COVID-19

Price Regulation Response

Airport Charges – Dublin Airport

Commission Paper 3/2020

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Commission for Aviation Regulation

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1. Executive Summary

1.1 In October 2019, the Commission issued the 2019 Determination, which set the maximum level of Airport Charges at Dublin Airport for 2020-2024. The subsequent onset of the COVID-19 global pandemic has had a devastating impact on the aviation industry and the economy generally. Passenger numbers at Dublin Airport have been down by up to 99% relative to 2019 in recent months. The timing and pace of recovery is very uncertain.

1.2 The assumptions underpinning the 2019 Determination are not reflective of the current situation, and it does not appear that this will change at least in the short term. The regulatory model used in the 2019 Determination is intended to allow for a reasonable degree of deviation (whether up or down) from ex-ante forecasts over the five-year period, without a requirement for an Interim Review.

1.3 There are a number of possible price regulation responses to this crisis involving reviewing the 2019 Determination. We are asking stakeholders to consider if there are substantial grounds to conduct such a review, and what form any such review or reviews would take.

1.4 To date we have used the building blocks approach to RAB based regulation to arrive at the price cap. This is not the only possible methodology and we are open to representations on innovations to this approach, or alternative methodologies which may be more suitable to the current circumstances. Significant moves away from the building blocks approach would require careful consideration and deliberation with all interested parties.

1.5 In relation to varying the current price determination there are a number of possible options including:

- ***Option 1 – No Interim Review*** - The first option is to make no change to the 2019 Determination, for the period or at least initially. Dublin Airport would manage its resources within the revenues generated by the existing price caps with a likely lower level of traffic and an altered commercial revenue generating capability, in line with the approach to risk allocation in the 2019 Determination.
- ***Option 2 – Interim Review to Address Immediate Issues*** - An Interim Review in August to October of 2020 to address some discrete issues. The focus of this review would be to address immediate unintended pricing consequences arising from the pandemic in 2020 and/or 2021 in a balanced way. We do not currently envisage that this review would make any changes to the core aspects of the 2019 Determination building block allowances or the risk allocation. Some potential issues we have identified are the remuneration of Terminal 2 Box 2, the commercial revenue rolling schemes, and potential over-collection in 2020.
- ***Option 3 - Full Review*** - This review would encompass a wide-ranging reassessment of the 2019 Determination. Where appropriate, we would use the analyses underlying the 2019 Determination to inform this review. At the time of undertaking the review, there is likely to be a wide range of potential scenarios which may unfold in subsequent years. This means that there are different scenarios for appropriate targets for Capex, Opex and Commercial Revenue depending on different traffic recovery scenarios, as well as the impact and duration of changes arising from virus suppression measures.
- ***Option 4 – A combination of options 2 and 3.*** Our current thinking is that this is what will be required.

1.6 If we undertake a review, it will be conducted in very different circumstances than the 2019 Determination. All stakeholders will need to engage in a positive and constructive way. We would expect:

- A need to work collaboratively as an industry to ensure the best outcomes
- A need to be creative and open to new regulatory mechanisms
- A flexibility to conduct analysis and make decisions with less robust forecasts than were previously possible
- An understanding that in these circumstances the same level of detailed analysis will probably not be possible, particularly where developments remain fast-moving (however, we will aim to ensure that balance is maintained in any less granular analysis)
- An agile approach throughout the process to take in new information

1.7 When considering the potential regulatory responses, parties must be prepared to commit the necessary resources to undertake the proposals they make (including the resource requirements of the Commission).

1.8 The purpose of this consultation paper is to start deliberations with all stakeholders on how best to respond to the impact of COVID-19 from a price regulation perspective. The rest of the paper provides background on our approach to regulation, and a high-level overview of the impact of COVID-19 on the various building blocks of the 2019 Determination.

1.9 This is a high-level consultation paper. We do not expect that stakeholders will have complete answers at this time. We will continue to consider these questions with stakeholders over the coming months, so there will be many opportunities to further develop your views. That being said, we would ask for your preliminary views on the following questions, in as much as detail as you can provide at this time. Responses are due by **5PM on Tuesday 18th August**. See Section 12 for details on responding to this consultation.

Consultation Questions

1. Does the current situation resulting from COVID-19 represent substantial grounds to review the 2019 Determination?
2. Is a narrow, targeted review in 2020 required to address some immediate unintended consequences of the pandemic as discussed in Section 3 Option 2?
    a. What is an appropriate timeline for such a review? Our current thinking would be to complete it by the end of 2020.
    b. What elements should it address?
3. Is a more wide-ranging interim review required which would redetermine the regulatory settlement for the later years of the determination? See Section 3 Option 3. What are the key developments over the coming months which might indicate whether such a review is required?
    a. If deemed required, what are the key reasons, for example:
        i. Are the risk allocations within the 2019 Determination insufficient to deal with the impact of the collapse of traffic due to COVID-19? See Section 4.
        ii. Should the passenger target be revisited? See Section 5.
        iii. Should the operating costs and commercial revenue targets be reassessed? See Sections 6 and 7.
        iv. Should the cost of capital be reassessed? See Section 8.
        v. Is a reassessment of the capital investment plan for the current period required? See Section 9.
        vi. How should we assess financial viability? See Section 10.

vii. Should we amend the quality of service regime? See Section 11.

b. What would be an appropriate timeline for this review (considering it may require significant resources on the part of all stakeholders). Our current thinking is that such a review would be complete by the end of 2021 and would take effect from 2022.
c. Should consideration be given to a revised period for the determination (e.g. ending in 2023)?

4. Should the Commission examine new regulatory approaches or methodologies to deal with the exceptional levels of uncertainty resulting from the impact of COVID-19?

2. Background

2.1 The Commission implements a price cap model of economic regulation at Dublin Airport, as per the Aviation Regulation Act, 2001, as amended ('the 2001 Act'). In 2016, Indecon, in a report for the Department of Transport, Tourism and Sport, concluded that Dublin Airport has Significant Market Power (SMP) in the market for the provision of airport services. This creates a strong incentive for it to set charges above the level that would exist in a competitive market. In the absence of regulation, the airport could charge unnecessarily high prices and/or offer a lower quality of service. The Indecon report recommended that price cap regulation should continue to be implemented for that reason.[1]

2.2 Airport Charges are ultimately paid by passengers through the airfares they pay to airlines. There is strong evidence of airline competition at Dublin Airport.[2] Particularly in that context, competitively priced airport services translate to lower fares for passengers, relative to higher priced airport services. Furthermore, competitively priced airport services make Dublin more attractive to airlines, both new entrants and in incentivising new routes/increased frequencies from incumbent carriers. Routes to/from Dublin which would otherwise be marginally unviable become viable. This secondary effect in turn further enhances airline competition, leading to enhanced value, choice, and connectivity for passengers and the knock-on benefits of this to the Irish economy more broadly.

2.3 Regulatory determinations set the maximum level of Airport Charges at Dublin Airport on a per-passenger basis, known as the price cap. It is our estimate of the competitive price. The price cap varies depending on factors such as the service quality provided by Dublin Airport and the provision of new infrastructure. Our overarching goal, as regulator, is to maximise the value which Dublin Airport provides, having regard to the quality and scope of services and infrastructure required for both current and future airport users and the efficient cost of providing those services and delivering that infrastructure, in line with our statutory objectives and government policy.

2.4 The price cap is a maximum level for airport charges, it does not prevent Dublin Airport setting a price level below the cap where some degree of under collection can be carried forward into future years.

2.5 Airport Charges at other Irish airports are not subject to economic regulation, as these airports are not deemed to have SMP.

2019 Determination

2.6 The 2019 Final Determination, which is currently in effect, was published in October 2019. This was the conclusion of an extensive consultation process which commenced 18 months earlier with the publication of an Issues Paper. The process involved Dublin Airport, airlines and other stakeholders, including the Commission's Passenger Advisory Group.

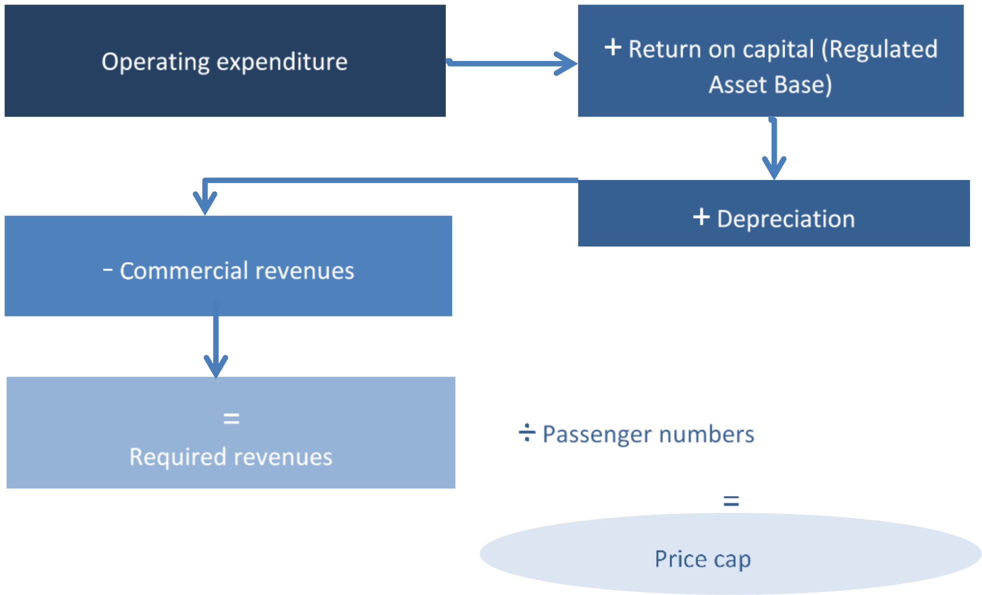
2.7 The 2019 Determination used a building blocks approach to regulation to arrive at the price caps for 2020-2024. The approach is illustrated in Chart 2.1 and is consistent with our statutory objectives and factors we must have regard to. This methodology was subject to consultation in the Issues Paper and has been used by the Commission since 2001 for setting airport

[1] http://dttas.old.gov.ie/sites/default/files/publications/aviation/english/review-regulatory-regime-airport-charges-ireland/review-regulatory-regime-airport-charges-indecon-economic-consultants.pdf

[2] See for example the decision of the EU Commission prohibiting the takeover of Aer Lingus by Ryanair on the basis that they '*compete vigorously*'. https://ec.europa.eu/commission/presscorner/detail/en/IP_13_167

charges. The building blocks approach is a standard regulatory framework used in many regulated industries, but it is not the only possible methodology and we are open to representations on innovations to this approach, or alternative methodologies which may be more suitable to the current circumstances. Significant moves away from the building blocks approach would require careful consideration and deliberation with all interested parties.

Chart 2.1: The Building Blocks Approach – Deriving a Base Price Cap



2.8 The calculations require forecasts/targets for future operating expenditures, commercial revenues and passenger numbers. They also require decisions on amounts to allow for a return on capital and for depreciation. We use a single till, which means we include commercial revenues (e.g. retail, car parking), and also costs associated with providing these non-aeronautical services, in the calculations.

2.9 We also set quality standards to ensure that cost efficiencies achieved by the airport are not made at the expense of the quality of service delivered, incentivising it to sustain and improve its performance in the areas that are important to airport users (passengers and airlines).

2.10 We enabled the financial viability of Dublin Airport by checking that, when all the building blocks are taken together, Dublin Airport is able to raise debt at an efficient cost. To achieve this for 2020-2024 we made a financial viability adjustment of €109m, bringing forward depreciation from future periods into the current period. This adjustment was required to enable the delivery of the allowed Capital Investment Programme (CIP) under the core regulatory scenario, which was larger in scale than previous investment programmes.

2.11 We used a RAB-based approach when considering capital costs. The return on capital and depreciation allowances depend on capital expenditure allowances in both the current and previous determinations. The return on capital depends on the cost of capital (interest rate for debt and return on equity) that we allow.

2.12 We implemented incentive-based regulation. In the areas where Dublin Airport outperforms our targets it keeps the gain and vice versa. For the most part, Dublin Airport holds the risk within the period, and it is transferred to users at the time of the subsequent determination. This creates incentives for Dublin Airport to act as a company in a competitive market would, in responding to circumstances as they unfold. Allocation of risk was part of our consultations and we were open to exploring a reallocation of risk between the airport and users, however there was limited appetite for us to do so.

2.13 The building blocks method resulted in an average maximum price cap of €7.87 for the period 2020-2024 (inclusive of the financial viability adjustment but excluding Quality of Service and trigger project related adjustments).[3] Full details in relation to the analysis and calculations underpinning the 2019 Determination are available on the Commission's website.[4]

2019 Determination Appeals Process

2.14 Ryanair and Dublin Airport requested the establishment of an Appeals Panel as envisaged under Article 40 of the 2001 Act. Both appellants brought a range of grounds of appeal, each of which contained a number of aspects.

2.15 The Appeals Panel decided to consider only material which was before the Commission when it made the Determination. In relation to the 2019 Determination, therefore, it did not have regard to the impact of the subsequent onset of COVID-19.

2.16 The Appeals Panel upheld one substantive aspect of one of the Ryanair grounds of appeal, namely the length of time the Commission allowed for Dublin Airport to achieve certain Opex efficiencies. Under the 2001 Act, the Commission is required to issue a decision regarding variation to the 2019 Determination pursuant to the Appeals Panel findings by 4 July. Again, this will consider the circumstances as they stood in October 2019 and thus will not take account of COVID-19.

[3] The average price cap of €7.87 does not encompass potential changes arising from the appeals process. Figures in this paper are in 2019 Determination (February 2019) prices.

[4] https://www.aviationreg.ie/regulation-of-airport-charges-dublin-airport/2019-determination.841.html

3. High Level Options to Respond to COVID-19

3.1 The COVID-19 pandemic has had a devastating impact on the global aviation industry and on economic activity generally, with uncertainty over the timing and pace of recovery. The pandemic has caused a sudden and unexpected fall in revenues across the aviation industry, arising from a lack of passengers. Airport pricing will not solve the short-term gap between costs and revenues being suffered by airlines, airports (regulated and unregulated), ANSPs, and other stakeholders. The challenge for the aviation industry in the short term is to manage their cost base, while maintaining to the extent possible the ability to respond quickly when traffic recovers.

3.2 At this stage, it is too early to know what the impact on aviation in Ireland will be in the medium and longer term. The impact will be driven by factors such as Irish government decisions on travel restrictions, virus suppression measures, general or industry specific support packages, as well as decisions of governments in other countries in relation to travel restrictions. It will also be driven by the timing and pace of recovery in economic activity generally. There is a far wider range of plausible scenarios over the coming years than would typically be the case.

3.3 Similarly, it is too early to assess any impact of the pandemic on market dynamics in either the airport services or airline markets, and whether any such impact will be short term or longer lasting. This question may be relevant for future Market Power Assessments (MPAs).[5]

Potential Interim Reviews of the 2019 Determination

3.4 The regulatory model used in the 2019 Determination is intended to allow for a reasonable degree of deviation (whether up or down) from ex-ante forecasts over the 5-year period, without a requirement for an Interim Review. The current situation is not a reasonable degree of deviation from those forecasts, and it does not appear that this will change in the short term. A proactive, flexible and constructive pricing response will be required in light of the circumstances caused by the onset of COVID-19. We will need to keep a close focus on evidence and our statutory objectives in any review, namely protecting the interests of airport users, allowing for the sustainable development of the airport and enabling the financial viability of Dublin Airport.

3.5 We are open to views on whether there are substantial grounds for interim reviews under Article 32 (14)(a) of the 2001 Act. We are also open to views on the desirability of an interim review or interim reviews, the appropriate scope, and the appropriate timeline(s).[6] There is a balance between implementing changes to the 2019 Determination based on expectations which may themselves quickly become outdated in an uncertain situation, relative to reacting too slowly to changed circumstances. There is no limit on the number of interim reviews which could potentially be carried out, provided that substantial grounds exist for carrying it out. Equally we remain open to the possibility that the impact of the crisis may be of shorter duration than currently appears likely, and late 2020 and/or early 2021 will see a stabilisation or quick recovery. In that situation, the question of whether a wide-ranging Interim Review is the best way to give effect to our statutory objectives may need to be carefully reconsidered.

3.6 The timeline and/or the approach to interim reviews may also change if circumstances or other

[5] As was envisaged under Head 8 of the Aviation Regulation (Amendment) Bill 2018 https://assets.gov.ie/21640/a43d95f34d7a437da438f4d534bc8b39.pdf

[6] This article was amended by the State Airports Act 2004, removing the 2-year time limit and now an interim review can be conducted at any time.

factors such as government policy change in a way which warrants a different course of action.

3.7 Interested parties can use the published 2019 Determination financial model to estimate the price cap impact of changes to the Determination.[7] However, it should be noted that changes to one aspect of the Determination often have implications for other aspects of the Determination.

3.8 We have identified 4 broad options. In the rest of the document we go into more detail on the individual building blocks.

Option 1 – No Interim Review

3.9 The first option is to make no change to the 2019 Determination in response to COVID-19, either at all or until there is certainty on the underlying fundamentals that would underpin a fuller review. However, this may take some time and Dublin Airport would be required to protect its own financial position including managing within the revenues generated by the existing price caps with a likely lower level of traffic and an altered commercial revenue generating capability, in line with the approach to risk allocation in the 2019 Determination.

3.10 Currently, demand has collapsed and the regulatory model could do little to ensure revenues are greater than costs in the immediate term.

3.11 There are a number of aspects of the 2019 Determination that would create problems if not amended and if traffic levels remain depressed for a considerable period of time or the way the airport operates changes as a result of COVID-19. For example:

- The scale of the allowed CIP, together with the scale of the impact of COVID-19, risks creating a high degree of pricing instability in the next regulatory period even with an appropriate response from Dublin Airport.
- There would be no opportunity to implement revised service quality metrics or targets if operational changes due to COVID-19 were to be long-lasting. The options would be to continue to suspend the price cap adjustments on the basis of exceptional circumstances, or to recommence revenue adjustments on the basis of some or all of the existing metrics and targets.
- Changes arising from COVID-19 would not be reflected in airport pricing until 2025.

Option 2 – Interim Review to Address Immediate Issues

3.12 An Interim Review to address immediate issues would likely take place in August-October of 2020. The focus of this review would be to address immediate unintended pricing consequences arising from the pandemic in 2020 and/or 2021 in a balanced way. We do not currently envisage that this review would make any changes to the core aspects of the 2019 Determination building block allowances or the risk allocation. Some issues we have identified are:

- The remuneration of Terminal 2 Box 2, which we allowed for in the base price cap from 2020, as we expected the 33 million passenger threshold to be met in 2020. Dublin Airport processed over 32.9m passengers in 2019. This is discussed in Section 9.

- Commercial Revenue rolling schemes, discussed in Section 7. The impact of the pandemic may lead to a high degree of volatility in commercial revenue per passenger performance

[7] See 'Financial model' published in October 2019
https://www.aviationreg.ie/regulation-of-airport-charges-dublin-airport/2019-determination.841.html

relative to the targets. This issue may arise from 2021 and has implications for the next regulatory period.

- The potential for overcollection in 2020 (and potentially 2021).

3.13 In relation the last point, Dublin Airport's two main sources of aeronautical revenue are runway movement charges, which apply per aircraft movement, and passenger service charges, which apply per departing passenger. For example, in 2019, leaving aside incentive scheme rebates, 37% of aeronautical revenue was collected through runway charges and 56% through passenger charges. The remaining 7% was collected through parking and airbridge charges. Last year, Dublin Airport set out its charging strategy to come into effect in 2020, through which it intended to achieve price cap compliance in 2020 based on the expected mix of traffic and load factors. Reduced load factors and an increased proportion of cargo means the aeronautical revenues actually collected will likely be more heavily weighted towards runway charges than was expected. Furthermore, revenue from aircraft parking charges is likely to be proportionately higher than expected.

3.14 The likelihood is therefore that Dublin Airport will over-collect on a per passenger level in 2020 based on the current pricing levels. Ordinarily, Dublin Airport has 90 days from the end of the year to repay any such overcollection to airport users. This can be viewed from different perspectives given the current circumstances:

- Dublin Airport intended to achieve price cap compliance and the reason it will have over-collected is because of the pandemic. In recognition of this and to potentially assist with cash-flow the repayment period could be spread over a longer period of time.

- Dublin Airport intended to achieve price cap compliance and, on that basis, charges could be frozen at their current levels for 2020 (and potentially 2021) as an interim measure. This could be done by setting a higher price cap, such that Dublin Airport would not over-collect, on the proviso that Dublin Airport makes no changes to any aspects of its current charging strategy. This would however lead to inflexibility for Dublin Airport to adjust its charging strategy to respond to developing circumstances.

- An optimum response of an operator in a competitive market may be to reduce charges below the cap set in 2019, to stimulate demand. On that basis, it could be argued that Dublin Airport should be reducing charges for 2020, or if not, the 90 day payback period should continue to apply. This would be aligned with the approach to risk assignment in the determination.

3.15 It is not yet clear how 2021 will develop, but the ratio of aircraft movements to passengers may remain higher than was previously the case, but difficult to forecast. When setting prices for next year, it might again be challenging for Dublin Airport to set out a charging strategy to deliver aeronautical revenues in line with a per-passenger cap while also achieving appropriate and balanced cost allocation between passenger and aircraft related charges.

3.16 In relation to the quality of service regime, we have already addressed the immediate impact brought by the physical distancing and other lockdown measures imposed in mid-March. In CN2/2020 and CN6/2020, we suspended all financial penalties associated with any quality of service breaches for the foreseeable future. We also noted that Dublin Airport has suspended all face-to-face passenger surveys. Dublin Airport will try to ensure that the system for measuring security queues is adjusted to account for any changes to queue layout. Dublin Airport continues to report to us on its quality of service performance, where possible. We consider that if any further reassessment of the quality of service regime is required it should be part of a potential wider Interim Review of the 2019 Determination, discussed as Option 3 below.

3.17 We are open to views on the above issues, or any other issues respondents may wish to raise for the purposes of a short-term review.

Option 3 - Full Review

3.18 This review would encompass a wide-ranging reassessment of the 2019 Determination. At the time of undertaking such a review, the range of potential scenarios which may unfold in subsequent years is still likely to remain wider than has historically been the case. This means that there would be different scenarios for appropriate targets for Capex, Opex and Commercial Revenue depending on different traffic recovery scenarios, as well as the impact and duration of changes arising from virus suppression measures.

3.19 A later reassessment increases the probability of the situation stabilising and consequently the predictability of subsequent developments. On the other hand, waiting for stabilisation before considering the appropriate adjustments may unnecessarily slow the response, or reduce the depth of analysis which can be undertaken by the Commission and by stakeholders. The optimal approach may be to consider a number of discrete scenarios over the coming months and how the various building blocks might develop. This may be of particular benefit in relation to Capex, allowing for reconsideration of the optimal scale and timing of Capex for the rest of the period under different recovery scenarios, with the most appropriate scenario to be 'selected' later in 2021.

Table 3.1: Possible outline timetable for a full Interim Review

Reassessment of timeline/scale of Capex under different recovery scenarios, which are developed in a consultative way by stakeholders .	Q4 2020 to Q1 2021
Interested parties to submit views (and evidence where appropriate) on their priorities for and plans at Dublin Airport for the remainder of the regulatory period.*	End Q1 2021
Dublin Airport to submit data and proposals for the building blocks for the remainder of the regulatory period.*	End Q1 2021
Commission to issue a draft decision on Interim Review	End Q2 2021
Commission to issue decision on Interim Review	Q4 2021

**Potentially encompassing different scenarios as per Paragraph 3.19*

3.20 It may be the case that we will need to make a decision to progress with a revised regulatory settlement notwithstanding ongoing uncertainty. There are a number specifically tailored adjustments to building block allowances and risk allocation we could make in those circumstances. These are discussed below and in subsequent sections as they relate to individual building blocks. It may be necessary to tailor the depth of analysis we are able to undertake to a required shorter timeline for implementing a revised regulatory settlement.

3.21 Another possibility is to shorten the current regulatory period such that it ends in 2023 rather than 2024. This would obviously mitigate the risk that by 2024, outturns will again have deviated substantially from a revised regulatory settlement. It would allow time to better understand and adapt to changes arising from COVID-19, and more quickly reflect these in the regulatory settlement at a time when these changes will hopefully be understood.

Option 4- Combination of both options 2 and 3

3.22 Our current thinking is that this is most likely to be the optimal approach.

4. Risk allocation

4.1 To date, within a regulatory period most of the risk in the regulatory model has been assigned to Dublin Airport, on the basis that it is the party best able to manage and/or control it. This approach was supported both by Dublin Airport and the airlines. The combined effect of different elements of risk results in high powered incentives, not only to beat the various targets we set, but also to respond appropriately to changing circumstances (such as an unexpected increase or fall in the level of passenger traffic). There are two key mechanisms which currently allocate risk to the airport; firstly, the per passenger price cap allocates the volume risk to the airport and secondly, in general there are no ex post adjustments for outturn operating costs, commercial revenues or cost of capital. At each determination, the building blocks are re-set meaning that over the longer term, risk is held by airport users.

4.2 This approach to risk has historically benefitted Dublin Airport, which has generally been able to respond to developing circumstances such that it outperforms the regulatory settlements overall. However, risk allocation is not a zero-sum-game; it has also benefitted airport users, in that it has created incentives for Dublin Airport to continue to provide better value and respond optimally to changing circumstances. For example, the 2014 Determination created an incentive for Dublin Airport to facilitate and incentivise increased passenger traffic, notwithstanding the associated increase in costs, as it would enjoy the financial benefit of the additional passengers for the duration of that regulatory period. The benefit of this additional traffic then passed to airport users in the 2019 Determination in the form of a reduced cost per passenger.

4.3 In the last Determination process, we consulted on how volume risk should be managed. At the time stakeholders supported the approach that Dublin Airport was best placed to manage the usual deviations from passenger forecasts over a 5 year period. However, in the current circumstances, we think it is appropriate to again consider this question and to examine other potential approaches to risk.

4.4 There are already certain exceptions to the general approach to risk allocation, such as the Opex passthrough mechanism. We are open to considering other adjustments which may be warranted in the context of the uncertainty caused by the pandemic and examine their impact on incentive regulation. The options relating to volume risk can be broadly categorised as those which would be pro-cyclical and those which would not be pro-cyclical.

4.5 A pro-cyclical option is one which would lead to higher charges per passenger within a regulatory period when passenger numbers are below forecasts, in order to (partly or fully) make up the revenue shortfall arising from fewer passengers. Conversely, it would lead to lower per passenger charges when passenger traffic is above the forecasts. Such a mechanism would also need to take account of impacts on other building blocks. For example, if passenger numbers are below the forecasts, this has implications for the Opex and Commercial Revenues targets. Other than complexities likely arising from a need to flex all of the targets. A drawback of this option is that it is the opposite of what tends to occur in a competitive market, where companies would seek to stimulate demand through lower prices, or at least avoid price increases, in the event of a downturn. This could be mitigated somewhat if a risk adjustment were to be applied subsequently, i.e. if the risk adjustment arising from outturns in year t were to apply in year t+2.

4.6 Pro-cyclical options for changing the volume risk allocation between the airport and users include:

- eliminate the volume risk held by the airport using revenue cap regulation, setting a cap on overall aeronautical revenues instead of a cap on per passenger revenues.

- reduce the volume risk held by the airport by applying bands to the passenger target such that provision is made for adjusting the risk allocation if deviations exceed a certain level.

4.7 It is also possible to consider risk sharing from a longer-term perspective in a way which would not be pro-cyclical, where the risk sharing element changes the nature of aspects of the allowances making up a price cap rather than the price cap itself. The clearest example would be to allow for flexibility for unspent Capex allowances to convert to Opex in the event that passenger traffic was below forecasts, and consequently not be clawed back at the subsequent determination. This has similarities to a total expenditure (Totex) regulatory approach which allows the regulated company flexibility to find the optimal allocation between operating and capital expenditure depending on unfolding circumstances. This is the approach the 2019 Determination took to expenditure on Information Technology.

4.8 The other relevant aspect of risk allocation is the potential for Opex, Commercial Revenues, and the cost of capital to deviate substantially from revised forecasts, particularly as a result of the pandemic. These are discussed further in the relevant sections below.

5. Passenger Target

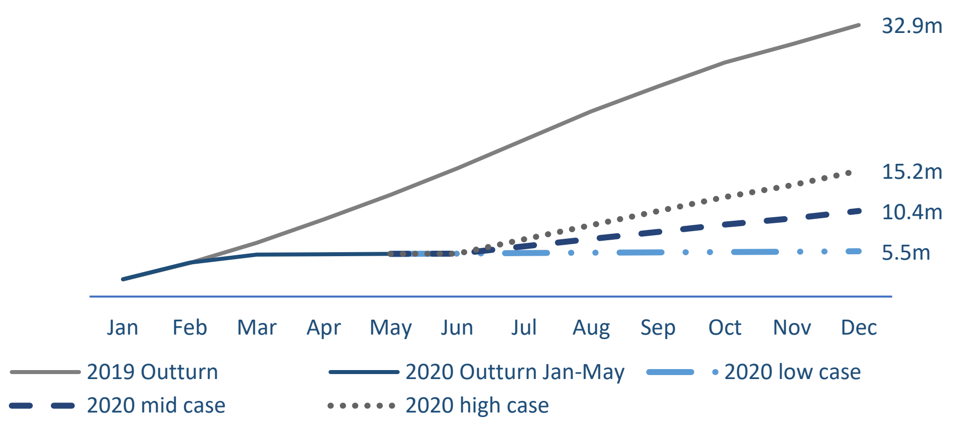
Passenger Target in the 2019 Determination: Forecasts Methods and Data

5.1 Since 2009 we have estimated passenger targets using a simple causal forecast based on a single explanatory variable (Irish GDP) and time-series trends. This method is transparent and uses publicly available data. This model has worked well in terms of the GDP/passenger numbers relationship, but depends on the accuracy of GDP forecasts available at the time of setting the target. The 2019 Determination forecast 34m passengers in 2020, growing to 38.1m by 2024.

Impact of COVID-19 on setting the Passenger Target

5.2 There is significant uncertainty around the recovery of the aviation industry and the general economy due to the impacts of COVID-19. Currently this uncertainty makes it very difficult to develop forecasts of passenger numbers into the future. Chart 5.1 illustrates that the outturn for 2020 could be anywhere between 5.5m and 15.2m depending on the assumptions used. In other words, it could be anywhere between -80% and -54% compared to the 2019 outturn of 32.9m. We have chosen three case scenarios for this analysis: low, mid and high. **These are not forecasts** but rather lower and upper limits for possible outturns in 2020.

Chart 5.1: High, base and low scenarios for 2020 passengers compared to 2019

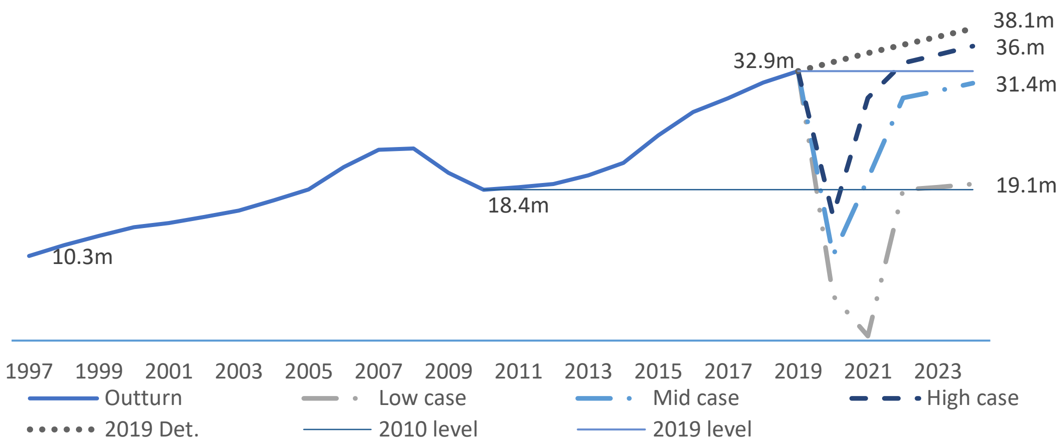


Source: Dublin Airport data, CAR analysis.

5.3 In January and February 2020, passenger traffic at Dublin airport grew by 2% compared to the same months in 2019. After the COVID-19 outbreak, passenger outturns declined by 57% in March, 99% in April and 98% in May compared to the same months in 2019. The low (worst) case scenario assumes that monthly passenger numbers will be at the May level (46,000) from June to December 2020. The high (best) case scenario assumes that monthly traffic will reach 50% of 2019 levels in July and August and will gradually increase to reach 75% of 2019 levels in December. The mid case is the average of the low and high case scenarios.

5.4 There is also a high degree of uncertainty for the years 2021-2024. As before, we analyse three possible scenarios (low, mid and high) as shown in Chart 5.2, that set possible upper and lower limits of outturn passengers in 2024. The difference between the low and high scenarios is as wide as 16.8m passengers, and between the low and mid scenarios is 12m. A stabilisation in 2020 and/or 2021 would help to narrow down the possible scenarios.

Chart 5.2: High, base and low scenarios for 2020-2024 passengers



Source: Dublin Airport data, CAR analysis.

5.5 The low scenario to 2024 assumes the low scenario in 2020 and no recovery in 2021. This could be the case if there are subsequent waves of COVID-19 in Ireland or other key markets in Europe and North America, and there is no vaccine or effective treatment. This scenario also assumes that there will be a recovery from 2022 but only to the level of passengers seen after the last recession in 2010-2012. This could happen if there is economic depression in Ireland or key markets.

5.6 The mid scenario to 2024 assumes the mid scenario in 2020 and 60% of 2019 traffic in 2021 (20m passengers). This is similar to the expectation for passenger numbers expressed by Dublin Airport in May.[8] It then assumes 90% of 2019 traffic in 2022 and 3% annual growth until 2024.

5.7 The high scenario to 2024 assumes the high scenario in 2020, 90% of 2019 traffic in 2021, 103% of 2019 traffic in 2022 and 3% annual growth until 2024.

Options to set the Passenger Target After COVID-19

5.8 We must consider how we can set a reasonable passenger target for Dublin Airport for the remainder of this regulatory period as part of any wide-ranging Interim Review. Our GDP based model might not be the most appropriate method to set passenger target scenarios under the current environment of economic crisis. In the post COVID-19 world, there are additional factors not correlated with GDP that are influencing passenger numbers, such as travel restrictions and physical distancing measures imposed by Governments, and passenger confidence to travel. It is not possible to incorporate these variables in our usual regression model because there is no historic data that could guide us in modelling the impact that these variables could have on passenger numbers. In addition, the initial decline in aviation in 2020 will far exceed the decline in GDP. In the recovery phase we would therefore expect that passenger numbers will grow much quicker than GDP.

5.9 As discussed above, we could seek to work through this uncertainty by developing a number of passenger target scenarios for 2022-2024 and considering building block targets associated with each scenario. Then in 2021 the relevant scenario to use from 2022 could be implemented. The scenarios will need to be developed carefully so that they assist our analysis and decision making. This approach would require Dublin Airport, the Commission and airlines

[8] https://www.newstalk.com/news/fears-1000-jobs-dublin-cork-airports-1017567

to work closely together to develop these scenarios.

6. Operating Expenditure

Approach in 2019 Determination

6.1 In the 2019 Determination we carried out a detailed bottom-up review of Dublin Airport's operating cost (Opex) base to inform assumptions for the period 2020-2024. This was both backward looking and forward looking, in that it considered the extent to which increases in the period 2015-2019 had been justified, and then projected allowances forward over the period 2020-2024.

6.2 The Opex allowances were tailored to meet our forecast passenger traffic of 38m by 2024, and our quality of service targets. There were also assumed changes associated with the delivery of a range of CIP projects, aligned with the timeline for delivery of those projects.

6.3 We also introduced a passthrough mechanism for certain charges which are legislatively mandated and over which there was uncertainty at the time the determination was made.

6.4 We outlined a framework for the capital remuneration of Dublin Airport's proposed voluntary severance scheme (VSS). This scheme was intended to be available for pre-2010 contracted staff, with remuneration of the VSS being set out on that basis in the 2019 Determination. The scheme was to be remunerated on the basis that should savings not have offset the costs of the scheme (including the WACC) by the end of 2024, we would roll any outstanding amount into the next determination, with the proviso that the payback period would not last beyond 2027.

What has changed?

6.5 Within the regulatory settlement, Dublin Airport is incentivised to respond to the collapse in traffic by cutting costs and it is doing so by introducing a range of cost cutting measures in response to COVID-19. We expect that actual expenditure in the areas assessed in the 2019 Determination will be substantially below the allowances, but it is unlikely to be able to cut costs quickly enough to achieve per passenger cost levels in line with those we forecast for 2020. We also expect that there will be unanticipated costs arising from changes in how passengers are processed due to COVID-19. The extent to which these costs will persist over time is not yet clear. In general, these costs are not likely to be relevant for the passthrough mechanism, which applies to specific charges set by legislation.

6.6 Reassessment of the timing/scale of the CIP to be delivered over 2020-2024 will impact on the associated Opex increases, as their timing may no longer match the timing for delivery of the projects. Under the current CIP programme, Opex associated with the CIP is relatively small in 2020 at less than €1m, and €3.9m in 2021, before jumping to €16m in 2022 and then €20m in 2023.

6.7 The VSS scheme which has been announced by Dublin Airport appears to be different to the one it proposed to us in 2019 in that it now appears to be a broader scheme.

6.8 The passthrough mechanism remains valid. With a reduction in passenger numbers, changes in the levels of legislatively mandated Opex such as rates will have a greater impact on the price cap than would have been expected. For example, if legislatively mandated Opex is €10m higher than allowed for in the Determination in 2020, and passenger numbers are expected to be 20m in 2021, this would increase the 2021 price cap by €0.50. Equally, if it is lower whether as a result of temporary rates alleviation or otherwise, this will lead to a significantly lower price cap.

Possible Interim Review Changes

6.9 We expect that new allowances would need to be developed for the latter part of the regulatory period as part of any wide-ranging Interim Review. This may include consideration of the extent to which Dublin Airport has responded efficiently and effectively to the pandemic, in the context of any baseline re-set. In some respects, the analysis carried out ahead of the 2019 Determination may remain valid or capable of adaptation.

6.10 In relation to the VSS (or related schemes), we would need to consider how efficiency would be assessed and if those schemes would be remunerated via the mechanism already in the 2019 Determination or perhaps another mechanism.

6.11 As discussed in Section 4, Opex risk is generally assigned to the airport, meaning that it benefits from any savings relative to the targets, and loses out on increases, within the period. If setting revised targets next year, there may remain more uncertainty as to how Opex might reasonably develop over the period for a given level of traffic. In particular, costs associated with virus suppression measures may remain substantially uncertain both in scale and duration. In those circumstances, we could consider the following options:

- Providing for a retrospective adjustment (or 'lookback') at the end of the regulatory period, such that certain changes in Opex (for example, those which are directly linked to virus suppression measures) could be adjusted for in the next regulatory period.
- Broadening the scope of the passthrough mechanism such that it also encompasses costs associated with virus suppression measures.

6.12 Any such change should seek to maintain efficiency incentives. There could be an element of risk sharing built into any such mechanism, i.e. a fixed proportion of such changes would remain at the risk of Dublin Airport with the rest being at the risk of airport users. The scope and application of the mechanism (such as a requirement to demonstrate a cost-effective response) would need to be set out in advance. The mechanism would need to ensure that changes are considered in a balanced way, i.e. both cost increases and cost reductions which are relevant are fully accounted for. We would also need to ensure that such a mechanism would operate harmoniously with any other adjustments to risk allocation, such that the overall approach to risk allocation is balanced and workable.

7. Commercial Revenues

Approach in the 2019 Determination

7.1 We use a single till which means commercial revenues are netted off costs to arrive at required aeronautical revenues to be remunerated via the price cap. In the 2019 Determination we set the base targets for each of 8 categories of commercial revenues based on the historic elasticity between outturn revenue and the most appropriate driver (the driver in most cases being passenger numbers). We estimated a 2019 baseline using latest available 2019 outturns and then forecast forward to 2024 based on the elasticities and our forecasts for the drivers.

7.2 We then made adjustments to the forecasts based on the CIP; in particular we included uplifts for expected revenues from allowed commercial projects, as well as reductions where demolition of revenue generating infrastructure was required to facilitate certain projects.

7.3 We adjusted for rolling schemes provided for under the 2014 Determination. The purpose of this mechanism is to equalise the incentive to outperform the targets regardless of the point in time of the regulatory cycle by ensuring that Dublin Airport always retains the benefit of outperformance for five years. This had a substantial impact on the 2019 Determination, reducing the target for 2020 by €47m, with the reduction falling to €5m by 2022 and then zero by 2023.

7.4 We also set out rolling schemes to apply in the current period, which would be adjusted for in the next determination. These apply to any outperformance in a number of specified categories during 2021-2023, on a per passenger basis.

What has changed?

7.5 With the fall in traffic, we expect that commercial revenues are currently far below the targets. This is further compounded by the closure in recent months of commercial offerings such as F&B and retail. There is uncertainty as to how commercial revenue will recover as traffic recovers, particularly with the potential for changes in commercial offerings, in passenger behaviour and the duration of such changes. Some aspects of commercial revenue are not immediately affected by passenger numbers, such as rents, and minimum payments under concession contracts.

7.6 Reassessment of the timing/scale of the CIP to be delivered over 2020-2024 means that, in most cases, associated commercial revenue adjustments will no longer match the timing for delivery of the projects. In 2020, the overall adjustment is approximately -€2m, largely driven by the expectation of a fall in property rents from displacement due to the South Apron/Pier 5 development. The adjustment is around -€1m in 2021 before turning positive from 2022 as the displacement becomes outweighed by expected increases arising from the delivery of commercial projects.

Possible Interim Review Changes

7.7 We expect that new allowances would need to be developed for the latter part of the regulatory period as part of a wide-ranging Interim Review. Similar to Opex, there may remain a high degree of uncertainty regarding appropriate targets for Dublin Airport’s commercial businesses. In that context, the mechanisms discussed in paragraphs 6.11 and 6.12 could also be applied to Commercial Revenues.

7.8 Rolling schemes were set to apply for outperformance in retail, carparking, lounges/FastTrack/ platinum services, and advertising. The schemes were to apply from 2021-2023, with the targets set on a per passenger basis. The fall in passenger numbers may lead to unexpected volatility in performance relative to these targets. The rolling scheme mechanism may no longer be appropriate or implementable in the context of uncertainty, at least in the form set out currently, particularly if there is an adjustment to the approach to within-period risk.

8. Cost of Capital

8.1 In the 2019 Final Determination we continued to use the weighted average cost of capital (WACC) method to estimate the cost of capital, including the capital asset pricing model (CAPM) to estimate the cost of equity.

8.2 In 2019, we implemented three key technical variations compared to the 2014 Determination. First, the total market return was estimated and then separated into the risk-free rate and the equity risk premium components, instead of estimating the equity risk premium directly. Second, we allowed for costs of both embedded debt and new debt. Third, the cost of capital was the sum of the midpoint estimates for each component and an explicit aiming up allowance. We proposed the explicit aiming up as it is transparent and quantifiable relative to implicitly aiming up the various components.

8.3 We continued to allocate the risk of deviation between outturn and allowed cost of capital to Dublin Airport. We noted that alternative methods of risk allocation in the cost of debt include indexation of new debt or new and embedded debt. We stated that there might be a trade-off between cost pass-through and efficiency incentives.

Impact of COVID-19 on the Cost of Capital

8.4 It is too early to quantify the impact of the economic disruption caused by COVID-19 on the cost and availability of capital for an airport such as Dublin Airport. However, at a high level, we anticipate a likely change in a number of elements of the cost of capital but note some of these may counteract each other to a certain extent.

8.5 We are interested in stakeholder views on options to deal with uncertainty when setting the cost of capital.

9. Capex

Approach in the 2019 Determination

9.1 We allowed for over €2bn in new Capex in the 2019 Determination. This level of capacity expansion was justified on the basis that we forecast 38m passengers by 2024 (and that the need to process 40m or more passengers would arise shortly thereafter.)

9.2 We commissioned Steer to carry out a bottom-up efficiency assessment of the cost of each proposed project, which informed the allowances we included. The Commission, with assistance from Helios through simulation modelling where relevant, assessed the need for or desirability of each project. The investment programme was subject to an extensive consultation and was largely supported by airport users and other stakeholders.

9.3 We introduced the StageGate process, which allows for flexibility for the scope and/or cost of certain key projects to evolve within the regulatory period.

9.4 We recognised that delivering an investment programme of this scale in a live airport environment over a 5 year period would be challenging, with substantial risks to the intended timelines. We added reprofiling triggers for 8 key projects, to avoid remuneration for a project becoming substantially misaligned with the timeline for delivery. This would ensure that airport users would not continue paying for these projects if they were not being delivered.

9.5 We allowed for the remuneration of Terminal 2 box 2 from 2020 in the base price caps. A previous determination set the threshold for remuneration of box 2 at 33m annual passengers, a figure which we expected to be reached in 2020. We included a trigger to remove this remuneration should the 33m threshold not be reached.

What has changed?

9.6 The scale of the allowed CIP, over the timeline currently allowed for, is no longer likely to match the levels of passenger traffic. In any case Dublin Airport has halted most Capex works, notable exceptions being the implementation of Hold Baggage Screening Standard 3 EDS in both terminals, rehab of Taxiway W2, and the previously allowed North Runway. Even in a quick recovery scenario, the timeline for delivering the CIP which the 2019 Determination allowed for, with all projects being delivered by 2024, can no longer be achieved.

9.7 As the 2019 Determination stands, the unspent Capex allowances would be subject to clawback from 2025. This issue would be mitigated somewhat by the reprofiling triggers. Given the scale of the allowed CIP, if a substantial part of it does not proceed as envisaged or if passenger numbers remain depressed but Dublin Airport proceeds to deliver the CIP, this could lead to instability in the pricing outcomes in the next determination. There is a risk that a perverse incentive may be created to proceed with substantial Capex at a sub-optimal timing, in the context of lower passenger numbers as a result of the pandemic.

9.8 However, if there were to be a reasonably quick recovery, and a capital project delivery schedule such that a broad degree of alignment between capacity expansion and demand was maintained, the scale of any necessary clawbacks may remain manageable within the bounds set out in the 2019 Determination.

9.9 There is also a risk that, even where the situation has stabilised and traffic has returned to a level where capacity expansion is once again feasible and justified, changes to airline growth plans, the daily profile of demand, or operational changes may mean that certain CIP projects are no longer desirable in their current form. The 2019 Determination provides for Capex flexibilities, notably the StageGate process and grouped allowances within which there is flexibility to reallocate allowances across projects and/or introduce new projects while maintaining certainty over ongoing remuneration of the revised programme.

Possible Interim Review Changes

9.10 In this context, we consider it likely that a full Interim Review of the 2019 Determination would need to include reconsideration of the Capex. This would also need to include and be aligned with reconsideration of the suitability and application of reprofiling triggers, in the context of a revised timeline for project delivery and potentially a revised set of projects being remunerated. This approach would be aligned with making no changes to the CIP-associated Opex uplifts and Commercial Revenue adjustments, in advance of a full review. The first tranche of allowed new Capex (€400m) is already being remunerated in 2020, with another tranche set to enter the price cap in 2021. The 2021 allowance would be reduced somewhat if the first three reprofiling triggers take effect.

9.11 As discussed above, there is considerable uncertainty over the speed and trajectory of the recovery in passenger numbers. The Commission has previously sought to ensure that allowances for new Capex programmes are broadly aligned with traffic forecasts. This is likely to be more difficult in the current circumstances, given the wide range of potential recovery scenarios. The extent to which the situation stabilises over the coming months will ultimately inform the optimum approach.

9.12 We will encourage stakeholders to work constructively in taking a view on necessary and desirable investment, with realistic delivery timelines, over the current regulatory period. In the short term this should include:

- considering the appropriate timing and level of new investment given the changed circumstances. As discussed in Section 3, to frame thinking, it may be best to consider a number of discrete recovery scenarios and appropriate sets of projects under each scenario.

- considering the extent to which the individual CIP 2020 projects, as currently scoped, remain appropriate given the changed circumstances, or alternatively are there changes or new projects which are necessary or desirable.

9.13 For example, a base case scenario might include only essential Capex required to maintain the safety, security and operational integrity of the airport over the current period. A centreline scenario might see traffic recovering to 2019 levels towards the end of the regulatory period, combined with any virus suppression measures being lifted by that time. An optimistic scenario might see this occurring sooner, with traffic then continuing to grow from the 2019 level. These are provided as broad examples only at this time; ultimately it may be most appropriate to implement elements of more than one scenario in a regulatory settlement, provided it is balanced and internally consistent across building blocks.

9.14 Some potential approaches to specifically address the particular set of circumstances arising from the pandemic, with relevance to Capex, include:

- Shortening the regulatory period such that it ends in 2023 rather than 2024.

- Making a clear distinction between the commencement of remuneration, as opposed to certainty of ongoing remuneration. Particularly over a shorter period of time (i.e. 2-3 years), ultimately the question of certainty over ongoing remuneration into the future may outweigh the importance of the precise timing of the commencement of remuneration.

The quantum of required Capex is linked to forecast traffic levels; if traffic were to recover more quickly than forecast, meeting a defined threshold or thresholds, Dublin Airport would have certainty over the future remuneration of specific Capex in the same way that it would currently have this certainty where a project is allowed and remunerated at the same time. This would be similar in conception to the Supplementary Capex process, which provides for certainty over future remuneration without impacting the price caps in the period.[9]

- Putting in place a mechanism which would allow for new Capex allowances to convert to Opex in certain circumstances. Reducing or postponing Capex is a common feature of the appropriate response to a downturn. This mechanism would be a form of within-period risk sharing which does not lead to a pro-cyclical outcome in terms of the levels of airport charges within a period. This approach would lend itself to a regulatory settlement based on an optimistic recovery scenario, with the flexibility for the correspondingly higher level of Capex remuneration to convert to Opex to a certain extent if passenger numbers were a certain threshold below the forecasts. Converting to Opex implies that the allowances provided for Capex projects, if unspent, would not be clawed back at the time of the subsequent determination.

- Making more extensive use of project delivery-based Capex triggers. In that case, if passenger traffic were to recover more quickly than allowed for under a core revised regulatory settlement, this could be matched with increased Capex and associated remuneration.

9.15 The extent to which such approaches will be necessary or desirable will depend on how the situation develops in the coming months.

9.16 We consider that the StageGate process has functioned well so far and we consider that the flexibility it provides will continue to be important. The focus of StageGate meetings can also include consideration of the timing for progressing a project or projects which are at StageGate 0.

9.17 The Box 1/Box 2 approach to the remuneration of Terminal 2 was set out in CP6/2007 on the basis that the scale of T2 was not, at that time, sufficiently justified by Dublin Airport.[10] Consequently it was decided that Dublin Airport should continue to bear some of the risk that demand for a facility of the proposed size does not materialise, rather than requiring airport users to pay capital costs in full from the outset. The remuneration of €193.5m was delayed until traffic reached 33m annual passengers. We note that, in 2019, Dublin Airport processed over 32.9m passengers, exceeding the forecast in the 2019 Determination. It was less than one day's worth of passenger traffic from the 33m mark. We are interested in stakeholder views on whether it is now appropriate to not withdraw remuneration of Box 2 on that basis.

[9] https://www.aviationreg.ie/_fileupload/supplementary%20capex%20decision/2016-12-09%20Decision%20on%20process%20for%20supplementary%20capex%20allowances.pdf
[10] https://www.aviationreg.ie/_fileupload/Image/PR_AC2_PUB1_CP6_2007.pdf

10. Financial Viability

Financial Viability in the 2019 Determination

10.1 The 2019 Determination allowed for an ambitious €2bn capital investment plan, which far exceeded any previous regulatory settlement. We deemed the full CIP to be in the interest of airport users, but financing the final €400m of the plan put pressure on the financial metrics of Dublin Airport. Therefore we brought forward €109m of depreciation from future periods into the current period to enable Debt/EBITDA and FFO/Net Debt ratios which were consistent with Dublin Airport raising finance at an efficient cost to deliver the full CIP. This adjustment included protection against a number of downside risk scenarios. Accelerating depreciation results in users paying higher airport charges in the current period but lower charges in future periods.

Impact of COVID-19 on Financial Viability

10.2 With operating costs currently exceeding revenues, the financial position of Dublin Airport is deteriorating. This will continue until there is a recovery of traffic and/or reduction in costs such that revenues are sufficient to cover costs, or should non-debt funding be made available to the airport.

10.3 While this issue is likely to be considered short term by rating agencies and markets, the underlying deterioration of the financial metrics may result in constraints on the airport's ability to raise finance on favourable terms in the future. However, we cannot yet say what the need and appetite for airport debt will be into the future, or how markets may assess temporary deterioration in metrics.

10.4 In the 2019 Determination our assessment of financeability assumed Dublin Airport would start 2020 with a net debt position of €602m. In assessing financeability one of the financial metrics we focused on was NET DEBT/EBITDA. This net debt position will now be weakening due to costs exceeding revenues.

10.5 The debt requirements of Dublin Airport will have changed since our determination in 2019. There is now a short-term requirement for funds to cover operating costs, but with a potentially smaller requirement for Capex in the next 5 years, overall less debt may be required. In addition, no significant refinancing of existing debt is required in the next few years.

10.6 In is worth noting that on May 13th 2020, S&P affirmed the A rating of daa due to COVID-19. [11] However, it changed the rating outlook of daa from "Stable" to "Watch Negative". S&P stated that a downside rating action would depend on the previous rating headroom of daa, financial flexibility, liquidity cushion, revenue structure, country impact and mitigating measures.

10.7 S&P states that its rating of hub airports continues to reflect their monopolistic nature as an essential provider of infrastructure. In rating daa, S&P will continue to consider the "Important" role it plays from the perspective of the Irish Government and its "Strong" link to the Government. The S&P credit rating analysis for airports takes a long-term perspective over the current year and the next two years.

[11] S&P Global, Infrastructure Ratings, "Covid 19 Disruption: Heavy Turbulence for European Transportation Infrastructure and Projects". 13 May 2020.

11. Quality of Service

Quality of Service Regime in the 2019 Determination

11.1 The 2019 Final Determination set a comprehensive range of 22 metrics to support passengers in their enjoyment of a high quality of service throughout the airport. Compared to the 2014 Determination, in 2019 we introduced the following new targets for the quality of service regime:

- Three security queue time targets with increasing revenue at risk depending on queue length.
- A waiting time target for assisting passengers with reduced mobility or disabilities.
- Availability targets of out-bound and in-bound baggage IT system after HBS3 is fully implemented (before HBS3 is implemented the target refers to the belts only).
- Three asset availability targets (Fixed Electric Ground Power (FEGP), Advanced Visual Docking Guidance System (AVDGS) and passenger-facing escalators, lifts and travellators).
- Satisfaction targets for departing passengers, departing passengers with reduced mobility, transfer passengers and arriving passengers.

Impact of COVID-19 on Quality of Service

11.2 The imposition of physical distancing and other lockdown measures in mid-March had an immediate impact on the passenger experience and the quality of service regime. The impact was caused by the new way that airport services are organised and how data can be collected. Since 26 March, we have suspended all financial penalties associated with any quality of service breaches at Dublin Airport for the foreseeable future (see CN2/2020 and CN6/2020).[12] The 2019 Determination provides for exemptions in exceptional circumstances, so an Interim Review is not required to suspend penalties in the current circumstances. We continue to require Dublin Airport to report on its quality of service performance where possible, noting that Dublin Airport had to suspend all face-to-face passenger surveys. Dublin Airport will seek to ensure that the system for measuring security queues is adjusted to account for any changes to queue layout.

11.3 As traffic recovers, the changes caused by the COVID-19 Pandemic may continue to impact on passenger processors, making it impractical for Dublin Airport to meet some of our targets. In addition, different metrics may become more important to passengers.

Revised Quality of Service Regime

11.4 If it appears likely that these changes will last into the second half of the regulatory period, we would expect to reconsider the current quality of service regime as part of a wide-ranging review. We expect that certain objective metrics (such as queue times at security for a given level of Opex) would be significantly impacted by social distancing or other virus suppression requirements, while other metrics which are not directly passenger facing may not be impacted or may be minimally impacted.

11.5 Surveys are essential to measure passenger satisfaction for the purposes of the subjective metrics, but due to physical distancing restrictions, face-to-face surveys cannot currently be

[12] https://www.aviationreg.ie/_fileupload/2019%20Determination/QoS/2020-03-26%20COVID19%20QoS%20DUB.pdf
https://www.aviationreg.ie/_fileupload/2020/2020-04-29%20COVID19%20QoS%20DUB.pdf

carried out. If it appears likely that these changes will last into the second half of the regulatory period, we would expect to consider alternative ways to measure the same or similar service quality indicators as part of a wide-ranging Interim Review. For example, we could investigate the possibility of replacing passenger survey metrics with objective metrics. Objective ways to measure performance might relate to the cleanliness levels of terminals and toilets, and the availability of flight information screens and Wi-Fi.

11.6 We will consider submissions from stakeholders on any new metrics that might be needed in the future. We will also seek the views and advice of the Passenger Advisory Group.

12. How to Respond to this Consultation

12.1 The deadline for responses to this Consultation Paper is **5:00 PM, 18 August 2020**.

12.2 Responses should be titled "Submission on COVID-19 Price Regulation Response Airport Charges - Dublin Airport CP3/2020" and sent:

- By email to: Info@aviationreg.ie (preferable); or
- By post to: 3rd Floor, Alexandra House, Earlsfort Terrace, Dublin 2, D02 W773

12.3 We may correspond with interested parties who make submissions, seeking clarification or explanation of their submissions.

12.4 Respondents should be aware that we are subject to the provisions of the Freedom of Information legislation. Ordinarily we place all submissions received on our website.[13] We may include the information contained in submissions in reports and elsewhere as required. If a submission contains confidential material, it should be clearly marked as confidential and a redacted version suitable for publication should also be provided.

12.5 We do not ordinarily edit submissions. Any party making a submission has sole responsibility for its contents and indemnifies us in relation to any loss or damage of whatever nature and howsoever arising suffered by us as a result of publishing or disseminating the information contained within the submission.

[13] While we endeavour to ensure that information on our website is up to date and accurate, we accept no responsibility in relation to the accuracy or completeness of our website and expressly exclude any warranty or representations as to its accuracy or completeness.