



## **Maximum Levels of Airport Charges**

# **Annual Compliance Statement for Regulatory Year 24 September 2002 to 23 September 2003 and Provisional Price Caps for Regulatory Year 24 September 2003 to 23 September 2004**

Commission Paper CP2/2003

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## TABLE OF CONTENTS

1.	Background .....	3
2.	Provisional Regulatory Year 2 Price Caps .....	4
3.	Finalised Regulatory Year 2 Price Caps .....	5
4.	Regulatory Year 2 Price Cap Compliance .....	7
5.	Provisional Regulatory Year 3 Price Caps .....	8
6.	Annex I - Finalised Regulatory Year 2 Price Caps .....	11
7.	Annex II - Provisional Regulatory year 3 Price Caps .....	12

## 1. Background

Section 32 of the Aviation Regulation Act 2001 required the Commission, not more than 6 months after its establishment, to make a Determination specifying the maximum levels of airport charges that may be levied by an airport authority. The Commission made its first Determination on 26 August 2001 (CP7/2001). Subsequently, the Commission issued a Varied Determination (CP2/2002) on 9 February 2002 pursuant to a referral of the Aviation Appeal Panel of the Original Determination back to the Commission for review.

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 (reflecting, inter alia, the annual efficiency improvements expected from Aer Rianta) and the degree of over- or under-recovery of charges in the previous year. Commission Paper CP6/2002 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 eleven months of the year and of estimates of the charges (which were still in the course of being levied) for the last month of the first regulatory year<sup>1</sup>.

The current Commission Paper is analogous to CP6/2002, and serves three purposes:

- i. to finalise the caps that applied in regulatory year 2 to reflect the actual data for charges levied in the last month of the first regulatory year;

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<sup>1</sup> More exactly, for the two periods 24 September 2001 to 31 August 2002, and from 1 to 23 September 2002; these periods are approximately, but not exactly, of eleven and one month's duration respectively.

- ii. to establish whether Aer Rianta has complied with the year 2 caps;
- iii. to calculate provisional caps for regulatory year 3.

## **2. Provisional Regulatory Year 2 Price Caps**

The Commission, in CP6/2002 calculated and specified the following provisional set of price caps for the twelve-month period beginning 24 September 2002:

- i. The average revenue per passenger yielded by way of airport charges levied at Dublin, Shannon and Cork airports was not to have exceeded €6.99;
- ii. An airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin, Shannon or Cork airport was not to have exceeded €12.43;
- iii. The average revenue per passenger yielded by way of airport charges levied at Dublin Airport was not to have exceeded €5.26;
- iv. The charges levied in respect of the landing and take-off of aircraft during daily off-peak times at Dublin Airport, in respect of the aircraft specified in the aircraft categorisations in Schedule 1 of CP2/2002, was not to have exceeded the maxima listed below:

Aircraft cost category 1 (ACC<sup>1</sup>):  $TL_{01/02}^1 = €0.26$

Aircraft cost category 2 (ACC<sup>2</sup>):  $TL_{01/02}^2 = €0.83$

Aircraft cost category 3 (ACC<sup>3</sup>):  $TL_{01/02}^3 = €1.30$

Aircraft cost category 4 (ACC<sup>4</sup>):  $TL_{01/02}^4 = €2.02$

Aircraft cost category 5 (ACC<sup>5</sup>):  $TL_{01/02}^5 = €2.80$

These price caps were calculated using information supplied by Aer Rianta and in accordance with the price cap formulae specified in the (Varied) Determination of February 2002. However, as noted in CP6/2002, the revenue and passenger numbers supplied by Aer Rianta and used to calculate the provisional year 2 caps included

- i. the actual amounts charged for the period 24 September 2001 to 31 August 2002 and
- ii. estimates of the sums charged for the period 1 September 2002 to 23 September 2002.

Therefore, finalisation of the year 2 caps was subject to submission of the actual full-year charges by Aer Rianta. 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 the carry-over of any under- or over-collection of charges from the second regulatory year into the calculation of the price caps for the third regulatory year.

### 3. Finalised Regulatory Year 2 Price Caps

Table 1 presents airport charges revenues and passenger numbers for regulatory year 1, being the actual sums charged for the first eleven months<sup>2</sup>, and the estimated and finalised revenues and passengers for the period 1-23 September 2002.

*Table 1*

	Actual 24/9/01 - 31/8/02		Estimated 1/9/02 - 23/9/02		Actual 1/9/02 - 23/9/02	
	Company	Dublin	Company	Dublin	Company	Dublin
Airport Charges Revenues	€ 98,570,173	€ 73,376,934	€ 7,965,213	€ 5,808,497	€ 7,986,214	€ 5,878,136
Passengers	17,557,788	13,724,770	1,447,770	1,128,940	1,507,737	1,167,479
Average	€ 5.61	€ 5.35	€ 5.50	€ 5.15	€ 5.30	€ 5.03

<sup>2</sup> See footnote 1.

Using the actual rather than the estimated numbers for the period 1<sup>st</sup>-23<sup>rd</sup> September 2002 means that:

- i. Aer Rianta's average revenue per passenger yielded by way of airport charges levied at Dublin, Shannon and Cork airports over the entire first regulatory year was €5.59, which is less than the provisional figure €5.61 derived from the estimates; and
- ii. Aer Rianta's average revenue per passenger yielded by way of airport charges levied at Dublin Airport in the first regulatory year was €5.32, also less than the provisional amount of €5.33 derived from the estimates.

Therefore, the finalised per passenger under-recovery of airport charges in regulatory year 1 (to be included as allowable revenue in regulatory year 2) is greater than the provisional amount used in CP6/2002 for both the company and Dublin airport, that is, finalised values of €0.75 for the company and €0.06 for Dublin Airport, versus the respective provisional figures of €0.73 and €0.05.

Using the finalised numbers in the formulaic calculation gives the following finalised caps for regulatory year 2:<sup>3</sup>

- i. The average revenue per passenger yielded by way of airport charges levied at Dublin, Shannon and Cork airports was not to have exceeded €7.01; and
- ii. The average revenue per passenger yielded by way of airport charges levied at Dublin Airport was not to have exceeded €5.27.

Respectively, 1 and 2 replace 1 and 3 in section 2 above. The other price caps are unaffected as there is was no cargo charge levied, and the off-peak runway charges are levied exactly per tonne of runway usage.

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<sup>3</sup> See Annex I, which sets out the re-calculation of the year 2 caps using the formulae from the varied Determination and the revised information.

#### **4. Regulatory Year 2 Price Cap Compliance**

As in regulatory year 1, the Commission requested the relevant information from Aer Rianta for the purposes of monitoring compliance in year 2. Aer Rianta has supplied the following to the Commission:

- i. Total revenues in respect of airport charges levied at each and all of Dublin, Shannon and Cork airports, broken down into the following broad categories: runway, aircraft parking, airbridge, passenger charges, airport security charges;
- ii. Total passengers using each and all of Dublin, Shannon and Cork airports.

As before, these revenues and passenger numbers include the actual amounts for the period 24 September 2002 to 31 August 2003 and the estimated amounts for the period 1 September 2003 to 23 September 2003 (which is still underway). Finalisation of the compliance statement and of the maximum charges for the next regulatory year 2003/04 is subject to verification of the information provided by Aer Rianta and submission of the actual numbers for the period 1 September 2003 to 23 September 2003.

According to the information received so far:

- i. Aer Rianta's average revenue per passenger yielded by way of airport charges levied at Dublin, Shannon and Cork airports was €5.31. Therefore, Aer Rianta has complied with the overall cap of €7.01;
- ii. Aer Rianta did not levy an airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin, Shannon or Cork airport. Therefore, Aer Rianta has complied with the cap of €12.43;

- iii. Aer Rianta's average revenue per passenger yielded by way of airport charges levied at Dublin Airport was €5.00. Therefore, Aer Rianta has complied with the Dublin cap of €5.27;
- iv. Aer Rianta has not exceeded the maximum charges in respect of the landing and take-off of aircraft, specified in the aircraft categorisations in Schedule 1 of CP2/2002, at Dublin airport during daily off-peak times.

## **5. Provisional Regulatory Year 3 Price Caps**

To update the price cap to apply for the 12 months beginning 24 September 2003 in accordance with the formulae set out in the Varied Determination, the following information was required:

- i. The 2002/03 price caps;
- ii. Any difference between the Commission's actual and budgeted per-passenger cost that is recoverable through airport charges;
- iii. The percentage change in the Consumer Price Index between July 2002 and July 2003;
- iv. The relevant X-factor;
- v. Any correction factor arising from over- or under-recovery of regulated airport charges during the second regulatory year;
- vi. The average interest rate on three-month commercial paper issued between October 2002 and September 2003 by the National Treasury Management Agency.

The relevant values are:

- i. The price caps were published in CP6/2002 and finalised in section 3 of this Commission Paper;



- ii. The difference between the Commission's actual and budgeted cost that is recoverable through airport charges is €3,151,418 for Aer Rianta, with an allocation of €2,424,146 for Dublin Airport alone. Respectively, both are equivalent to €0.15 expressed on a per passenger basis<sup>4</sup>;
- iii. The Consumer Price Index increased from 121.3 in July 2002 to 125.1 in July 2003, which gives a CPI inflation rate of 3.1%;
- iv. The X-factors for the first regulatory year were published in the Commission's Varied Determination and are 6.2% for Dublin, Cork and Shannon airports and 7.8% for Dublin Airport alone;
- v. The average daily interest rate on three-month commercial paper issued between December and September 2003 by the National Treasury Management Agency was 2.29%;

Based on this information, the per passenger under-recovery of regulated airport charges in the second regulatory year amounted to €1.70 for Dublin, Cork and Shannon airports and €0.26 for Dublin Airport alone.

Use of this information in conjunction with the section of the Varied Determination entitled Regulatory Year 2003/2004 allows the computation of the regulatory requirements on Aer Rianta in respect of airport charges for the third regulatory year. Annex II 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 Aer Rianta for the regulatory year 24 September 2003 to 23 September 2004 are as follows:

- i. The average revenue per passenger yielded by way of airport charges levied at Dublin, Shannon and Cork airports should not exceed €8.67;

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<sup>4</sup> These values for the W-term were made unusually high by the excess of costs over those budgeted due to the Commission's defence of the High Court challenge to its Determination. The final position depends on the outcome of the High Court's decision on the costs of that case.

- ii. An airport charge in respect of services supplied in connection with the transportation by air of cargo to or from Dublin, Shannon or Cork airport should not exceed €12.04;
- iii. The average revenue per passenger yielded by way of airport charges levied at Dublin Airport should not exceed €5.45;
- iv. The charges levied in respect of the landing and take-off of aircraft during daily off-peak times at Dublin Airport in respect of the aircraft specified in the aircraft categorisations in Schedule 1 of CP2/2002, should not exceed the maxima listed below:

Aircraft cost category 1 (ACC<sup>1</sup>):  $TL_{02/03}^1 = €0.27$

Aircraft cost category 2 (ACC<sup>2</sup>):  $TL_{02/03}^2 = €0.86$

Aircraft cost category 3 (ACC<sup>3</sup>):  $TL_{02/03}^3 = €1.34$

Aircraft cost category 4 (ACC<sup>4</sup>):  $TL_{02/03}^4 = €2.08$

Aircraft cost category 5 (ACC<sup>5</sup>):  $TL_{02/03}^5 = €2.89$

## Annex I – Finalised Regulatory Year 2 Price Caps

The Determination allows for the following:

1. For the regulatory year 2002/03, the average revenue per passenger yielded by Aer Rianta by way of airport charges levied at Dublin, Shannon and Cork airports shall not exceed the amount calculated in accordance with the following formula:

$$Y_{02/03}^{Art} = Y_{01/02}^{Art} \left( 1 + \frac{\Delta CPI_{01/02} - X_{02/03}^{Art}}{100} \right) + W_{CAR,01/02}^{Art} - K_{02/03}^{Art}.$$

We know the following:

$$\begin{aligned} Y_{01/02}^{Art} &= \text{€}6.34 \\ \Delta CPI_{01/02} &= 4.21 \\ X_{02/03}^{Art} &= 6.2 \\ W_{CAR,01/02}^{Art} &= \frac{\text{€}452,149}{20,267,000} = \text{€}0.02 \\ K_{02/03}^{Art} &= \left( Y_{01/02}^{*Art} - Y_{01/02}^{Art} \right) \left[ 1 + \frac{I_{01/02}}{100} \right] \\ &= (\text{€}5.59 - \text{€}6.34) \left[ 1 + \frac{3.18}{100} \right] \\ &= -\text{€}0.77. \end{aligned}$$

Therefore,

$$\begin{aligned} Y_{02/03}^{Art} &= \text{€}6.34 \left( 1 + \frac{4.21 - 6.2}{100} \right) + \text{€}0.02 - (-\text{€}0.77) \\ &= \text{€}7.01. \end{aligned}$$

2. For the regulatory year 2002/03, the average revenue per passenger yielded by way of airport charges levied at Dublin Airport shall not exceed the amount calculated in accordance with the following formula:

$$Y_{02/03}^{Dub} = Y_{01/02}^{Dub} \left( 1 + \frac{\Delta CPI_{01/02} - X_{02/03}^{Dub}}{100} \right) + W_{CAR,01/02}^{Dub} - K_{02/03}^{Dub}.$$

We know the following:

$$\begin{aligned} Y_{01/02}^{Dub} &= \text{€}5.38 \\ \Delta CPI_{01/02} &= 4.21 \\ X_{02/03}^{Dub} &= 7.8 \\ W_{CAR,01/02}^{Dub} &= \frac{\text{€}347,802}{15,850,500} = \text{€}0.02 \\ K_{02/03}^{Dub} &= \left( Y_{01/02}^{*Dub} - Y_{01/02}^{Dub} \right) \left[ 1 + \frac{I_{01/02}}{100} \right] \\ &= (\text{€}5.32 - \text{€}5.38) \left[ 1 + \frac{3.18}{100} \right] \\ &= -\text{€}0.06. \end{aligned}$$

Therefore

$$\begin{aligned} Y_{02/03}^{Dub} &= \text{€}5.38 \left( 1 + \frac{4.21 - 7.8}{100} \right) + \text{€}0.02 - (-\text{€}0.06) \\ &= \text{€}5.27. \end{aligned}$$

## Annex II – Provisional Regulatory Year 3 Price Caps

The Determination allows for the following:

1. For the regulatory year 2003/04, the average revenue per passenger yielded by Aer Rianta by way of airport charges levied at Dublin, Shannon and Cork airports shall not exceed the amount calculated in accordance with the following formula:

$$Y_{03/04}^{Art} = Y_{02/03}^{Art} \left( 1 + \frac{\Delta CPI_{02/03} - X_{03/04}^{Art}}{100} \right) + W_{CAR,02/03}^{Art} - K_{03/04}^{Art}.$$

We know the following:

$$\begin{aligned} Y_{02/03}^{Art} &= \text{€}7.01 \\ \Delta CPI_{02/03} &= 3.1 \\ X_{03/04}^{Art} &= 6.2 \\ W_{CAR,02/03}^{Art} &= \frac{\text{€}3,151,418}{21,322,000} = \text{€}0.15 \\ K_{03/04}^{Art} &= \left( Y_{02/03}^{*Art} - Y_{02/03}^{Art} \right) \left[ 1 + \frac{I_{02/03}}{100} \right] \\ &= (\text{€}5.31 - \text{€}7.01) \left[ 1 + \frac{2.29}{100} \right] \\ &= -\text{€}1.73. \end{aligned}$$

Therefore,

$$\begin{aligned} Y_{03/04}^{Art} &= \text{€}7.01 \left( 1 + \frac{3.1 - 6.2}{100} \right) + \text{€}0.15 - (-\text{€}1.73) \\ &= \text{€}8.67. \end{aligned}$$

2. In the regulatory year 2003/04, 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, Shannon or Cork airport that exceeds

$$\begin{aligned} C_{03/04}^{Art} &= C_{02/03}^{Art} \left( 1 + \frac{\Delta CPI_{02/03} - X_{03/04}^{Art}}{100} \right) \\ &= \text{€}12.43 \left( 1 + \frac{3.1 - 6.2}{100} \right) \\ &= \text{€}12.04. \end{aligned}$$

As stated in the Determination, 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).

3. For the regulatory year 2003/04, the average revenue per passenger yielded by way of airport charges levied at Dublin Airport shall not exceed the amount calculated in accordance with the following formula:

$$Y_{03/04}^{Dub} = Y_{02/03}^{Dub} \left( 1 + \frac{\Delta CPI_{02/03} - X_{03/04}^{Dub}}{100} \right) + W_{CAR,02/03}^{Dub} - K_{03/04}^{Dub}.$$

We know the following:

$$\begin{aligned} Y_{02/03}^{Dub} &= \text{€}5.27 \\ \Delta CPI_{02/03} &= 3.1 \\ X_{03/04}^{Dub} &= 7.8 \\ W_{CAR,02/03}^{Dub} &= \frac{\text{€}2,424,146}{16,715,750} = \text{€}0.15 \\ K_{03/04}^{Dub} &= \left( Y_{02/03}^{*Dub} - Y_{02/03}^{Dub} \right) \left[ 1 + \frac{I_{02/03}}{100} \right] \\ &= (\text{€}5.00 - \text{€}5.27) \left[ 1 + \frac{2.29}{100} \right] \\ &= -\text{€}0.27. \end{aligned}$$

Therefore

$$\begin{aligned} Y_{03/04}^{Dub} &= \text{€}5.27 \left( 1 + \frac{3.1 - 7.8}{100} \right) + \text{€}0.15 - (-\text{€}0.27) \\ &= \text{€}5.45. \end{aligned}$$

4. For the regulatory year 2003/04, the charges levied in respect of the landing and take off of aircraft during daily off-peak times at Dublin Airport shall, in respect of the aircraft specified in the aircraft categorisation in Schedule 1 of CP2/2002, not exceed the maxima (calculated in accordance with the following formula) to apply to the aircraft in question and, in respect of aircraft which are not currently specified in the aircraft categorisation in Schedule 1, shall apply the maxima (calculated in accordance with the following formulae) for the applicable aircraft cost category having implemented the procedures for the categorisation of aircraft not currently classified set out in part 7 of the Varied Determination CP2/2002.

$$ACC^i : TL_{03/04}^i = TL_{02/03}^i \left( 1 + \frac{\Delta CPI_{02/03}}{100} \right) \quad \text{for all } i = 1, \dots, 5$$

or

$$\begin{aligned} ACC^1 &: TL_{03/04}^1 = TL_{02/03}^1 \left( 1 + \frac{\Delta CPI_{02/03}}{100} \right) = \text{€}0.26 \left( 1 + \frac{3.1}{100} \right) = \text{€}0.27 \\ ACC^2 &: TL_{03/04}^2 = TL_{02/03}^2 \left( 1 + \frac{\Delta CPI_{02/03}}{100} \right) = \text{€}0.83 \left( 1 + \frac{3.1}{100} \right) = \text{€}0.86 \\ ACC^3 &: TL_{03/04}^3 = TL_{02/03}^3 \left( 1 + \frac{\Delta CPI_{02/03}}{100} \right) = \text{€}1.30 \left( 1 + \frac{3.1}{100} \right) = \text{€}1.34 \\ ACC^4 &: TL_{03/04}^4 = TL_{02/03}^4 \left( 1 + \frac{\Delta CPI_{02/03}}{100} \right) = \text{€}2.02 \left( 1 + \frac{3.1}{100} \right) = \text{€}2.08 \\ ACC^5 &: TL_{03/04}^5 = TL_{02/03}^5 \left( 1 + \frac{\Delta CPI_{02/03}}{100} \right) = \text{€}2.80 \left( 1 + \frac{3.1}{100} \right) = \text{€}2.89 \end{aligned}$$