 1 January 2005 to 31 December 2005, between the Commission's

audited costs and expenses and modeled² costs and expenses that are recoverable through airport charges levied at Dublin Airport,

For 2004, this is calculated as:

$$= 0.7692(1,857,953 - 2,638,500) \frac{1}{20,729,705} \left(1 + \frac{1.83}{100}\right) \left(1 + \frac{1.91}{100}\right) \left(1 + \frac{2.63}{100}\right)$$

$$= -0.03085$$

And for 2005, the W term is calculated by the formula:

$$\left(E_{05}^{Dub*} - E_{05}^{Dub}\right) \frac{1}{T_{07f}^{Dub}} \left(1 + \frac{I_{05}}{100}\right) \left(1 + \frac{I_{06}}{100}\right)$$

$$= (2,630,795 - 1,262,819) \frac{1}{20,729,705} \left(1 + \frac{1.91}{100}\right) \left(1 + \frac{2.63}{100}\right)$$

$$= 0.06902$$

$$\text{Therefore total } W = -0.03085 + 0.06902$$

$$= 0.038172$$

in which

1,857,953 is the Commission's modeled cost and expenses in the period 1 January to 31 December 2004, that are recoverable through airport charges levied at Dublin Airport;

2,638,500 was the Commission's (over)estimate at the time of the 2004 Annual Compliance Statement of its actual 2004 costs and expenses in the period 1 January to 31 December 2004, that are recoverable through airport charges levied at Dublin Airport;

² A forecast for the Commission's spending that is already included in the price cap

0.7692 refers to the portion of Aer Rianta's total costs that relate to Dublin Airport in 2004;

$E_{05}^{Dub*} = 2,630,795$ is the Commission's audited cost and expenses in the period 1 January to 31 December 2005, that are recoverable through airport charges levied at Dublin Airport;

$E_{05}^{Dub} = 1,262,819$ is the Commission's modeled costs and expenses, in the period 1 January to 31 December 2005, that are recoverable through airport charges levied at Dublin Airport;

$T_{07f}^{Dub} = 20,729,705$ is the number of passengers forecast to use Dublin Airport during the period 1 January to 31 December 2007³;

$I_{04} = 1.83$ is the average of the rate (expressed as an annual percentage interest rate) on three-month commercial paper issued between December 2003 and November 2004 by the National Treasury Management Agency (NTMA);

$I_{05} = 1.91$ is the average of the rate (expressed as an annual percentage interest rate) on three-month commercial paper issued between December 2004 and November 2005 by the National Treasury Management Agency (NTMA);

$I_{06} = 2.63$ is the average of the rate (expressed as an annual percentage interest rate) on three-month commercial paper issued between December 2005 and November 2006 by the National Treasury Management Agency (NTMA);

³ At the time of the September 2005 Determination set out in CP3/2005

K_{05}^{Dub} is the correction per passenger to be made in the regulatory year 1 January to 31 December 2007, which is derived from the following formula:

$$K_{05}^{Dub} = (Y_{05}^{Dub} - Y_{05}^{*Dub}) \left(\frac{T_{05}^{Dub}}{T_{07f}^{Dub}} \right) \left(1 + \frac{I_{05}}{100} \right) \left(1 + \frac{I_{06}}{100} \right)$$

Where

$$K_{05}^{Dub} = (4.81 - 5.17) \left(\frac{18,450,439}{20,729,705} \right) \left(1 + \frac{1.91}{100} \right) \left(1 + \frac{2.63}{100} \right)$$

$$K_{05}^{Dub} = -0.34$$

in which

$Y_{05}^{Dub} = €4.81$ is the maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2005, as set out in the Commission's 2004 Annual Compliance Statement;

$Y_{05}^{*Dub} = €5.17$ is the actual average revenue per passenger from airport charges levied at Dublin Airport in the regulatory period 1 January to 31 December 2005;

$T_{05}^{Dub} = 18,450,439$ is the number of passengers using Dublin Airport during the period 1 January to 31 December 2005.

2. In the regulatory period 1 January to 31 December 2007, the airport authority shall not levy an airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport that exceeds:

$$C_{07}^{Dub} = C_{06}^{Dub} \left(1 + \frac{\Delta CPI_{06} - X_{07}^{Dub}}{100} \right)$$

$$C_{07}^{Dub} = 14.36 \left(1 + \frac{3.9 + 4}{100} \right)$$

$$= 15.50$$

where

$$C_{06}^{Dub} = \text{€}14.36$$

C_{07}^{Dub} is the maximum charge per tonne that can be levied in respect of services supplied in connection with the transportation by air of cargo to or from Dublin Airport during the regulatory period 1 January to 31 December 2007.

The setting of this maximum charge does not constitute approval of charges in respect of cargo handling under the European Communities (Access to the Groundhandling Market at Community Airports) Regulations, 1998 (S.I. No. 505 of 1998).