



Maximum Levels of Aviation Terminal Services Charges

**Compliance Statement for regulatory years:
26th March 2007 to 31st December 2007
and 1st January 2008 to 31st December 2008**

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1. The 2007 price cap

Introduction

1.1 This Paper assesses compliance by the Irish Aviation Authority (IAA) with the price cap for aviation terminal service charges (ATSCs) on departing aircraft at Dublin, Cork and Shannon airports for two regulatory periods: March to December 2007 and January to December 2008. The calculation of the price cap for the shorter regulatory period in 2007 and for the full calendar year in 2008 is completed using the price cap described in the March 2007 Determination on the maximum level of ATSCs, CP4/2007.

Assessment of compliance with 2007 price cap

1.2 In March 2007, the Commission developed a new regulatory formula for calculating the price cap by including a term that allowed for the sharing of volume risk between the IAA and its users. The price cap formula can be interpreted as requiring that annual revenues derived from ATSCs be less than or equal to a variable revenue component that varies with traffic volumes (the v term) and fixed revenue components (the f , k and w terms), that do not vary with traffic volumes. The price cap also includes a 'milestone' term which makes certain revenue allowances conditional on the IAA achieving specified milestones in the commissioning of new control towers at Cork and Dublin.

1.3 In December 2007 the Commission published its provisional calculation of a price cap of €2.11 for the nine month regulatory period, March to December 2007. ¹ This assessment was provisional as it used estimates of the terminal tonnage and revenues for Dublin, Cork and Shannon airports for November and December 2007.

1.4 As the IAA has now provided the Commission with this information, it is possible to finalise the 2007 price cap on ATSCs, using the following information:

- A k_{2007} term of -€0.004 where the k_{2007} term represents the correction per tonne of departing aircraft from Dublin, Cork and Shannon airports as a result of over collection of ATSCs by the IAA during the regulatory period from 26 March 2006 to 25 March 2007
- A w_{2007} term of €0.021 where the w_{2007} term is the difference, between the actual costs and expenses of the Commission and budgeted costs and expenses adjusted to allow for interest payments for the regulatory period 26 March 2006 to 25 March 2007
- An f_{2007} term of €1.025 where the f_{2007} term provides for a level of revenues in € terms that does not vary with traffic volumes
- the v_{2007} term of €1.06 as published in CP4/2007

¹ Maximum Levels of Aviation Terminal Services Charges, the provisional annual compliance statement for regulatory year 26th March 2007 to 31st December 2007 and calculation of the provisional price cap for regulatory year 1st January 2008 to 31st December 2008, Commission Paper CP11/2007, 19 December 2007.

- 1.5 Based on the price cap formula of $t = v + f + k + w$, where t represents the maximum permitted revenue per tonne from ATSCs (i.e. the price cap) as defined in CP4/2007, the price cap for 2007 is €2.10 per tonne of departing aircraft.
- 1.6 The IAA's actual per tonne yield can be calculated using information provided by the IAA to the Commission on the actual revenue and tonnage data, where:
- The maximum take of weight (MTOW) of aircraft for which ATSCs were levied during the regulatory year 26 March 2007 to 31 December 2007 of 7,895,697 tonnes
 - Total revenue yielded by way of ATSCs levied at Dublin, Shannon and Cork during the regulatory year 26 March 2007 to 31 December 2007 of €16,711,981
- 1.7 By dividing the total actual revenue by the tonnage of departing aircraft gives an actual revenue per tonne of €2.12 during the nine month regulatory period. The IAA therefore exceeded the cap of €2.10 by two cents. This excess is similar to that predicted by the Commission in its 2007 compliance report, CP11/2007. Accordingly there will be an adjustment to the 2008 cap to reflect this differential.

2. The 2008 Price Cap

- 2.1 In CP11/2007, the Commission estimated a provisional price cap for 2008 of €2.28 per tonne of departing aircraft, using a forecast of the sum of the weight of aircraft that departed from Dublin, Cork and Shannon airports of 9,922,000 tonnes. As indicated then, it was not possible to update the 2008 price cap until finalised data from 2007 and actual MTOW volumes for 2008 became available.
- 2.2 The IAA informed the Commission recently that the final terminal tonnage for Dublin, Cork and Shannon airports for the regulatory period from 1 January to 31 December 2008 was 9,937,862 tonnes. The terminal tonnage exceeded the forecast by 15,862 tonnes. This had the effect of slightly reducing the price cap from the forecast level by one cent to €2.27, which is calculated using the following information:
- The price cap for 2007 of €2.10
 - The IAA's revenues for 2007 of €16,711,981
 - The sum of weight of aircraft that departed from Dublin, Shannon and Cork airports during 2007 as measured by the aggregate MTOW of 7,895,697 tonnes
 - The percentage change in the all items Consumer Price Index (Base Dec 2001 = 100) between January 2007 and October 2007 of 4.16%
 - The relevant 'X-factor' of 3.75%
 - The Commission's estimate of its actual costs that is recoverable through ATSCs during 2007 of €244,120.50
 - The Commission's budgeted costs that is recoverable through ATSCs during 2007 of €240,863
 - The average interest rate multiplied by 0.75 on the three-month commercial paper issued between January 2007 and October 2007 by the National Treasury Management Agency
 - The sum of weight of aircraft that was forecast to depart from Dublin, Shannon and Cork airports during 2008 as measured by the aggregate MTOW of 9,922,000 tonnes
 - The v-term for 2007 of €1.06
 - The FR-term for 2007 of €10,114,000
 - The relevant G-factor, a fixed factor reflecting the annual rate of change in annual MTOW, of 4%
 - CPID, the CPI index basis used to express in real terms monetary values, of 115.7

- As the IAA has yet to meet the milestones described in CP4/2007 in respect of the Cork or Dublin Towers there are no fixed milestone adjustments to be made and therefore FM2008 = 0
- 2.3 The IAA's actual per tonne yield can be calculated using information provided by the IAA to the Commission on the actual revenue and tonnage data, where:
- The maximum take of weight (MTOW) of aircraft for which ATSCs were levied during the regulatory year 1 January 2008 to 31 December 2008 of 9,937,862 tonnes
 - Total revenue yielded by way of ATSCs levied at Dublin, Shannon and Cork during the regulatory year 1 January 2008 to 31 December 2008 of €22,661,404
- 2.4 By dividing the total actual revenue by the tonnage of departing aircraft gives an actual revenue per tonne of €2.28 during the regulatory period. While the IAA matched the provisional price cap published in CP11/2007 of €2.28, it exceeded the actual cap of €2.27 by one cent. The slight over-collection will be returned with interest to users in 2009 through the k term in the price cap formula.