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27<sup>th</sup> July 2011

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**DAA Response to CP1/2011  
Maximum Level of Aviation Terminal Service Charges that may  
be imposed by the Irish Aviation Authority  
Draft Determination**

## **Introduction**

DAA would like to take this opportunity to comment on one specific aspect of the Commission's 2011 draft Determination on aviation terminal services charges. We note that the Commission is proposing the introduction of a price cap trigger in relation to the construction of a new IAA control tower at Dublin Airport whereby the Commission will allow the IAA to start recovering the costs of this investment once passenger traffic at Dublin Airport exceeds 23.5 million in a twelve month period. While this price cap trigger directly corresponds with the trigger set for the DAA in CP4/2009 in respect of the development of the parallel runway, the Commission has identified how this approach is likely to create a sizable timing gap between the completion of construction on the new runway and the availability of the control tower.

## **The Implications of the Proposed Price Cap Trigger for the IAA Control Tower**

DAA is extremely concerned that despite the fact that CAR in its 2009 Determination identified a 23.5 million passenger traffic trigger followed by a 2.5 year construction time as being the optimum timeline for delivery of a proposed second runway at Dublin Airport in terms of capacity and passenger demand, this timeline for the operation of the runway will be compromised by the introduction of a 23.5 million passenger trigger for investment in the IAA control tower. This is reflected in the acknowledgment by CAR in section 8.15 that "it is possible that for over a year after completion of a second runway there will not be a fully operational tower". This is due to the fact that CAR has built in a construction time for the runway of approximately 2.5 years while the construction, commissioning and testing of the control tower is estimated to require over 4 years. As a result in this scenario DAA would either have to delay its runway construction to align with that of the control tower or face the consequences of a new runway lying idle for a period while work is being completed on the construction of a new control tower. A delay or postponement of this kind will have potentially serious implications for DAA and airport users in addition to the likely negative socio- economic impact for the wider Irish economy.

It should be noted that the runway in Dublin Airport was seriously constrained during the 06:00 to 07:59 (local time) period in 2008, when it last reached 23.5m passengers per annum. Coping with further demand, while waiting 2.5 years after reaching 23.5m

passengers to develop the parallel runway, was going to be very challenging. Having to wait 4 years is likely to be extremely damaging for airport and airline users alike.

Due to this potential gap period DAA would either be forced to deal with capacity shortages due to the postponement of the runway development until it could be operationally facilitated by the IAA control tower or continue to incur costs associated with this new infrastructure while being unable to generate any additional aeronautical revenue through the use of this new facility. From the broader perspective there will be the opportunity cost associated with the loss of potential direct and indirect economic benefits from the additional routes and passenger traffic which cannot be accommodated while the new runway is not operational. Therefore in effect a delay of approximately 17 to 19 cent per passenger per annum for the period will prove potentially very detrimental and if implemented would certainly represent a significant failure in the regulatory system.

In addition, DAA is concerned that section 8.16 highlights additional uncertainty regarding the ultimate remuneration of the total investment by IAA on the provision of a control tower, which may further impact the decision making process for both DAA and IAA. This is further exasperated by the fact that once this current regulatory review is completed in October 2011 there will be no further clarity in relation to this matter before the next regulatory review for the IAA which is not due to take place until 2016.

### **Definition of the Price Cap Trigger**

To add to DAA's concerns about this potential misalignment, DAA believes that the current trigger is highly simplistic in the case of the runway development.

As previously outlined in DAA's response to CP3/2009, it was recommended that this simplistic runway trigger should have been formulated to reflect aircraft movements (the actual driver of runway requirements) rather than an annualised passenger volume. Such a trigger would take into account the changing airport profile at Dublin Airport, for example the increasing seasonality of traffic and the use of smaller aircraft (which means that it will take more aircraft movements to reach the 23.5mppa level). DAA also recommended that CAR adopt a trigger which would activate investment when planned runway movements during the critical busy hours (06:00 to 07:59 local time) returned to the levels previously recorded<sup>1</sup>

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<sup>1</sup> ACL records the level of planned movements for each day. This reflects the level of activity that the airport would be expected to handle on any given day.

during the peak month of July in 2008. This would have allowed runway capacity during the critical hours to have become a key determinant of the timeframe for construction of a second runway at Dublin Airport. As currently framed, it is very possible that DAA could be even more constrained on the runway than it was in 2008 but be below the 23.5m trigger. If this scenario arises, having to wait 4 more years would be very detrimental for the development of the airport.

While somewhat more complex, a trigger approach based on movements in the peak operating periods could also be applied in a manner that accommodated the lead and lag elements of the two construction programmes (for example by having the IAA remuneration triggered at an earlier stage).

In this context, a trigger based on annual passenger movements also appears even more misaligned, given that price cap relating to IAA is based on aircraft movements rather than passenger numbers.

## **Conclusion**

DAA believes that it is imperative for CAR to address any potential misalignment of the timelines for the construction of the second runway and the IAA control tower at Dublin Airport which will be created if CAR proceeds to implement its proposed price cap trigger of 23.5 million passengers for the construction of this control tower. DAA recommends that CAR provides for a means to allow the preparatory work for this control tower project to be carried out at an earlier stage without financial risk for the IAA in order to remove this gap. We suggest that this could be partially addressed by allowing remuneration for the estimated 12 month preparatory phase of this project in this forthcoming regulatory determination or through an alternative phased triggered approach to this specific IAA investment project which would be designed to achieve the same outcome. DAA would be pleased to participate in an engagement with CAR and the IAA to facilitate the development of an appropriate trigger mechanism.