

# Dublin Airport Price Determination: 2020 - 2024

## Dublin Airport's Price Cap Proposal

### Competitive Context

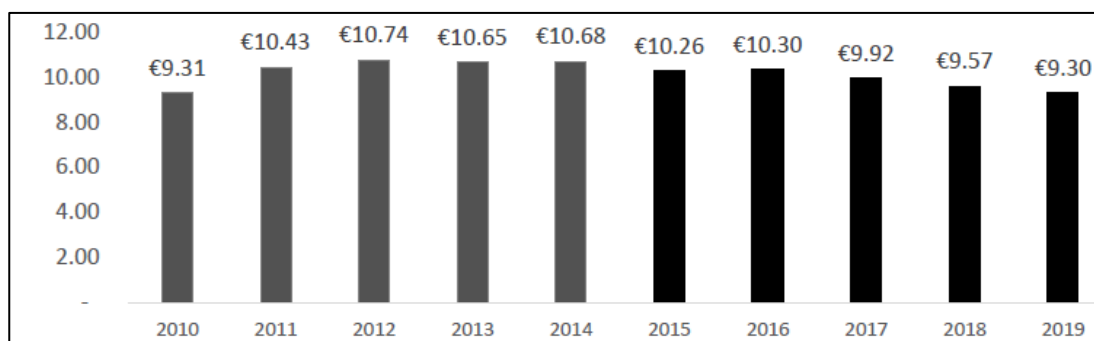
After a sustained period of declining traffic during the recession, Dublin Airport has now successfully delivered nine consecutive years of impressive growth; adding countless new destinations, connectivity and choice for consumers and business – a true engine of national economic growth.

Measure	2014	2019
Number of scheduled operators	29	48
Number of destinations	178	203
Number of destinations with more than one choice of airline	47	69

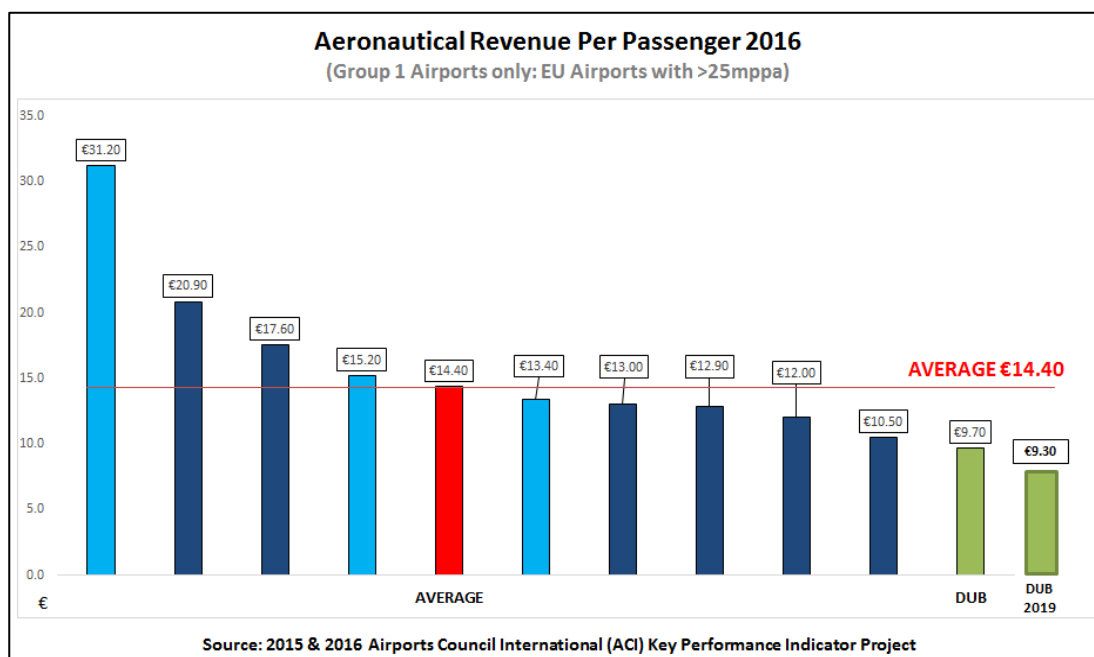
*\*furthermore, over this period, 15 destinations have matured from 'Summer only' to year-round services and 41 routes have experienced an increase in weekly frequency or aircraft capacity*

Airport growth has been achieved against a backdrop of reducing airport charges over the past decade, with a 21% cumulative reduction in the price cap since the 2014 Determination (essentially no increase in price for over ten years).

Dublin Airport Annual Adjusted Price Caps



Dublin Airport's unit passenger charges consistently rank in the lowest quartile amongst the large European airports.



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For less than €10 per passenger, Dublin Airport delivers a strong value proposition and passenger experience relative to our peers. We continue to win industry awards for our service delivery and we are exceeding expectations on successfully delivering all of Ireland's national aviation objectives.

Whilst airlines will naturally seek to minimise the level of charges at all airports, key airline customers have validated that Dublin Airport's charges are competitive with peers in their networks. Dublin Airport also operates one of the most progressive and successful traffic incentive programmes across Europe. Dedicated pricing mechanisms and behavioural incentive schemes support the continual development of new routes for Ireland, substantial growth and choice on the existing route network and encourage the most efficient usage of the airport's constrained infrastructure.

### Pricing Strategy

- Dublin Airport's overarching pricing strategy is to maintain highly competitive passenger charges
- Maintaining competitive charges and dedicated incentive schemes are essential for incentivising further growth
- A strong value proposition for all customers (from ultra-low cost services to premium five star products)
- A price level that sustains current operations and is sufficient to facilitate the necessary development of strategic airport capacity

### Regulatory Submission

**"Our regulatory position is that Dublin Airport's charges, which are already 30-40% cheaper than our peers, will be broadly flat despite the major planned increase in capital expenditure"**

*\*daa Annual Report 2018; Chairman's Statement*

On 25 October 2018, Dublin Airport issued an extensive consultation document which detailed a programme of potential infrastructure proposals for stakeholder evaluation. A prudent consideration for any capital investment programme is the preliminary assessment of the organisation's ability to fund the proposed expenditure (and any additional projects requested during consultation).

Section 8 of the consultation document (and the final set of consultation presentations on 06 December) outlined the risks and challenges for funding such a quantum of capital expenditure. Dublin Airport's financial modelling guides that if CAR decide to implement a future aeronautical price cap, the minimum level for the next five-year period, would need to range between €9-10 in real terms; i.e. the required level of capital infrastructure investment can be accommodated with a price cap from 2020 remaining broadly in line with the long-run average price and the existing cap (€9.57 in 2018).

Crucially, we set out that it is important for all stakeholders to be fully aware that any material reduction to the current price cap level would negatively impact the daa's investment credit rating and by extension, will affect our ability to source incremental debt finance at favourable market conditions.

Our financial modelling guides that it would be reasonable to assume that Dublin Airport can fund and deliver the proposed infrastructure programme without a material increase in the price cap. We advised on 03 December 2018 that our pricing strategy is to maintain highly competitive airport charges. It is obviously a matter for The Commission for Aviation Regulation to determine the profiling or trajectory of the price cap within the control period, however, airports, airlines and passengers would generally agree that a smooth, stable price path over a medium-term period, provides a strong level of confidence for investments in future travel, new aircraft or airport infrastructure. A stable price cap would be conducive to delivering sustainable growth for all stakeholders. Price volatility, spikes (in either direction) and profiles that start at one end of the spectrum and migrate to the other end of the scale rarely deliver long-run economic benefits for consumers or industry.

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### Price Cap Range Sensitivities

- Dublin Airport's expert advisors on the WACC have recommended a range for the period 2020-2024. They estimated a real WACC of 5.0 to 6.2 per cent and recommend the allowed return is set at the top end of the range at 6.2 per cent to mitigate the risk and costs of setting a cost of capital that is too low
- Dublin Airport's input estimates for the remaining building blocks are relatively fixed

Year/WACC	2020	2021	2022	2023	2024	Average
WACC 6.2%	€8.02	€9.14	€9.87	€10.91	€11.58	€9.94
WACC 5.8%	€7.82	€8.89	€9.57	€10.56	€11.20	€9.65
WACC 5.0%	€7.41	€8.40	€8.96	€9.86	€10.45	€9.05

### Summary

We strongly believe that we have produced a compelling and entirely reasonable investment proposition for all stakeholders; i.e.

- Unlike most European airports and regulated entities, we have diligently proposed to fully deliver this €2bn investment programme with no price increases for passengers or airlines, for the entire period out to 2024
- The proposed infrastructure programme will be fully funded by daa (no level of state funding)
- Our regulatory submission would produce an average base price cap of €9.65 (at the current WACC of 5.8%) over the period 2020-2024, which is identical to the real 2018 price cap that was in effect when we consulted with stakeholders on our business case for investment
- Our pricing strategy is to maintain highly competitive airport charges. A stable price cap would be conducive to delivering sustainable growth for all stakeholders