



## **Maximum Levels of Airport Charges**

### **Price Caps for 2008**

Commission Paper CP10/2007

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## **1. SUMMARY**

This Paper reports a price cap at Dublin Airport for 2008, 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 2008 are as follows:

- i. The average revenue per passenger yielded by way of airport charges levied at Dublin airport should not exceed €7.37
- 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 €16.86 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.

In 2007 the Commission conducted an interim review of the 2006 to 2009 price cap. Following the review the Commission decided not to change the existing determination.

This Paper presents the price cap for 2008 based on an analysis of actual revenues and passenger numbers for 2006, as well as the Commission's actual costs and expenses for that year.

### **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 price cap formula set out in the 2006 varied determination, CP5/2006, and introduced in CP3/2005 differs from the formula used for the previous regulatory period. The compliance paper CP10/2004 provides a brief synopsis of compliance over the years 2001 – 2004. The previous compliance paper CP11/2006 set out how compliance would be treated for this regulatory period.

The aim of this Commission Paper is similar to that of previous compliance statements. It assesses the Dublin Airport Authority's ("DAA") pricing, compared to the price cap allowed in 2006. This Paper then calculates and presents the price caps for 2008 at Dublin Airport.

#### **4. 2006 PRICE CAP COMPLIANCE**

The Commission compared the 2006 price cap with the DAA's pricing, following the receipt of actual revenue and passenger volume information. The 2006 price cap was €6.20.

The information provided to the Commission by the DAA 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 €6.06 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 revenue per passenger was in 2006 was €6.06, which was €0.14 below the price cap of €6.20. Accordingly the price cap for 2008 will be increased by this amount through a 'K-term' in the 2008 price cap calculation representing the 2006 under recovery of charges by the DAA with an adjustment allowing for the 2006 and 2007 interest rates.

## **5. 2008 PRICE CAPS**

To update the price cap to apply for the 12 months beginning 1 January 2008 in accordance with the formulae set out in the Varied 2006 Determination, the following information was required:

- i. The price cap for 2007;
- ii. The percentage change in the Consumer Price Index between October 2006 and October 2007;<sup>1</sup>
- iii. The relevant 'X-factor';
- iv. The Commission's actual cost that is recoverable through airport charges;
- v. The Commission's budgeted cost that is recoverable through airport charges
- vi. Any correction factor arising from over- or under-recovery of regulated airport charges during the 2006 regulatory period;
- vii. The average interest rate on three-month commercial paper issued between December 2005 and November 2006, and between December 2006 and November 2007, by the National Treasury Management Agency.

The 2007 price cap may be found in last year's Compliance Statement CP511/2006 and likewise the X-factors can be found in CP5/2006 (=4);

The Consumer Price Index increased from 117.2 in October 2006 to 122.8 in October 2007, which gives a CPI inflation rate of 4.78%;

The average daily interest rate on three-month commercial paper issued between December 2005 and November 2006 was 2.63%, while that issued between December 2006 and November 2007 was 3.91%;

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<sup>1</sup> The index that was used was the Consumer Price Index by Commodity Group, Statistic and Month, all items (Base Dec 2001=100), available for download on [www.cso.ie](http://www.cso.ie).

The Commission's budgeted costs and expenses is a forecast of the Commission's spending that is already included in the price cap. This forecast is included in the financial model developed for the purposes of forming a price cap determination and is recoverable by the DAA through a per passenger airport charge.

The difference between the Commission's budgeted and its final audited 2006 costs and expenses were adjusted for 2006 – 2007 interest. This difference, adjusted for the 2006 and 2007 interest rates, is recovered on a per-passenger basis over forecast 2008 passengers and referred to as the 'W term' in the 2008 price cap calculation.

Use of the K term, the W term, the X-factor and the November 2006 to October 2007 CPI rate in conjunction with the price cap formula set out in Annex I of CP5/2006 (and reproduced in Annex 1 below) allows the computation of the regulatory requirements on the DAA in respect of airport charges for 2008, as follows:

- i. The average revenue per passenger yielded by way of airport charges levied at Dublin airport should not exceed €7.37; and,
- 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 €16.86.

Details of these calculations are provided in Annex I.



## 6. ANNEX I: PRICE CAP FORMULAE AND CALCULATION

Regulatory Period 1 January to 31 December 2008

The airport authority shall ensure that, for the regulatory period 1 January to 31 December 2008, the average revenue per passenger yielded by way of airport charges levied at Dublin Airport shall not exceed:

$$\begin{aligned} Y_{08}^{Dub} &= YU_{08}^{Dub} + W_{06}^{Dub} + K_{06}^{Dub} \\ &= 7.28 + W + K \\ &= \text{€}7.37 \end{aligned}$$

Where

$Y_{08}^{Dub}$  is the maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2008 and is calculated using the following formula;

$$\begin{aligned} YU_{08}^{Dub} &= YU_{07}^{Dub} \left( 1 + \frac{\Delta CPI_{07} - X_{08}^{Dub}}{100} \right) \\ &= \text{€}6.69 \left( 1 + \frac{4.78 + 4}{100} \right) \end{aligned}$$

= €7.28 where:

- $YU_{07}^{Dub}$  is the unadjusted maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2007, as set out in the Commission's 2006 Annual Compliance Statement;
- $\Delta CPI_{07}$  is the percentage change (whether of a positive or negative value) in the Consumer Price Index between that published in October 2006 and October 2007 = 4.78;

- $X_{08}^{Dub} = -4$ , as defined in CP5/2006; and,
- $W_{06}^{Dub}$  is the difference, adjusted to allow for interest payments and recovered on a per passenger basis over a forecast of 2008 passengers, between the Commission's audited costs and expenses and forecast (or modelled) costs and expenses for 2006 that are recoverable through airport charges levied at Dublin Airport,

For 2008, the  $W$  term is calculated by the formula:

$$(E_{06}^{Dub*} - E_{06}^{Dub}) \frac{1}{T_{08f}^{Dub}} \left(1 + \frac{I_{06}}{100}\right) \left(1 + \frac{I_{07}}{100}\right)$$

$$= (2,000,000 - 1,086,395) \frac{1}{21,779,029} \left(1 + \frac{2.63}{100}\right) \left(1 + \frac{3.91}{100}\right)$$

$$= - \text{€}0.04, \text{ where:}$$

- $E_{06}^{Dub} = \text{€}2,000,000$  is the Commission's forecast (or modelled) costs and expenses, in the period 1 January to 31 December 2006, that are recoverable through airport charges levied at Dublin Airport;
- $T_{08f}^{Dub} = 21,779,029$  is the number of passengers forecast to use Dublin Airport during the period 1 January to 31 December 2008;
- $I_{06} = 2.63$  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); and,
- $I_{07} = 3.91$  is the average of the rate (expressed as an annual percentage interest rate) on three-month commercial paper issued

between December 2006 and November 2007 by the National Treasury Management Agency (NTMA);

$K_{06}^{Dub}$  is the correction per passenger to be made in the regulatory year 1 January to 31 December 2008, which is derived from the following formula:

$$K_{06}^{Dub} = (Y_{06}^{Dub} - Y_{06}^{*Dub}) \left( \frac{T_{06}^{Dub}}{T_{08f}^{Dub}} \right) \left( 1 + \frac{I_{06}}{100} \right) \left( 1 + \frac{I_{07}}{100} \right)$$

$$K_{06}^{Dub} = (6.20 - 6.06) \left( \frac{21,196,382}{21779029} \right) \left( 1 + \frac{2.63}{100} \right) \left( 1 + \frac{3.91}{100} \right)$$

= €0.15 where:

- $Y_{06}^{Dub} = €6.20$  is the maximum average revenue per passenger using Dublin Airport in the regulatory period 1 January to 31 December 2006, as set out in the Commission's 2006 Annual Compliance Statement;
- $Y_{06}^{*Dub} = €6.06$  is the actual average revenue per passenger from airport charges levied at Dublin Airport in the regulatory period 1 January to 31 December 2006; and,
- $T_{06}^{Dub} = 21,196,382$  is the number of passengers that used Dublin Airport during the period 1 January to 31 December 2006.

In the regulatory period 1 January to 31 December 2008, 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:

$$C_{08}^{Dub} = C_{07}^{Dub} \left( 1 + \frac{\Delta CPI_{07} - X_{08}^{Dub}}{100} \right)$$

$$C_{08}^{Dub} = 15.50 \left( 1 + \frac{4.78 + 4}{100} \right)$$

= €16.86 where:

- $C_{07}^{Dub}$  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).

## 7. ANNEX 2: DAA AVERAGE REVENUE PER PASSENGER

**Report Date Range: 01-Jan-2006 to 31-DEC 2006 Dublin Airport**

**Table 1: Dublin Airport Average Revenue per passenger**  
**Source: Dublin Airport Authority**

<b>Revenue</b>	<b>DUBLIN</b>
Airbridge Hire	813,674.25
Aircraft Parking	9,602,619.93
Airport Security Charge	39,320,126.65
Passenger Service Charge	28,909,674.09
Runway Movement Revenue	49,762,623.12
<b>Total Airport Revenue</b>	<b>128,408,718.04</b>
<b>Passengers</b>	<b>DUBLIN</b>
<b>Passengers (Actual)</b>	<b>21,196,382</b>
<b>Average</b>	<b>DUBLIN</b>
<b>Average Revenue per passenger</b>	<b>6.06</b>

### Schedule 1 : Average Revenue per Passenger

#### Notes:

- i. Source of Revenue figures for each airport is Dublin Airport Authority plc General Ledger. Revenue data is extracted from General Ledger and loaded to the Corporate Data Warehouse where it is aggregated and reported. Revenue shown is net of discounts/rebates, credit notes and relevant accounting adjustments as appropriate.
- ii. Source of Actual Passengers numbers for 2006 is the AOS system. Movement data is extracted from AOS and loaded to the corporate data Warehouse where it is aggregated and reported.
- iii. Traffic Incentive Scheme rebates and other credit notes / accounting adjustments, and any related volume data are not recorded in the source Systems at Dublin airport and, consequently, do not form part of the volume data (and imputed net revenues) in schedules 2 - 7 in respect of Dublin Airport.
- iv. There can be some minor differences in passenger numbers in this schedule (within 0.02%) versus those included in the Regulatory entity accounts. This

arises consequent on airlines providing certain retrospective updates on passenger data.