

Strictly Private & Confidential

28 March 2018

Dr Adrian Corcoran
Director of Economic Regulation
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By email only

Re: Response to Draft Decision on the Interim Review of the 2014 Determination

Dear Dr Corcoran,

I refer to the Commission Paper 3/2018 entitled “*Draft Decision on the Second Interim Review of the 2014 Determination in relation to a Supplementary Capital Expenditure Allowance for Dublin Airport Commission*”. Please find below Ryanair’s comments on the Paper.

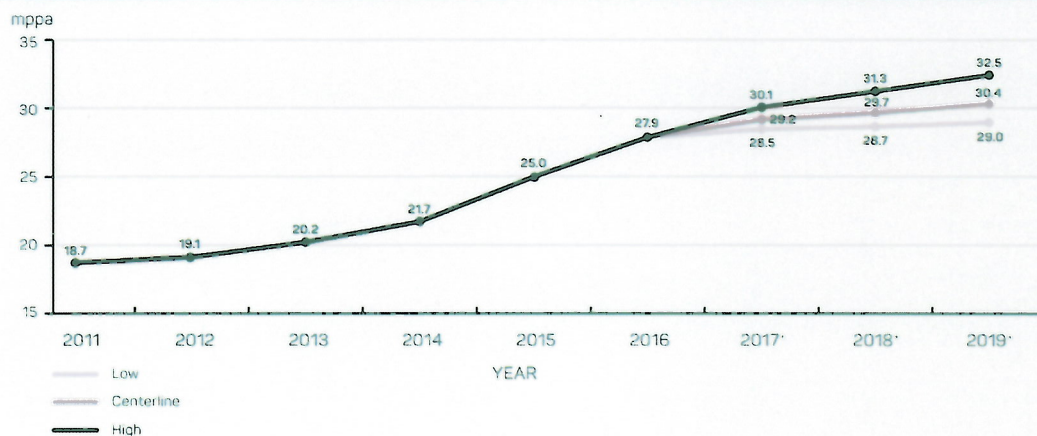
Passenger Growth

The 2014 Determination forecast the below passenger volumes at DUB.

	2013	2014	2015	2016	2017	2018	2019
Passengers (m)	20.2	21.5	22.1	22.7	23.4	24.1	24.8
Annual Change (%)		6.6	2.8	2.9	2.9	2.9	2.9

Source: 2013 DAA outturns, 2014-2019 CAR forecasts.

However, passenger growth at DUB has far exceeded these forecasts, and has in fact averaged over 9% compound annual growth rate. This is due to a number of factors, notably the reduction in the price cap as provided for in the 2014 Determination, and the abolition of the air travel tax in 2014. As such, in the daa’s most recent projections, as presented to CAR and airport users in its October 2017 “*Programme of Airport Campus Enhancement*”, daa predicts the below passenger volumes.



Furthermore, according to a recent report prepared by York Aviation, passenger projections for the next quinquennium should reach 36.6mppa by 2024, although under certain circumstances, this figure could be over 40 mppa.

It is against this background that daa has submitted the supplementary capex request. While some expenditure may be required to cater for the higher than expected passenger volumes, it is vital that this does not result in an increase to the airport charges price cap. Indeed, any such increase would naturally depress customer demand at DUB and result in a decrease to passenger numbers. This is evidenced by the fact that when daa developed the unnecessarily large T2, the short lived Pier C, and the grandiose and over specified T1X and Pier D, with the resultant sharp increase in airport charges, DUB traffic thereafter collapsed by approx. 20% from 23.5mppa in 2008 to 18.8mppa in 2011. By contrast, one of the driving factors behind DUB's recent traffic growth was CAR's decision to reduce the price cap in its 2014 Determination.

Nevertheless, as the supplementary capex should allow daa to cater for additional passenger growth, thereby generating additional non-aeronautical revenues for the daa and allowing daa to maximise economies of scale, it is only natural that airport charges should decrease as a result of the supplementary capex allowance. Indeed, CAR's interactive price cap model demonstrates that with an increase to passenger volumes of only 1.8mppa, the price cap will be reduced. It is noteworthy that this includes highly conservative assumptions. For example, an increase to passenger volumes of 1.8mppa would lead to annual traffic of 29.8m in 2019, whereas daa's high forecast scenario predicts 32mppa in 2019. In addition, CAR's interactive price cap model sets a WACC of 5.79% as provided for in the 2014 Determination. By contrast the latest (i.e., November 2017) estimates for the WACC at Heathrow, as prepared by PwC, were between 3.0-3.9%.

Finally, we note York Aviation's analysis of the PACE projects which found that even with the additional capex, the price cap in 2019 should be approx. €6.50. This highlights the extent to which users have been overpaying during the current quinquennium.

In summary, the supplementary capex allowance must result in a decrease to the price cap, owing both to the regulatory requirements, and in order to ensure that DUB remains competitive and actually delivers the growth that the supplementary capex is designed to service.

General Comments on the Supplementary Capex

Much of the capex allowance appears to be vastly inflated. The fact that SDG recommended that daa's capex request be reduced by 16.3% indicates that the daa's request was excessive, and may simply have been an attempt to secure a monopolistic gain. In order to ensure that daa is only permitted efficient costs, CAR should, in addition to the SDG report, procure a report which benchmarks the allowance of the projects against similar projects that were procured elsewhere at an efficient cost. In light of this, we would expect the final capex allowance to be reduced by at least 25% versus the draft capex allowance of €267.5m.

If, ultimately, the projects fail to deliver certain outputs, CAR should adjust future capex and airport charges downwards in order to reflect this failure. If daa underspends on a project, future capex must be adjusted to reconcile this unspent capex. Airports acting in competitive markets (i.e., unlike the daa monopoly) are incentivised to only incur efficient capex (usually in modular scalable phases) that is required by its airport users. This allows competitive airports to reduce airport charges, and ultimately results in increased passenger growth and non-aeronautical revenues for the airport. Finally, we recommend that the final decision on the supplementary capex allowance specify that any over-spend above the capex allowance is entirely at daa's risk, as is consistent with airports operating in a competitive environment.

Specific Supplementary Capex Projects

There are notable inconsistencies in the proposed regulatory treatment and project specification between the Pier 1 Extension (project 17.1.002) and the South Apron PBZ (project 17.1.003) as outlined below.

	Pier 1 Extension	South Apron PBZ	South Apron PBZ Δ
Boarding gates	4	5	+25%
construction area	860m ²	2200m ²	+155%
Capex allowance	€6.5m	€21m	+320%
Cost per m²	€7,558	€9,545	+26%
Asset life	40 years	20 years	-50%

Given the fact that the South Apron PBZ can cater for only 25% more capacity than the Pier 1 Extension, it is wasteful that the construction area is 155% larger, and that the capex allowance is 320% higher. In addition, given that both these projects were built at the same time, at high quality and serve broadly the same purpose, there is no reason to assign an asset life of only 20 years to the South Apron PBZ, thereby providing the daa with accelerated depreciation on the far more costly project. Accordingly, the capex allowance of the South Apron PBZ should be reduced substantially, and the asset life increased.

The Hangar 1 and 2 Stands (Project 17.2.004) provide for 3 Code C aircraft parking stands adjacent to Hangar 1 and Hangar 2. This is the same area that has been proposed for either a future extension

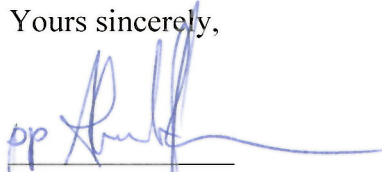
to Pier 1, or a new terminal. Given that the Hangar 1 and 2 Stands project has an asset life of 30 years, it is vital that in an event that these stands need to be demolished or relocated in order to cater for a new terminal or Pier 1 extension during this 30 year period, airport charges are reduced pro-rata.

The Apron Wide CCTV (Project 17.2.012), while needed, appears to be vastly over-expensive. It is unrealistic to suggest that this project requires a capex allowance of €1m (which itself has been reduced from the daa's inflated request for €1.1m).

Conclusion

We call on CAR to reflect our above comments in the final decision and to substantially reduce the draft capex allowance. Such a reduction is required in order to ensure that the daa does not abuse its monopoly position to the detriment of airport users, consumers and competition. We look forward to receiving CAR's final decision, and we are available to respond to any queries CAR may have.

Yours sincerely,



Matthew Krasa

Manager – EU & Competition Law