



Maximum Levels of Aviation Terminal Services Charges

Provisional Annual Compliance Statement for Regulatory Year 26th March 2003 to 25th March 2004 and Calculation of the Price Cap for Regulatory Year 26th March 2004 to 25th March 2005

Commission Paper CP1/2004

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Commission for Aviation Regulation
3rd Floor, Alexandra House
Earlsfort Terrace
Dublin 2
Ireland

Tel: +353 1 6611700

Fax: +353 1 6611269

E-mail info@aviationreg.ie

TABLE OF CONTENTS

1. BACKGROUND.....	2
2. PROVISIONAL REGULATORY YEAR 2 PRICE CAP.....	4
3. FINALISED REGULATORY YEAR 2 PRICE CAP.....	5
4. REGULATORY YEAR 2 PRICE CAP COMPLIANCE	6
5. PROVISIONAL REGULATORY YEAR 3 PRICE CAP.....	7
6. DOUBLE COUNTING OF UNDER RECOVERY IN YEAR 3 PRICE CAP.	10

1. BACKGROUND

Section 35 of the Aviation Regulation Act 2001 required the Commission, not more than 12 months after its establishment, to make a Determination specifying the maximum levels of aviation terminal services charges that may be imposed by the Irish Aviation Authority. The Commission made its first Determination on 26 February 2002, published in Commission Paper CP3 2002 – Determination and Report on the Maximum Levels of Aviation Terminal Services Charges that may be imposed by the Irish Aviation Authority.

The Determination is specified in such a way that, at the end of each regulatory year, compliance with the price cap for that year is measured and a new price cap derived for the next regulatory year. The new cap is calculated by adjusting the previous year's cap for, among other things, inflation, the X-factor, and the degree of over- or under-recovery of charges in the previous year. Commission paper CP1/2003 carried out the first such exercise, by checking compliance with the price cap for regulatory year 1 and calculating price caps for regulatory year 2. The year 2 caps were provisional; this reflected the availability of actual information on charges only for the first ten months of the year and of estimates of the charges (which were still in the course of being levied) for the last two months of the first regulatory year.¹

The current Commission paper is analogous to CP1/2003, and serves three purposes:

1. to finalise the cap that applied in regulatory year 2 to reflect the actual data for charges levied in the last two months of the first regulatory year;

¹ More exactly, for the two periods 26 March 2002 to 31 January 2003, and from 1 February to 25 March 2003; these periods are approximately, but not exactly, of ten and two month's duration respectively.

2. to establish whether the Irish Aviation Authority has complied with the year 2 cap; and
3. to calculate a provisional cap for regulatory year 3.

2. PROVISIONAL REGULATORY YEAR 2 PRICE CAP

The Commission, in CP1/2003 calculated and specified the following provisional price cap for the twelve-month period beginning 26 March 2003:

The average revenue per MTOW² tonne yielded by way of aviation terminal services charges levied per aircraft departing from Dublin, Shannon and Cork airports was not to have exceeded €1.78.

This price cap was calculated using information supplied by the Irish Aviation Authority and in accordance with the price cap formulae specified in the Determination of 26 February 2002. However, as noted in CP1/2003, the revenue and MTOW numbers supplied by the Irish Aviation Authority and used to calculate the provisional year 2 caps included:

- i. Actual amounts for the period 26 March 2002 to 31 January 2003;
- ii. Estimated amounts for the period 1 February to 25 March 2003.

Therefore, finalisation of the year 2 cap was subject to submission of the actual full-year amounts by the Irish Aviation Authority. This information is now available and used in the next section to finalise the year 2 caps. In turn, this will allow the calculation of carry-over of any under- or over-collection of charges from the second regulatory year into the calculation of the provisional price cap for the third regulatory year.

² Maximum Take-off Weight

3. FINALISED REGULATORY YEAR 2 PRICE CAP

Using the actual rather than the estimated numbers for the period 1 February to 25 March 2003 means that the Irish Aviation Authority's average revenue per tonne yielded by way of aviation terminal services charges levied per aircraft departing from Dublin, Shannon or Cork airports over the entire first regulatory year was €1.07, calculated as follows:

$$\frac{\text{Total Revenues}}{\text{Total MTOW}} = \frac{€7,750,845}{7,264,444} = €1.067$$

which is equal to the provisional figure of €1.07 derived from the estimates.

Therefore, the finalised per passenger under-recovery of aviation terminal services charges in regulatory year 1 (to be included as allowable revenue in regulatory year 2) is also equal to the provisional amount used in CP1/2003, that is, €0.28.

The finalised cap for regulatory year 2 is, therefore, also the same as the provisional cap provided in CP1/2003, that is,

The average revenue per MTOW tonne yielded by way of aviation terminal services charges levied per aircraft departing from Dublin, Shannon and Cork airports was not to have exceeded €1.78.

The calculation is set out in Annex 1.

4. REGULATORY YEAR 2 PRICE CAP COMPLIANCE

The Commission requested the necessary information from the Irish Aviation Authority for the purposes of monitoring compliance. The Irish Aviation Authority has supplied the following to the Commission:

- i. The total revenue yielded by way of aviation terminal services charges levied at Dublin, Cork and Shannon Airports during the second regulatory year of the Commission's determination;
- ii. The total number of MTOW tonnes in the calculation of the aviation terminal services charges during the second regulatory year of the Commission's determination.

These revenues and MTOW numbers are the actual amounts for the period 26 March 2003 to 31 January 2004 and the estimated amounts for the period 1 February 2004 to 25 March 2004. Finalisation of the compliance statement and of the maximum charges for the third regulatory year 2004/05 is subject to verification of the information received by the Commission.

According to the information received, the Authority's average revenue per MTOW tonne yielded by way of aviation terminal services charges levied at Dublin, Shannon and Cork Airports was €1.41, calculated as follows:

$$\frac{\text{Total Revenues}}{\text{Total MTOW}} = \frac{\text{€10,749,996}}{7,635,071} = \text{€1.408}$$

Therefore, the Irish Aviation Authority has complied with the (finalised) year 2 price cap of €1.78.

5. PROVISIONAL REGULATORY YEAR 3 PRICE CAP

To update the price cap from 2003/04 to 2004/05 in accordance with the formula set out in the Determination, the following information is required:

- i. The 2003/04 price cap;
- ii. Any difference between the Commission's actual and budgeted costs that is recoverable through aviation terminal services charges;
- iii. The percentage change in the Consumer Price Index between January 2003 and January 2004;
- iv. The relevant X-factor;
- v. Any correction factor arising from over- or under-recovery by the IAA of regulated aviation terminal services charges;
- vi. The average interest rate on three-month commercial paper issued between March 2003 and February 2004 by the National Treasury Management Agency.

This information is as follows:

- i. The 2003/04 price cap was finalised in section 3 above, i.e., €1.78;
- ii. The differences between the Commission's actual and budgeted cost that is recoverable through aviation terminal services charges were as follows:
 - a. Following the finalisation of the Audit by the Comptroller and Auditor General of the accounts for the period 27 February 2001 to end December 2001, there was an additional accrual required of €9 for the audit fee.
 - b. The Comptroller and Auditor General has also finalised finalising the accounts for the year ended 31st December 2002. The actual costs for this year associated with Aviation Terminal Services

Charges was €178,398. The amount invoiced and allowed for in the cap for this period was €126,880. This leaves a shortfall on recovery of €51,518. In CP1/2003 €27,845 of this shortfall was allowed for in last year's cap, this leaves €23,682 (€9 + €51,518 less €27,845) to be allowed for in this year's calculation.

- c. The Commission has prepared draft accounts for the year ended 31st December 2003. The amount that is currently allocated to Aviation Terminal Services Charges is €35,273. This is less than the €100,000 allowed for in the cap. The draft adjustment therefore for 2003 is to reduce the amount in the cap by €64,727.
 - d. Therefore, netting (c) and (d), the allowance for the collection of regulatory fees through aviation terminal services charges is overstated by the amount €41,045. The corresponding adjustment to the price cap will be expressed on a per tonne (as forecasted for 2003/04) basis.
- iii. The Consumer Price Index increased from 123.9 in January 2003 to 126.7 in January 2004, which gives a CPI inflation rate of 1.8%;
 - iv. The X-factor for the second regulatory year was published in the Commission's Determination and is +7%;
 - v. The average daily interest rate on three-month commercial paper issued between March 2003 and February 2004 by the National Treasury Management Agency was 1.9%;

Based on the information received, the per tonne under-recovery of regulated aviation terminal services charges in the second regulatory year amounted to €0.38.

This information is used in conjunction with the section of the Commission's Determination entitled Regulatory Year 2004/2005 in order to determine the

regulatory requirements on the Irish Aviation Authority in respect of aviation terminal services charges for the third regulatory year. Annex 2 to this paper sets out the calculation of those requirements using the formulae from the Determination and the information above.

On that basis, the regulatory requirements on the Irish Aviation Authority for the regulatory year 26 March 2004 to 25 March 2005 is as follows:

The average revenue per MTOW tonne yielded by way of aviation terminal services charges levied per aircraft departing from Dublin, Shannon and Cork airports should not exceed €2.31.

6. DOUBLE COUNTING OF UNDER RECOVERY IN YEAR 3 PRICE CAP.

The price cap of €2.31 set in year 3 effectively double-counts the under-collection from regulatory year 1. This is due to an error in the formula. Annex 3 sets out the equivalent calculation when this double-counting is removed. It is the intention of the Commission to correct this error as soon as possible.

Annex 1: Finalised Regulatory Year 2 Price Caps

The Determination provided for the following:

For the regulatory year 2003/04, the average revenue per tonne yielded by the Authority by way of aviation terminal services charges levied per aircraft departing from Dublin, Shannon and Cork airports shall not exceed the amount calculated in accordance with the following formula:

$$Y_{03/04}^{Iaa} = Y_{02/03}^{Iaa} \left(1 + \frac{\Delta CPI_{02/03} + X^{Iaa}}{100} \right) + W_{Car,02/03}^{Iaa} - K_{03/04}^{Iaa}$$

We know the following:

$$Y_{02/03}^{Iaa} = \text{€ } 1.34$$

$$\Delta CPI_{02/03} = 4.7$$

$$X^{Iaa} = 7$$

$$W_{Car,02/03}^{Iaa} = \text{€ } 0.0033$$

$$K_{03/04}^{Iaa} = \left(Y_{02/03}^{*Iaa} - Y_{02/03}^{Iaa} \right) \left(1 + \frac{I_{02/03}}{100} \right) = (\text{€ } 1.067 - \text{€ } 1.34) \left(1 + \frac{3.04}{100} \right) = -\text{€ } 0.2813$$

Therefore,

$$Y_{03/04}^{Iaa} = \text{€ } 1.34 \left(1 + \frac{4.7 + 7}{100} \right) + \text{€ } 0.0033 - (-\text{€ } 0.2813) = \text{€ } 1.78$$

Annex 2: Provisional Regulatory Year 3 Price Caps

The Determination provided for the following:

For the regulatory year 2004/05, the average revenue per tonne yielded by the Authority by way of aviation terminal services charges levied per aircraft departing from Dublin, Shannon and Cork airports shall not exceed the amount calculated in accordance with the following formula:

$$Y_{04/05}^{Iaa} = Y_{03/04}^{Iaa} \left(1 + \frac{\Delta CPI_{03/04} + X^{Iaa}}{100} \right) + W_{Car,03/04}^{Iaa} - K_{04/05}^{Iaa}$$

We know the following:

$$Y_{03/04}^{Iaa} = \text{€}1.78$$

$$\Delta CPI_{03/04} = 1.8$$

$$X^{Iaa} = 7$$

$$W_{Car,03/04}^{Iaa} = -\frac{\text{€}41,045}{8,773,750} = -\text{€}0.0047$$

$$K_{04/05}^{Iaa} = \left(Y_{03/04}^{*Iaa} - Y_{03/04}^{Iaa} \right) \left(1 + \frac{I_{03/04}}{100} \right) = (\text{€}1.408 - \text{€}1.78) \left(1 + \frac{1.9}{100} \right) = -\text{€}0.379$$

Therefore,

$$Y_{04/05}^{Iaa} = \text{€}1.78 \left(1 + \frac{1.8 + 7}{100} \right) - \text{€}0.0047 + \text{€}0.379 = \text{€}2.31$$

Annex 3: Provisional Regulatory Year 3 Price Caps without double-counting

The Determination would provide for the following:

For the regulatory year 2004/05, the average revenue per tonne yielded by the Authority by way of aviation terminal services charges levied per aircraft departing from Dublin, Shannon and Cork airports shall not exceed the amount calculated in accordance with the following formula:

$$Y_{04/05}^{Iaa} = \left(Y_{03/04}^{Iaa} - W_{Car,02/03}^{Iaa} + K_{03/04}^{Iaa} \right) \left(1 + \frac{\Delta CPI_{03/04} + X^{Iaa}}{100} \right) + W_{Car,03/04}^{Iaa} - K_{04/05}^{Iaa}$$

We know the following:

$$Y_{03/04}^{Iaa} = \text{€}1.78$$

$$K_{03/04}^{Iaa} = -\text{€}0.28$$

$$\Delta CPI_{03/04} = 1.8$$

$$X^{Iaa} = 7$$

$$W_{Car,03/04}^{Iaa} = -\frac{\text{€}41,045}{8,773,750} = -\text{€}0.0047$$

$$K_{04/05}^{Iaa} = \left(Y_{03/04}^{*Iaa} - Y_{03/04}^{Iaa} \right) \left(1 + \frac{I_{03/04}}{100} \right) = (\text{€}1.408 - \text{€}1.78) \left(1 + \frac{1.9}{100} \right) = -\text{€}0.379$$

Therefore,

$$Y_{04/05}^{Iaa} = (\text{€}1.78 - \text{€}0.0033 - \text{€}0.2813) \left(1 + \frac{1.8+7}{100} \right) - \text{€}0.0047 + \text{€}0.379 = \text{€}2.00$$