



Maximum Levels of Aviation Terminal Services Charges

**Compliance Statement for regulatory year
1 January 2009 to 31 December 2009**

Commission Paper CP2/2010

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1. Compliance with the 2009 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) levied on departing aircraft at Dublin, Cork and Shannon airports for the regulatory period January to December 2009. The calculation of the price cap for the regulatory period 2009 is completed using the price cap described in the March 2007 Determination.¹

Calculation of the 2009 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 and a fixed revenue component that does 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 order to implement these policies the cap in a given year will not be known with certainty until full information is available on outturn volumes and the achievement of milestones in that year. The IAA has provided the Commission with the outturns for 2009. The Commission can therefore calculate the 2009 cap and state whether IAA complied with this cap.
- 1.4 The sum of weight of aircraft that departed from Dublin, Shannon and Cork airports during 2009, as measured by the aggregate MTOW, came to 8,420,389 tonnes.
- 1.5 The IAA achieved the Cork Tower milestone on 20 October 2009. The fixed milestone adjustment of €1,145,000, as stated in the determination and expressed in 2006 prices, will be pro-rated for the period from its opening date to 31 December 2009 and added to the cap for 2009. Accounting for inflation this means that the IAA may collect an additional €235,096 in 2009. Consistent with the 2007 determination the remaining 2009 capital costs which are not remunerated through the 2009 cap – i.e. those for the period up to 20 October 2009 – will be added to the fixed milestone adjustment for 2010 in that year's price cap. The milestone adjustment for all subsequent years after 2010 will be as specified in the determination.
- 1.6 All other data necessary for calculating the 2009 cap are available from publicly available sources set out in the 2007 determination or are specified in the determination.
- 1.7 By following the formulae set out in the 2007 determination we get the following:

¹ See pages 4 to 12 of CP4/2007; Determination on the Maximum Level of Aviation Terminal Service Charges. This document is available for download under Charges/Slot regulation on www.aviationreg.ie

- $k_{2009} = -€0.01$, where the k_{2009} 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 2008
 - $w_{2009} = €0.0$, where the w_{2009} 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 2008
 - $f_{2009} = €1.53$, where the f_{2009} term provides for a level of revenues that do not vary with traffic volumes. The fixed milestone adjustment for the Cork tower is included within this term.
 - $v_{2009} = €1.23$, where the v_{2009} term provides for a level of revenues that varies with traffic volumes
- 1.8 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 2009 is €2.75 per tonne of departing aircraft.²
- 1.9 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 2009 to 31 December 2009 of 8,420,389 tonnes
 - Total revenue yielded by way of ATSCs levied at Dublin, Shannon and Cork during the regulatory year 1 January 2009 to 31 December 2007 of €21,308,445
- 1.10 By dividing the total actual revenue by the tonnage of departing aircraft gives actual revenue per tonne of €2.53 for 2009. The IAA therefore complied with the 2009 cap and under-collected by €0.22. Accordingly there will be an adjustment to the 2010 cap which will be increased to return this differential to the IAA.

² Alternatively we can also describe the annual cap in terms of total allowed revenues. The 2009 cap could be thought of as allowing revenues of $€(12,790,958 + 1.23*N)$ where N represents the sum of weight of aircraft that departed from Dublin, Shannon and Cork airports during 2009 as measured by the aggregate MTOW in tonnes.

2. Guidance on the 2010 and 2011 Caps

Introduction

- 2.1 As a result of volume risk sharing the 2010 per tonne cap cannot be stated with certainty until outturn volumes for 2010 are known. The 2011 cap also requires knowledge of 2010 revenues as well as 2011 volumes before it can be finalised. We do however know all other inputs and can use IAA's August 2010 forecast of the unknown inputs to provide guidance on the likely caps for this year and next.

The 2010 Cap

- 2.2 The total allowed revenues that IAA may collect in 2009 must be less than or equal to €16,799,884 + €1.20*N, where N represents the sum of weight of aircraft that depart from Dublin, Shannon and Cork airports during 2010 as measured by the aggregate MTOW in tonnes. The per-tonne cap, referred to in the 2007 determination as t, is equal to the total allowed revenues divided by total volumes. Using the latest forecast volume for 2010 of 7,152,100 tonnes we estimate maximum revenue per tonne to be $t = €3.55$. A higher than forecast outturn volume will result in a lower cap and vice versa.
- 2.3 In addition to the total weight of aircraft (in MTOW) that departed from Dublin, Shannon and Cork airports during 2009, IAA has also provided the Commission with the following:
- Total revenues earned by IAA from terminal charges levied at Dublin, Shannon and Cork airports in 2009 of €21,308,445
 - An estimate of the sum of weight of aircraft (in MTOW) that will depart from Dublin, Shannon and Cork airports during 2010 of 7,152,100 tonnes.
- 2.4 The Commission's actual costs and expenses levied on IAA for the regulation of ATSC in 2010 is €51,000. The fixed milestone adjustment for 2010 will be the sum of the annual milestone adjustment for the Cork Tower of €1,145,000 in 2006 price terms plus the proportion of the 2009 adjustment that was not remunerated in 2009 (see paragraph 1.5 above).
- 2.5 All other data necessary for calculating the 2009 cap are available from publicly available sources set out in the 2007 determination or are stated in the determination.

The 2011 Cap

- 2.6 The 2011 cap relies on not just out-turn volumes and revenues for 2010 which are currently unknown but also out-turn volumes for 2011. There is therefore a considerable degree of uncertainty as to what the cap may be.
- 2.7 Based on current forecasts for 2010 we estimate that the IAA's revenues will result in an under recovery against the estimated 2010 cap which will result in a roll forward of under recovered revenues into the 2011 cap. It is the Commission's understanding that this situation arose due to a decision by the IAA to charge below the cap for the first half of 2010 with an

increase to the allowed level introduced for the remainder of the year. Our current estimate is for an under-recovery of approximately €0.60 for 2010.

- 2.8 The total allowed revenues that IAA may collect in 2011 must be less than or equal to $€19,263,800 + €1.24 * N$. We currently estimate an aggregate under-recovery of approximately €0.60 for 2010. Using the latest forecast volume for 2011 of 7,367,000 tonnes we estimate maximum revenue per tonne to be $t = €3.85$. This figure includes the roll-forward of the expected under-collected revenues from 2010.