Response to the Issues Paper for Third Interim Review of the 2019 Determination for the period 2023-2026

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Non-Confidential

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Executive Summary

As a small, open economy, Ireland is crucially dependent on its air links to facilitate its economy. Dublin Airport plays a vital role as a strategic enabler for national economic development and business growth. Dublin Airport's strategic objectives as prescribed in legislation and policy are to deliver high quality international connectivity for Ireland and to enable our strong position as an aviation hub in Europe.

Comparative benchmarks of airport charges have shown that Dublin Airport is one of the most competitive of the larger airports in Europe in relation to airport charges. Following the 2019 Determination, the Commission implemented a 20% charging reduction in 2020, severely curtailing our future earnings and leaving us with no headroom for downside risks. Despite the fact that the aviation industry has been in crisis for the past three years, the Commission chose to retain the exceptionally low-price caps determined in 2019 and to date it has not been prepared to reopen the regulatory building blocks during the most directly impacted period.

The COVID-19 pandemic brought about the most profound operational and financial challenges for global aviation in modern history. As we collectively seek to recover and adjust, we continue to face significant uncertainty and arduous market conditions. Dublin Airport strongly believes that we must acknowledge the difficulties which arose and the burden which the regulated entity and its staff has endured on the back of the pandemic. Moreover, now is the time to refocus on the future and position Ireland's leading airport as we seek to drive our recovery and future development strategy.

Dublin Airport is committed to providing the capacity for 40mppa and furthering our sustainable development. These dual aims exist to meet customer and passenger needs and can only be achieved with a credible price path enabled by the Commission. We must collectively acknowledge that the infrastructure required will span multiples of this current review window. The work we do between now and 2026 must allow for a post pandemic industry recovery while also enabling this long-term airport vision and allowing Dublin Airport to continue to facilitate Ireland's broader national economic interests.

Following the COVID-19 crisis, Dublin Airport's balance sheet has been decimated. Dublin Airport's net debt will have almost doubled from €575m in December 2019 to [redacted] by December 2022, while the capital investment programme required in 2023-2026 will be of similar value as was initially required for 2020-2024. The impact of COVID-19 has reduced the equity value of Dublin Airport to [redacted], [redacted] lower than the 2019 forecast position, and [redacted]

The level of risk in the aviation Industry risk is now exceptionally high as we battle a series of consecutive crisis. We have been forced to deal with massive demand and capacity uncertainty/volatility, huge cost pressures across all inputs (CPI, raw material prices, energy costs, wage inflation and skills shortage), our sustainability challenges plus the increasingly negative geopolitical climate. As a result, investor risk appetite for aviation has been severely challenged and it is clear that ultra-low airport charges cannot sustain the tide of countervailing negative pressures.

The impact of COVID-19 has been more severe for airports than for airlines given the fixed nature of the airport business, the high level of sunken cost and the requirement for large tranches of investment in infrastructure in order to maintain and grow our business.

Fundamental to enabling the restoration of traffic and stability for our airport business is the pricing decision which emanates for the Commission under the forthcoming 2022 Review. The Commission must now acknowledge that the price path for Dublin Airport for the remainder of the decade is significantly higher than the trajectory set in the 2019 Determination. In this context it is worth noting that a number of other large, regulated European airports are now increasing their airport charges with support from their ISA's.

This next price review for Dublin Airport is occurring under very different circumstances than the 2019 Determination. It is crucial that the Commission not only review the regulated entity's building block allowances, but due consideration must be given to broader market dynamics such as the behaviour of airlines as well as the behaviour of peer competitor airports in Europe. COVID-19 has served as the structural change in the aviation market which has focused all parties on the impacts and application of pricing. Given this structural market shift, historical market data may not provide the insights expected into current or future airport or airline behaviour. Dublin Airport is keen therefore, that the Commission applies a combination of appropriate methods as outlined below in Figure 1 in quantifying the forward price review. In view of the limited timelines for this review, it is important that the Commission adopts a proportionate approach to the next regulatory determination.

Going into this Review we call on the Commission to have due regard to the following principles:

FIGURE 1 - DUBLIN AIRPORT'S PROPOSED APPROACH

Building Block	Dublin Airport's Proposed Approach
Passenger Forecast	• There is currently an exceptionally high level of uncertainty in the aviation market, and as such Dublin Airport's potential exposure to volume risk, revenue risk, regulatory risk and country-specific risk for the period 2023-2026 is substantially increased. Dublin Airport's view is that the approach used in the 2019 determination is not appropriate at this time as the link between Irish GDP and traffic growth has been broken. Dublin Airport believe that the most appropriate forecasting approach, currently, is to use a combination of disaggregated and judgement-based forecasts along with the latest industry/benchmark analysis available.
Operating Expenditure	• Dublin Airport supports the reassessment of the Commission's opex allowance for the period 2023-2026 based on an efficient operating cost level but this must take account of the need for adequate funding to run our airport operations efficiently while maintaining appropriate service standards. It is inappropriate to

Building Block	Dublin Airport's Proposed Approach
	assume past operating cost levels and standards which prevailed in 2020 and 2021 are now relevant.
Commercial Revenue	• Dublin Airport calls for a reassessment of the commercial revenue allowances set for 2023-2026 in 2019 taking account of consumer behaviour and market changes since then and prorating for 2023-2026 forecast passenger volumes.
Cost of Capital	• In setting the Weighted Average Cost of Capital for the 2023-2026 period, Dublin Airport believes that the current estimation of the WACC parameters need to be revised upwards with a particular focus on the risk allocation. We fundamentally disagree with the conclusions reached with regard to this building block in 2019 and the COVID crisis has demonstrated the high risk inherent in the aviation industry.
Capital Expenditure	• Dublin Airport will be seeking the Commission's approval for revised capital allowances relating to proposed investment in the Core (Asset Care, Security and IT), Commercial, and Capacity categories included in the 2019 Determination and with the necessary addition of sustainability projects as a fourth category.
Financial Viability	• We are seeking that the Commission puts in place a measure to address the losses which occurred due to COVID-19 to ensure Dublin Airport's financial viability as a priority. We propose that the Commission must allow for a RAB reconciliation where the revenue losses in 2020-22 should be recoverable in future periods via a specific adjustment in the opening RAB for 2023. • It is important that the Commission acknowledges that the building blocks which make up the financial forecast under review are, in fact, just forecasts and as such already contain a risk that they are not likely to play out as planned. It is therefore crucial that fair and varied sensitivities on all building block assumptions are reviewed when determining a financially robust price cap.
Service Quality	• Dublin Airport are asking the Commission to consider the current metrics under the four main categories of which they are implemented. Crucial when considering these metrics is the change in operations at Dublin Airport since the 2019 Determination, impacts of COVID-19 and the shift in passenger's expectations and values. We believe it is important that metrics are measurable, achievable, encourage innovation and have the scope to evolve over time alongside airport operations and passenger's needs.

Our primary objective for this forthcoming review will be to seek a fair price path that not only leads to an efficient level of airport charges, but that will sustain Dublin Airport's operations in the immediate recovery from the pandemic. The review must also secure Dublin Airport's long-term financial viability while investing in a doubling of the RAB in the interest of both the airport and our airport users. If the Commission fails to deliver on this objective this will have serious negative consequences for the medium-term growth and environmental sustainability of the aviation industry in Ireland.

1. Introduction

1.1 Context of Regulatory Engagement

1.1.1 Dublin Airport welcomed the publication of the Commission's paper CP1/2022 Consultation on a Second Interim Review due to COVID-19 of the 2019 Determination of Airport Charges at Dublin Airport on the 4th February.

1.1.2 In our response to the Commission paper CP1/2021, Dublin Airport called for an interim review which would provide a short term more immediate solution with the aim of addressing the profound financial burden arising from COVID-19 while allowing more time for this full review to take place in 2023/24. The Commission rejected this approach and proceeded with a limited review for 2021.

1.1.3 We believe that this detailed regulatory review is now necessary given that the varied 2019 Determination has set out price caps for 2023 and 2024 which are based on a series of regulatory building block assumptions which are no longer valid due to the impact of COVID-19. Given the extent of the proposed review it is also appropriate that this current regulatory determination period is extended out to 2026 to provide some regulatory certainty to the airport and its users during this period of recovery

1.1.4 COVID-19 was catastrophic for Dublin Airport, leading to an unprecedented fall in our traffic volumes and a sharp deterioration in the financial performance of our company. While currently the outlook for 2022 appears more optimistic, there is still a substantial amount of risk and uncertainty in the aviation market and in the economy more generally.

1.1.5 Our key objective for this forthcoming regulatory review process will be to seek a price cap which recognises both the changed financial position of the airport and the enormity of our capital investment requirement, and which therefore enables daa to recover effectively from the pandemic and meet the future needs of its airport users.

1.2 Overview of COVID-19 Impacts

1.2.1 As of March 2020, airports and airlines in Europe faced severe challenges as a consequence of the COVID-19 pandemic. This pandemic was an exceptional and unforeseeable circumstance that caused a disruptive and disproportionally large drop in air traffic and the relating revenues of airports and airlines.

1.2.2 Dublin Airport proved to be exceptionally hard hit by the COVID-19 pandemic with annual passenger throughput falling to 7.4m in 2020 and 8.5m in 2021, down c.77% and c.75% from 2019. This was coupled with a drastic reduction in aeronautical and commercial revenues since March 2020.

1.2.3 The impact of the outbreak of the COVID-19 pandemic on Dublin Airport's financial position has been severe. For 2020, this resulted in a regulated EBITDA of -€90m and a loss after tax of -€185m. This equates to a -€272m loss at EBITDA level compared to the Commission's price cap assumptions.

1.2.4 It is expected that 2021 will see an EBITDA range of [redacted]. In total this will mean that Dublin Airport will have lost some [redacted] EBITDA over 2020 and 2021 which has been funded by increased net debt levels for the regulated entity.

1.2.5 This negative financial performance was despite the fact that over 2020-2021, Dublin Airport had achieved [redacted] in operating cost savings, we benefitted from [redacted] in Government supports and we deferred €0.8bn in planned capital investment.

1.2.6 Since 2020, the daa Group has been required to increase its debt facilities by €1bn, drawing down some €350m EIB funded debt, raising €500m in Oct 2020 plus a further €150m in Sept 2021 on the Eurobond market, and extending its revolving credit facility by €150m. This significant decision was necessary to maintain the Group's operational liquidity during these particularly challenging times.

1.2.7 Dublin Airport's financial position has deteriorated drastically since 2019 and there has been a substantial loss in aeronautical revenues over the period 2020-2021 directly attributable to the outbreak of the pandemic.

1.2.8 The current price cap model at Dublin Airport is based on an average price cap per departing passenger, which in turn is based on the total annual required revenues which Dublin Airport is permitted to earn. This is illustrated below in the table below.

FIGURE 2 - FORECAST VARIANCE IN AERONAUTICAL REVENUES 2020-2021

	Pax Traffic Forecast	Total Revenue	Annual Price Cap
CAR 2019 Determination	34m	€255.2m	€7.58
2020 DAP Actual	7.4m	€73.4m	
2020 Variance	***-26.6m***	***-€181.8m***	
CAR 2019 Determination	35.1m	€272m	€7.50
2021 DAP COVID position	8.5m	[redacted]	
2021 Variance	[redacted]	[redacted]	

Source: Dublin Airport, draft & unaudited

1.2.9 As illustrated above the unexpected and substantial fall in passenger volumes over 2020-2021 meant that actual aeronautical revenues at Dublin Airport were only a fraction of allowable revenues under the price cap model. This resulted in a sizable revenue loss for the company when combined with the collapse in Dublin Airport's commercial revenues over the period 2020-2021.

[redacted] As a result, Dublin Airport's balance sheet has now been decimated. Our debt profile has been severely negatively impacted, [redacted]

1.2.11 Going forward our current balance sheet position is going to make it increasingly difficult to fund our long-term investment on the capital markets.

1.3 Review of 2019 Determination

1.3.1 The Commission published its original Determination on the Maximum Level of Airport Charges at Dublin Airport for 2020-2024 on the 24 October 2019 ("the 2019 Final Determination"). However, following the decision of the 2020 Aviation Appeals Panel, the Varied 2019 Determination was published on the 3 July and this in turn was altered following the decision of the 2020 Interim Review in December 2020 and the 2021 Interim Review in 2021.

1.3.2 The 2019 Determination, and subsequent varied Determination and Interim Reviews, are of critical importance for Dublin Airport given that this regulatory decision determines the underlying profitability of the airport, and it influences the level of airport development that will be achievable over the regulatory period as well as thereafter.

Appeals of the 2019 Determination

1.3.3 To date there has been two Appeals of the 2019 Determination. The 2020 Aviation Appeal Panel saw Dublin Airport raise a number of grounds raised varying from passenger forecasting and Cost of Capital to Service Quality. Dublin Airport still strongly maintains that there was an underestimation in both the cost of equity and cost of debt allowances in the 2019 Determination.

1.3.4 For the 2021 Aviation Appeal Panel Dublin Airport raised grounds pertaining to the price cap for 2021 being artificially low and not supported by valid building block assumptions, as well as the introduction of additional capex consultation requirements.

Forward Review of the 2019 Determination

1.3.5 As all parties are aware, the outbreak of COVID-19 has drastically altered the business environment for Dublin Airport and as a result a number of the key assumptions underpinning the regulatory building blocks in the 2019 Determination are no longer valid and hence warrant a reassessment for the regulatory period 2023-2026.

1.3.6 Dublin Airport believes that one of the primary objectives of the 2022 review should be to address the substantial damage to the regulated entity balance sheet and the financial viability impacts to Dublin Airport due to the COVID-19 pandemic. Furthermore, the Commission must objectively provide a regulatory framework and price cap settlement which ensures that the expected recovery over the period 2023-2026 will enable Dublin Airport to invest in facilities and project that enable customer growth beyond this period.

1.3.7 While Dublin Airport understands and appreciates the problems being experienced by our airline customers during the pandemic, we do not believe that artificially low airport charges will serve the broader interests of airlines and passengers in the medium to longer term. Nor will this deliver on the Commission and Dublin Airports statutory obligations.

1.3.8 Dublin Airport believes that the Commission now has a critical role to play in aiding recovery in the aviation market and ensuring the longer-term financial viability of the airport. One of the main challenges associated with the relatively short-term regulatory cycles and the need to plan for, fund and deliver long term infrastructure is balancing the short-term desire from airlines for low prices with the requirement for longer term adequate price stability. This dichotomy is made more stark in the face of a crisis like COVID-19. The priority should be to ensure adequate funding for Dublin Airport over the period 2023-2026 thus securing its operations and allowing for appropriate capital investment in the interest of both the airport and airport users.

1.3.9 In recent discussions at the Thessaloniki Forum of Airport Regulators, it was deemed appropriate for airport regulators to intervene on behalf of the regulated entity during 'exceptional circumstances' such as the COVID-19 pandemic. It is also notable that a number of other regulators have taken such steps to ensure the financial viability of regulated entities.

1.3.10 It will be important for the 2022 review that there is a recognition of the exceptionally high level of asymmetric risk faced by the airport in the coming years across a number of regulatory building blocks and this needs to be reflected in the cost of capital allowed by the Commission.

2. Regulatory Policy Considerations

2.1 Price Cap and Building Blocks

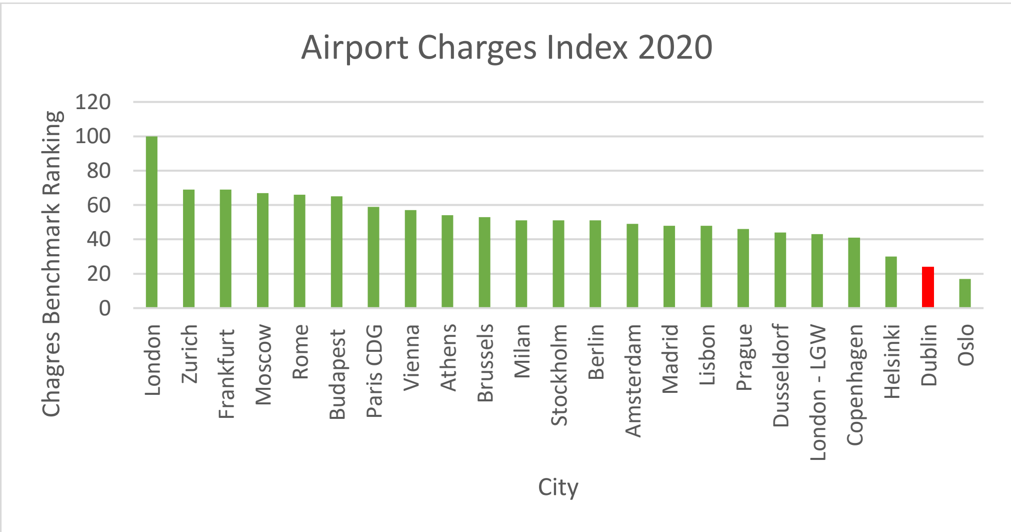
2.1.1 Since 2001, the Commission has applied a regulatory price cap model in the regulation of airport charges at Dublin Airport, based on a building blocks approach.

2.1.2 Going forward this annual price cap needs to allow for adequate pricing that will properly reflect the market cost of providing airport services, Dublin Airport is a commercial entity and it needs to be allowed to price accordingly.

2.1.3 Following the 2019 Determination, the Commission implemented a 20% charging reduction in 2020, severely curtailing our future earnings and leaving us with no headroom for downside risks.

2.1.4 Comparative benchmarking demonstrates that Dublin Airport's aeronautical charges have consistently ranked significantly below that of peer European airports for a number of years. There is strong evidence to justify a price cap for Dublin Airport in the range of €10 for the forward review period.

FIGURE 3 - AIRPORT CHARGES INDEX



Source: Jacobs UK Review of Airport Charges 2020[1]

2.1.5 We refer back to 2014 when passenger traffic was 21.7m at Dublin Airport and the Commission imposed an annual price cap of €10.68 while similarly in 2015 when passenger volumes reached 25m at Dublin Airport the Commission determined a price cap of €10.26.

[1] The aggregated charges for the eight aircraft types used in the graph are converted to a single unit of currency, the Special Drawing Right (SDR) and ranked from highest to lowest, both in absolute terms and on an average per passenger basis. The rankings, consisting of total SDRs both in absolute terms and indexed against the highest-ranking airport (LHR).

This is despite the fact that the capital investment levels in both these years were substantially less than the current requirement. The higher price caps over this period was driven by a higher WACC allowance of 7% over that determination period.

2.1.6 While Dublin Airport has been supportive of the regulatory approach to date, we do believe that going forward this model should be reviewed and updated when appropriate. In this context we believe that post 2026, the Commission should consider a move away from the current single till model to a hybrid till model where this would potentially allow for an agreed percentage of all forecast commercial revenues to remain outside the regulatory till for the purpose of calculating the annual price cap.

2.1.7 We believe that there is justification for this revenue-sharing arrangement given that it is apparent that there is significantly increased risk across a number of our commercial activities that Dublin Airport is involved in, therefore there is a need for more flexibility when making investment decisions in this enhanced risk environment. This is also consistent with the shifts from single to hybrid or dual tills that have been made at a number of European airports over the last several years.

2.2 Legislative and Policy Consideration

2.2.1 As stated in the Issues paper, the Air Navigation and Transport Bill 2020 (the "**Bill**"), which is due for enactment within the next several months, will alter the statutory objectives which must be considered by the Commission when making a determination with respect to the maximum level of airport charges available at Dublin Airport.

2.2.2 We welcome the Commission's intention to have regard to the revised statutory objectives, outlined in the Bill, in arriving at its position with respect to both its draft, and final determinations. We note that in the face of an imminent change in law, it is appropriate that any future decision made by the Commission should be conditional on the Bill coming into effect. Having regard to the Commission's tentative timelines for publication of its final determination (i.e., November 2022), we envisage that enactment of the Bill will take place well before this date, and do not believe that there will be any legislative delay that could present an issue for the Commission, going forward.

2.2.3 However, in the event that there is a delay in the Bill being enacted, we feel that the Commission is obligated to defer the publication of its final determination until such time as the Bill is properly passed, such that it takes into account (i) all of the relevant factors available to it in its decision making process, and (ii) the proper legal basis for taking into account the new legislation which will shortly be put in place.

2.2.4 In any event, daa makes its submission in the alternative, on the basis that while we recognise the revised statutory objectives under the Bill present a clearer & stronger path for the inclusion of certain projects, including the sustainability and climate-change related proposals listed below, we are of the view that these proposals can also be considered under the current legislative framework, that is the Aviation Regulation Act 2001, as amended (the "2001 Act"), given that they are implicit in the interests of current and prospective airport users, and lie at the heart of developing Dublin Airport in a sustainable manner, objectives which the Commission is currently required to satisfy.

Statutory Objectives

Firstly, we refer to the statutory objectives and considerations as summarised below.

The Commission's Statutory Objectives (under the 2001 Act)

2.2.5 Section 33 of the 2001 Act sets out the regulatory objectives to be met by the Commission in setting airport charges. Section 33(1) of the 2001 Act provides that:
"*In making a determination, the objectives of the Commission are as follows-:*

> *(a) to facilitate the efficient economic development and operation of Dublin Airport which meet the requirements of current and prospective users of Dublin Airport".*
>
> *(b) to protect the reasonable interests of current and prospective users of Dublin Airport in relation to Dublin Airport"; and*
>
> *(c) to enable daa to operate and develop Dublin Airport in a sustainable and financially viable manner."*

The Commission's modified Statutory Objectives (under the Bill)

2.2.6 We note that Section 96 of the Bill revises the Commission's statutory objectives under Section 33 of the 2001 Act such that in making a determination, the Commission's principal objective shall be *"to protect and promote the reasonable interests of current and prospective users of Dublin Airport".* In addition to this provision, the Commission shall seek to adhere to the following:

> *"(a) promote safety and security at Dublin Airport;*
>
> *(b) facilitate the efficient and economic development and operation of Dublin Airport;*
>
> *(c) promote high-quality and cost-effective airport services at Dublin Airport; and*
>
> *(d) take account of the policies of the Government on aviation, climate change and sustainable development".*

Considerations:

Final Determination pursuant to revised Statutory Objectives

2.2.7 We welcome the Commission's intention to have regard to the revised statutory objectives in arriving at its final position with respect to both draft, and final determinations. The implementation date of the Bill is expected to be prior to the publication, by the Commission, of its draft determination in early June 2022, and well in advance of the publication of the Commission's final determination in November 2022. We note that it is a fundamental principle of administrative law that a public body may only do what it is empowered or required to do by statute, whether expressly or by necessary implication. Thus, in light of a pending change to the law, having due consideration for the revisions to the Commission's statutory remit in making any determination constitutes a well-considered approach by the Commission, particularly given that post enactment, it is from this Bill that the Commission will derive its regulatory power. Given that any determination instituted by the Commission will be based on legislation in effect at that time, and that it is widely anticipated that the Bill will be enacted prior to the issuing of the Commission's final determination, we note that the most pragmatic approach on the part of the Commission is to base all future decisions conditional on the Bill coming into force pre-determination. In using this approach, the Commission has due regard for the correct legislation which will be in effect at the time of publication.

2.2.8 In this regard, the Commission, therefore, must have due consideration for the revised objectives identified in the Bill, such as the promotion of sustainable development and climate change related policy (balancing this with government policy on aviation). As stipulated by the Commission at paragraph 9.65 of the Issues paper, this objective is of great significance in that it will require the Commission *"to address these policies more extensively when implementing oversight, seeking to strike an optimal balance between them in making decisions".* Further, at 6.2 of the Issues paper, the Commission notes that such an additional focus on these policies will be a relevant factor *"in the consideration of such cost lines".* We welcome these observations pursuant to the forecasted increase in sustainability spend within Dublin Airport by reason of the national sustainability legislative mandate, including Dublin Airport's commitment to achieving net-zero carbon emissions by 2050. We provide further clarity on these factors at sections 3.5 and 6.2 of this submission. In short, increased mandatory action will lead, undoubtedly, to enlarged costs, and we would welcome the Commission's support in this regard.

2.2.9 We note pursuant to a revision of the Commission's statutory objectives under the Bill, that 'financial viability' is no longer listed as an explicit primary objective. However, we welcome the Commission's acknowledgement at paragraph 10.6 of the Issues paper that a financeable and financially viable regulatory settlement is "implicit in protecting passengers, as well as achieving the Commission's secondary objectives, and other relevant statutory requirements". Given that the Commission's primary objective under its revised statutory remit is *"to protect and promote the reasonable interests of current and prospective users of Dublin Airport"*, we would agree with the Commission that financial viability remains an implicit requirement within the Commission's regulatory assessment. This is pursuant to the fact that regulatory settlements should enable the financial viability of the regulated entity (i.e., daa) such that it protects it from any level of risk which could result in the inability to raise the debt necessary for Dublin Airport to invest in its Capex plans, thereby ensuring the proper maintenance and development of Dublin airport infrastructure. Failure on the part of the Commission to insulate daa from such risks results in the sustainability of Dublin airport's operations for both the airport and airport users being put into notable jeopardy. Thus, leading to a failure on the part of the Commission, to satisfy its primary objective.

Final Determination pursuant to current Statutory Objectives

2.2.10 In the unlikely event that the Bill is postponed and the prospective timeline for enactment is changed to a point in time beyond the provisional date for publication of the Commission's final determination (being, November 2022), we are of the view that in the face of an imminent change of law, the Commission is under an implied duty to delay the publication of any such determination in order to take into account the various implications of the amendments to the 2001 Act. This implied duty is grounded pursuant to a number of principles.

2.2.11 Firstly, the Commission is obligated to reach a rational and evidence-based decision and in doing so, must take *all relevant factors or considerations* into account. We feel that a revision to the Commission's statutory objectives which ought to be considered when making a determination on the maximum level of airport charges constitutes a factor of significant relevance. Thus, it would be appropriate for the Commission to defer the publication of a determination until the legal basis for taking into account this new piece of legislation has come into effect. Thus, any issuing of a final determination by the Commission in advance of the Bill's enactment would result in the Commission failing to take into account all of the relevant factors during its decision-making process.

2.2.12 Secondly, and as stipulated at paragraph 3.10 of the Issues paper, under the Commission's statutory remit that exists presently (pursuant to the 2001 Act), the Commission must adhere to a range of *'due regard'* criteria upon specification of any airport charges eligible for levying by daa in respect of Dublin Airport. One such *'due regard'* criteria under section 33 (2) of the 2001 Act is *"policy statements, published by or on behalf of the Government or a Minister of the Government and notified to the Commission by the Minister, in relation to the economic and social development of the State"*. We have formed the view that the Bill and the potential economic and social developments arising from same (particularly in the context of the express inclusion of government policies on aviation, climate change and sustainable development as a Commission-based statutory objective), falls within this due-regard factor, and therefore ought to be considered by the Commission when making a determination. A decision on the part of the Commission not to defer publication until post enactment of the Bill would not be in accordance with this due-regard factor. The impact of a decision by the Commission not to consider the bill in this context is additionally heightened given the stage at which the Bill is currently at within the legislative process (that is, enactment is in the offing).

2.2.13 Thirdly, any final determination, by the Commission, will be based on legislation in effect at that time. In the event that the Commission makes a determination pursuant to the provisions of the 2001 Act as they exist presently, yet the Bill is enacted by the legislature shortly thereafter, the Commission cannot produce an amended determination which reflects the revised legislative position, outside of the agreed review periods which have been provided for in the legislation. Thus, it is of great importance that in the event of a delay in enactment of the Bill, the Commission defers its decision accordingly.

2.2.14 While it is unlikely that the Commission will have to proceed to determination stage in advance of the Bill's enactment (particularly in circumstances where there exists no regulatory drop-dead date or urgency as regards publication), in the event that it does so proceed, we note that the sustainability projects included within this submission which fall within the Commission's revised statutory objective to account for climate change and sustainable development, can too exist implicitly under the current framework of the 2001 Act. Thus, daa makes its submission in the alternative. While we appreciate that the revised statutory objectives under the Bill present a clearer & stronger path for the inclusion of certain capital expenditure projects (such as the sustainability category stipulated above), we are of the view that these projects can be implicitly grounded in the Commission's statutory objectives as they exist presently, particularly having regard to *"the protection of the reasonable interests of current and prospective users of Dublin Airport"*. Therefore, our submissions are equally well-grounded under both legislative frameworks.

2.2.15 Our primary rationale for this is as follows. The Commission is under an obligation to *"facilitate the efficient and economic development of Dublin Airport which meets the requirements of current and prospective users of Dublin Airport".* With that, the Commission must take into account the sustainability / climate change related initiatives which have been thrusted upon the daa by government mandate, and with a view to benefitting the end-user of Dublin Airport's facilities. For example, and as discussed below, Dublin Airport is committed to achieving net-zero carbon emissions by 2050, and completion of the additional carbon impact strategies it is obligated to deliver. The ultimate beneficiary of these legislative mandates are the end-users of Dublin Airport and given mounting pressure to account for our climate and environmental impact, the end-user will expect that appropriate sustainability initiatives (see section 3.5 and 6.2) have been implemented throughout our facility. For the Commission to satisfy its objectives so far *"as meeting the requirements of current and prospective users of Dublin Airport",* we believe the Commission is under an obligation to resolutely support daa, in this regard (irrespective of whether the determination is grounded under current or future statutory objectives).

2.3 Treatment of Risk

2.3.1 In its Issues paper CP1/2022, the Commission acknowledges the high level of uncertainty and risk currently prevailing in the aviation market. The Commission questions whether the approach to risk adopted in the 2019 Determination where most of the risk is assigned to Dublin Airport remains fit for purpose for the regulatory period 2023-2026.

2.3.2 The Commission has proposed that going forward consideration could be given to the following alternative approaches

- Introduce a Traffic Risk Sharing mechanism (TRS).
- Introduce a General Risk Sharing mechanism (GRS)
- Introduce a mechanism to facilitate Capex flexibility based on deviations from forecast traffic levels.

Traffic Risk Sharing Mechanism

2.3.3 It is expected that any proposed traffic risk sharing mechanism would be designed in such a way that it only applied to variations in traffic above a minimum threshold in keeping with regulatory precedent elsewhere such as for example at Aeroporti di Roma, or Aeroports de Paris or the proposed mechanism at Heathrow Airport. If it were to apply to all traffic variations without a set threshold this would eliminate all the incentive properties of the current price cap regulatory model.

2.3.4 We would have two main concerns regarding the potential introduction of a traffic risk share mechanism. Firstly, if a traffic risk-share mechanism is designed such that it only applies for significant variations in traffic, then it would likely be the case that in the situations in which it comes into effect, there would be a need for an interim determination anyway as the price determination will no longer be appropriate. This is the case currently where for example the impact of COVID-19 was so significant, that many airports with traffic risk-share mechanisms in place still ended up requiring interim reviews. This somewhat defeats the purpose of the traffic risk share mechanism. Secondly the problem with the traffic risk share mechanism is that when traffic falls below the expected level, the response is that airport charges are expected to increase in accordance with the volume drop. However, this is precisely the time when it may be difficult to raise airport charges, particularly if the reduction in traffic is caused by a wider macroeconomic shock. If alternatively, you wait until the next review to adjust prices then, this will not resolve the more immediate financeability issues for the airport. This will remove evidence of regulatory support and leave the regulated entity exposed in the financial markets. While theoretically this approach may have merit, we do not see it as a viable option in practice.

General Risk Share Mechanism

2.3.5 This approach would allow for the price cap to adjust in response to EBITDA variations so it would directly capture the net impact of traffic variation and also operating cost and commercial revenue variations experienced by the regulated entity. This would be an extreme adjustment mechanism which would effectively remove the incentivisation properties of the current price cap model. There would also be similar timing issues as described for the traffic risk share mechanism above. On this basis we do not support the introduction of this approach.

Capex Adjustment Mechanism

2.3.6 This approach would allow for the introduction of a traffic related mechanism which would adjust, on a sliding scale after a deadband, the quantum of Capex allowances which would be subject to clawback at the next regulatory review. For example, where passenger numbers were more than 5% below the forecast level, this mechanism would allow for a corresponding proportion of Capex, if unspent, to not be clawed back. There would similarly be a provision that where actual passenger numbers exceeded the forecast level a portion of the additional revenue would be clawed back unless it was invested in additional infrastructure.

2.3.7 This approach would have the advantage of not requiring counter cyclical price cap increases but we believe that the deadband and sliding scale levels would need to be carefully measured in order to preserve the incentive properties of our current price cap model. It is also not clear that it is appropriate to linking traffic and capex so mechanically given that capex is a long term investment and it may not make sense financially or operationally to adjust capex in response to short term traffic fluctuations. Therefore, we believe that this mechanism would need further consideration before any decision was made on its implementation.

Preferred Approach

2.3.8 On balance we believe that our preferred approach for 2023-2026 would be the final option cited by the Commission in its 2022 Issues paper which would involve the Commission providing *an ex-ante commitment to re-open the prevailing determination if a pre-defined level of variance from the forecasts were to materialise.* We believe that this would offer a necessary safeguard to Dublin Airport while also preserving the incentivisation merits of the current price cap model.

2.4 Price Cap Adjustments

Over and Under Collection

2.4.1 Dublin Airport requests that the Commission retains the application of the K factor term in the regulatory formula to allow for a limited carry over of under recovered revenues against the annual price cap. The K-factor application is essential due to the high level of uncertainty in the market.

2.4.2 The potential challenge brought about by the extreme difficulty in forecasting passenger numbers making it almost impossible to project annual airport charges revenue with accuracy.

Given the level of market instability in the market, Dublin Airport requests that the K factor application is increased from 5% to 10% for 2023-26.

Inflationary Adjustment

2.4.3 Dublin Airport supports the reintroduction of the CPI adjustment in the price cap formula. Given that the regulatory model is set in a constant price level and in the case of the 2019 Determination formulated back in February 2019 prices, it is appropriate and intended that a CPI adjustment should be applied through the price cap formula to maintain the real value of the annual price cap. CPI inflation for the 12 month period to February 2022 was 5.6% which highlights the importance of this adjustment in keeping price caps line with general market prices.

Operating Cost Pass Through Mechanism

2.4.4 In the 2019 Determination, the Commission introduced an operating cost pass through mechanism. This was to allow for certain unanticipated operating costs outside the control of Dublin Airport, to feed through to the price cap within the regulatory determination period. The intention was that the mechanism would allow for an up-to-date estimate of such costs to adjust the price cap with a one-year lag, through the W-Factor term in the price cap formulae. The final result would be that the operating costs covered by the mechanism would be recovered in full by Dublin Airport.

2.4.5 Dublin Airport strongly welcomed the inclusion of this measure in the 2019 Determination. However, this mechanism was suspended as part of the 2020 Interim Review. We would favour the full reinstatement of this scheme as it ensures that Dublin Airport is not impacted by the fluctuations in costs or changes in legislation, that are outside of our control.

2.4.6 Dublin Airport would propose that the Commission reviews the criteria for this scheme going forward and that it could potentially extend the application of this scheme to include a broader range of non-payroll costs that are beyond the direct control of daa.

3. Operating Costs

3.1 Opex Overview

3.1.1 In the light of the drastic change in the airport's business environment since the publication of the 2019 Determination, it is clear that the regulatory assumptions relating to operating cost allowances now need to be revised.

3.1.2 While we welcome the Commission's decision to reappraise our operating cost base, there is a need to take account of the following

- The high proportion of fixed cost in the airport cost base
- The significant cut to actual opex made by CAR in the 2019 determination
- The efforts and goodwill of Dublin Airport and its staff to reduce costs and right size our airport operation during the COVID period
- Increases in costs related to the COVID-19 pandemic
- Higher level of cost related risk in the near future

3.1.3 In particular, we believe that the Commission must consider a future cost base in the context of the pre-COVID cost base and not rely on the artificially low operating costs in 2020 to 2022. In addition, any potential reductions to the 2019 cost base should fully evaluate the achievability of such measures on an employee and cost base which has been severely impacted over the past 3 years. It is important to note that, while Dublin Airport has made considerable opex reductions over 2020–22, the nature of efficiencies made to mitigate the impact of a temporary downside shock to passenger numbers are fundamentally different to those required to achieve a more efficient cost base for the long term as passenger numbers return to and surpass 2019 levels.

3.2 Operating Efficiencies 2020-2022

3.2.1 In 2020, due to the COVID-19 pandemic and related travel restrictions, traffic declined by 78% compared to 2019. While passenger traffic improved slightly in 2021, from 7.2m passengers in 2020 to [redacted] passengers in 2021 ([redacted]), it was still [redacted] below 2019 levels. In line with the reduction in traffic, operating costs declined by [redacted] in 2020 and 2021 respectively, compared to 2019 levels (a decline of [redacted] respectively excluding government support).

3.2.2 In response to the COVID-19 pandemic, Dublin Airport made changes to our cost base in 2020 and 2021 as actions were taken to mitigate the losses caused by COVID-19.

Figure 4 - Operating Cost 2019-2021

€'000	2019	2020	2021
Payroll Costs	[redacted]	[redacted]	[redacted]
Payroll Support	[redacted]	[redacted]	[redacted]
Net payroll costs	[redacted]	[redacted]	[redacted]
Non Pay costs excl rates	[redacted]	[redacted]	[redacted]
Rates costs	[redacted]	[redacted]	[redacted]
Rates waiver	[redacted]	[redacted]	[redacted]
Net non pay costs	[redacted]	[redacted]	[redacted]
Gross opex costs	[redacted]	[redacted]	[redacted]
Government supports		[redacted]	[redacted]
Total net operating costs	[redacted]	[redacted]	[redacted]

3.2.3 Dublin Airport initiated a widespread right-sizing programme, anticipating passenger traffic of c20mppa, which included a mixture of short term / one off actions, medium term actions and all the available government schemes to support wages.

Payroll Response

3.2.4 In the short-term Dublin Airport responded to the pandemic by moving staff to a reduced four-day week from the 27 May 2020 to the 28 March 2021. We introduced a pay freeze for 2020 and 2021 and all performance related pay measures were cancelled. We also sought to utilise all the government wage supports.

Figure 5 - 2020 and 2021 Payroll Reductions

[redacted]

3.2.5 In the medium term a voluntary severance scheme (VSS) was initiated and completed. This programme was initiated firstly to mitigate the immediate impact from the loss of revenues in 2020 and 2021 and secondly to size the operation for passenger traffic of c20mppa.

3.2.6 The company also introduced new work practices among staff (New Ways of Working) with the aim of providing greater flexibility within individual roles and teams and increasing cross terminal functionality. Agreement was reached with employees on more streamlined work practices, flexibility in working between terminals, demand driven rosters and the adoption of technology. In relation to pay progression the company chose not to apply pay increments in 2021.

3.2.7 Going forward as we emerge from the pandemic the company will be required to resume normal pay terms for its employees. In addition, we are now facing resource shortages in certain operational areas and it has become apparent that we now need to address a loss of key skill sets and work on the retention of our current employees. All of this is to be achieved in an employee market that is expected to show payroll inflation of 6% per annum out to 2025[2].

Non-Payroll Response

3.2.8 Dublin Airport also sought to introduce cost savings in the non-payroll categories in the wake of COVID-19. This however was somewhat restricted by the fact that in 2019 75% of non-payroll costs were fixed. Dublin Airport did however succeed in reducing its fixed costs to circa 80% of 2019 levels across 2020 & 2021.

3.2.9 We managed to reduce our fixed costs by c.20% through cost reductions in the following:

- Energy
- Maintenance
- IT
- Insurance
- CBP Officers
- Apron Bussing
- Deferral of spending in marketing, maintenance, training, and consultancy.

3.2.10 Dublin Airport also availed of rebates on local authority rates and changes to demand were made where possible in variable contracts such as for example carpark bussing, lounges and PRM services. Over the medium term we continued to reduce our variable non-pay costs in line with falling passenger demand where possible.

[2] DoF - Budget 2022 Economic & Fiscal Outlook.pdf

FIGURE 6 - FLEXIBLE OPEX COSTS – FOLLOWED PAX TRAFFIC

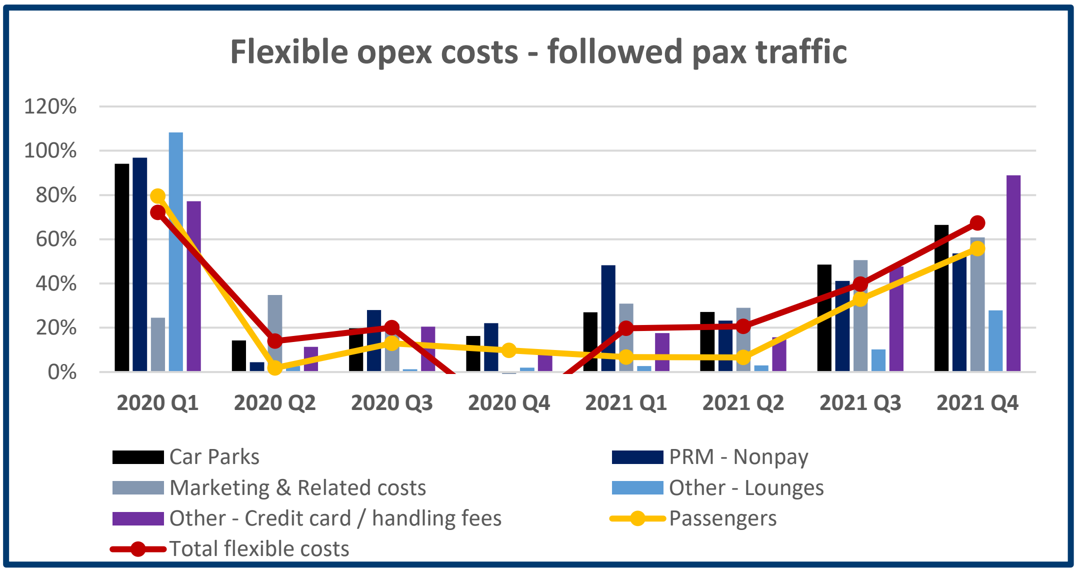
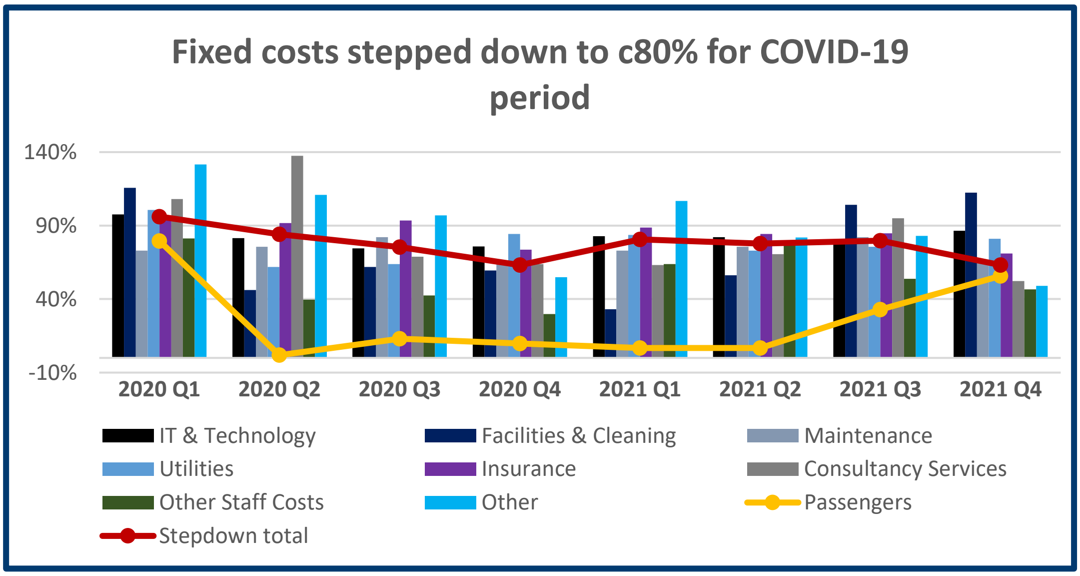


FIGURE 7 - FIXED COSTS STEPPED DOWN TO C80% FOR COVID-19 PERIOD



3.2.11 However, it should be noted that we will face upward pressure on costs as we return the airport to full operations, manage upward inflation pressures, and meet our requirements relating to sustainability in our operations. It is expected that our fixed costs will return to their 2019 level from Q2/Q3 2022, while flexible costs will increase in line with passenger volumes as recovery is achieved.

3.3 Preferred Approach to 2022 Review

3.3.1 In CP1/2022, the Commission is questioning the approach which should be taken to the opex assessment in the 2022 review - primarily a top -down or bottom-up approach. Dublin Airport agrees with the Commission that a top-down approach may overlook firm-specific factors which are difficult to capture and which need careful adjustment in order to validate the analysis. Therefore, in a more typical operating environment we would acknowledge the arguments that a bottom -up assessment could represent a superior option, however in this instance we are concerned that the profound impacts which the pandemic brought about skews all cost assessments on the regulated entity opex from early 2020 to present. The emergency cost mitigative measures which were applied to both payroll and non-payroll during the pandemic period cannot be relied upon as a formative status quo efficiency assessment period. Furthermore, the tight timeframe will make it difficult to carry out such a detailed bottom-up assessment robustly.

3.3.2 As an alternative, we suggest referring back to the opex allowances for the 2019 Determination, (updated for actual 2019 cost outturns), where the Commission sought to assess the efficiency of Dublin Airport and it commissioned CEPA to carry out a bottom-up cost efficiency assessment in order to develop forecasts for 2020-2024. While Dublin Airport did not agree with all of the CEPA findings, we accept that significant analysis was undertaken to establish an efficient baseline. The 2019 determination took a 2019 base year at 33m pax and set an opex target c€22m / 8% lower than Dublin Airport's actual cost.

3.3.3 Given the impacts of COVID-19 on this business, the relationship between passenger volumes and regulatory allowances for fundamental building blocks such as opex has obviously been subjected to significant deviation in recent years. In light of the evident business challenges, the efficiencies derived to date allowed for continuity of essential connectively service. With the current time constraints, we believe the most pragmatic approach would be to reuse the opex work completed in 2019 while reflecting the expected passenger levels for 2023-2026 and adjusting for the known changes to the cost base for 2023-26.

3.3.4 This approach would also be in keeping with regulatory precedent elsewhere such as the approach adopted by the CAA for Heathrow Airport which the Commission's consultants CEPA worked on. This would allow for a proportional approach to the opex building block, based on the accuracy of cost data and time available for the current review. This would also deliver an opex forecast which recognises the actual cost structure of Dublin Airport while using a base year that represents a "normal" operational year at the airport.

3.3.5 In setting a baseline for the 2023-2026 period, high-level analysis of 2020-22 data may be useful, but given the nature of the unparalleled prolonged demand shock and anticipated recovery, there is unlikely to be significant added-value to carrying out an updated bottom-up analysis with this data.

3.3.6 As an alternative, we would propose that the Commission adopts a methodology to determine an efficient operating cost level for the point at which passenger numbers recover to 2019 levels, and an expectation for when passenger levels will reach this point. This approach is grounded in the following rationale:

- The appropriate relevance of the pandemic cost data available
- Optimising the previous comprehensive independent bottom-up analysis carried out.
- The short timeframe for the review.

3.3.7 Estimating the efficient level of operating cost corresponding to Dublin Airport's 2019 traffic level is a considerably less uncertain exercise than determining the operating cost required to transition to that level. As such, this should be used as the lynchpin for the operating cost methodology at the 2023-26 determination.

3.3.8 The Commission can then estimate an efficient trajectory of operating cost as passenger numbers recover to 2019 levels and set the operating cost elasticities that should apply once passenger numbers have surpassed the 2019 threshold. This approach would optimise the existing detailed cost assessment work determined by the Commission and CEPA in 2019.

3.4 Voluntary Severance

3.4.1 In response to the COVID-19 pandemic, daa implemented a Voluntary Severance Scheme which has resulted in c.600 employee exits. The implementation of this scheme has created significant restructuring costs given this sizable reduction in staff numbers. To date no allowance for this expenditure has been included in the price cap calculation.

3.4.2 In its Issue Paper CP1/2022, the Commission stated that is preferred treatment of VSS costs would be to assess the savings achieved by 2023 due to the VSS investment, and if they are less than the cost, we can allow for the remainder of the costs to be remunerated in future years.

3.4.3 The Commission's proposed approach to VSS costs would therefore see little if any of this cost be remunerated in the 2023-2026 period.

3.4.4 The Commission has also suggested that to remunerate the VSS cost fully would result in "some level of double remuneration," however this does not reflect that the cost savings made in 2021/2022 which were related to mitigating lost revenues and preparing for a (then likely) 20mppa future traffic level rather than outperforming opex assumptions.

3.4.5 Furthermore, over the period 2020-2022 due to the pandemic and reduced passenger volumes, Dublin Airport has only been able to earn a fraction of it allowed annual revenues including its operating cost allowance. It is therefore incorrect to state that a level of double remuneration could have occurred.

3.4.6 The Commission's thoughts on the remuneration of VSS in the 2019 Determination were focused on a scheme aimed at cutting the wage costs of Dublin Airport staff and would have a long-term benefit. As this scheme had a vastly different aim and was implemented to simply get through the pandemic, it is appropriate to consider and implement a different treatment.

3.4.7 In the light of the impact of COVID-19 on the airport business, the structural and cost efficiencies gained that will continue to benefit airport users in 2023-2026 it is therefore essential that there is an allowance for the full recovery of the €88m cost of VSS over the period 2023-2026.

3.5 Sustainability Consideration

3.5.1 Opex is an essential component to allow Dublin Airport to meet mandatory requirements, statutory obligations, and voluntary sustainability commitments. The required sustainability spend is undoubtably going to increase in the near future. This will be driven by demands for:

- Effective sustainability data
- Digitisation
- Analytics and insights
- Specialist advisory services
- Skilled staff, and
- Effective process development support.

3.5.2 Increased mandatory action to accelerate carbon reduction strategy, stemming from the National Climate Action Plan and Sectoral Carbon Budgets, as well as international pressure to account for our climate and environmental impact (under the EU Corporate Sustainability Reporting Directive, and other relevant legislative proposals) all indicates significantly increased sustainability legislative mandate. This will require detailed carbon impact reporting, a reduction in carbon impact and minimisation of future cost of carbon for Dublin Airport. Additionally, Dublin Airport must be cognisant of the impact of our organisation on the local environment, and specifically work on enhanced deliverables for noise reduction, air quality and biodiversity.

3.6 Opex and Service Quality

3.6.1 Despite the exceptional challenges of the past two years, Dublin Airport has continued to strive to meet the needs of its passengers and airline users while seeking to retain appropriate service standards at the airport.

3.6.2 We are also conscious that as transportation options evolve and the preferences of customers change, airports must respond to meet the needs of their primary customers—both passengers and employees and this may require improved operating procedures, enhanced technologies, and upgrades in infrastructure as travel picks up with the easing of travel restrictions.

3.6.3 Going forward however service standards at the airport particularly in passenger facing areas such as security will require adequate funding and will be contingent on the Commission providing an adequate operating expenditure allowance for 2023-2026.

3.7 Dublin Airport's Request

3.7.1 Dublin Airport supports the reassessment of the Commission's opex allowance for the period 2023-2026 based on the determination of an efficient operating cost level for the point at which passenger numbers recover to 2019 levels and an efficient trajectory of operating cost as passenger numbers move towards this level.

3.7.2 Dublin Airport is seeking an operating cost allowance for 2023-2026 that takes account of the need for adequate funding to run our operations efficiently while maintaining appropriate service standards.

3.7.3 Dublin Airport is seeking an extension of the current opex cost pass through scheme going forward where this could be potentially extended to include a broader range of non-payroll costs that are beyond the direct control of the company. This in turn would reduce the exceptionally high level of risk experienced by the airport in the current uncertain environment.

4. Commercial Revenues

4.1 Commercial Revenue Overview

4.1.1 Dublin Airport's non-aeronautical businesses have been negatively impacted by the COVID-19 pandemic, therefore the original assumptions made in the 2019 Determination regarding commercial revenues will now need to be reassessed as part of the upcoming regulatory review.

4.1.2 In common with most of its peer airports, Dublin Airport is highly reliant on income from commercial revenues. ACI has acknowledged that the economic impact of the pandemic on the financial health of airports has highlighted the importance of non-aeronautical revenue in the recovery of the airport business and the long-term sustainability of the entire aviation ecosystem[3].

4.1.3 We welcome the Commission's decision to revise their regulatory assumptions regarding commercial revenues for 2023-2026, but in doing so we believe that there is a need to take account of the following:

- The devastating impact of lower passenger volumes on commercial revenues;
- The impact of changes in the passenger profile on certain revenue streams;
- Changing consumer patterns following the COVID-19 pandemic; and
- The pathway to recovery for our commercial businesses.

4.2 Changes in Commercial Revenues 2020-2021

4.2.1 Total commercial revenues declined sharply at Dublin Airport in 2020 and 2021 compared to that of 2019 due to the onset of the COVID-19 pandemic.

FIGURE 8 - CHANGES IN COMMERCIAL REVENUE 2015-202

[redacted]

[3] ACI, press release, *Strengthening airport commercial revenue as air travel sets to increase – new guidance series launched,* March 2022.

4.2.2 However, it should be noted that Dublin Airport Commercial Revenues in 2020 and 2021 did not decline to the same extent as passenger numbers across almost all categories (US preclearance being the exception).

4.2.3 In addition, the average commercial revenue per passenger increased in 2020 and 2021 due to the following factors

- Non-passenger related revenues account for a proportion of total revenue e.g. staff retail sales, fixed property licenses, staff parking permits and this proportion increased as passenger volumes declined driving up average revenue per passenger.

- As a result of the onset of the pandemic, both passenger mix and passenger preferences have seen a temporary change from the norm e.g. we have had a higher proportion of Irish originating passengers, there has been a higher preference to use private car over public transport, use of Fast Track has increased as passengers have attempted to avoid security queues and these have all resulted in a temporary uplift in per passenger revenues.

4.3 Approach to the Commercial Revenue Assessment

4.3.1 We believe that there are three broad approaches which the Commission could take to its reassessment of commercial revenues assumptions in the 2022 Review.

- A bottom-up review
- A top-down assessment
- Review and adaption of the 2019 assessment

4.3.2 While we understand that a bottom-up assessment would provide the most comprehensive assessment of the commercial revenue business at Dublin Airport we believe that the time constraints associated with this review will not lend itself to an effective study. We are concerned that the profound impacts which the pandemic brought about skews any assessments on the regulated entity commercial revenue from early 2020 to present given that this pandemic period cannot be relied upon as a formative status quo efficiency assessment period.

4.3.3 Alternatively, we agree with the Commission that there may be merits in using some top-down benchmarking exercises as a sense check for the Commission's own commercial revenue analysis and as an indication of the comparative performance of our commercial business against our peer airports.

4.3.4 However, our preference would be for the third approach where the Commission would harness the benefits of its previous detailed assessment undertaken in 2019 and use this as the basis for an updated 2022 review.

4.3.5 In its 2019 Determination, the Commission established commercial revenue per passenger targets based on long run historic trends and taking account of relevant factors such capacity constraints and additional CIP investment.

4.3.6 While Dublin Airport did not agree with all of the Commission's 2019 findings, by taking the 2019 analysis as a starting point, the Commission could review this previous assessment while reflecting the changing dynamics in the commercial businesses since 2019 and adjusting for passenger forecasts over the period 2023-2026.

4.3.7 We believe that this on balance would be the most pragmatic approach given:

- The appropriate relevance of the pandemic revenue data available
- Optimising the previous comprehensive independent bottom-up analysis carried out.
- The short timeframe for the review.

4.4 Methodology for the 2022 Regulatory Review

4.4.1 In its Issues paper, the Commission has indicated that it will employ an econometric approach where it will determine the baseline year for the commercial revenue forecast and determine elasticities with respect to the key drivers in the different commercial sectors. It appears that the Commission is proposing to use information available in 2022 to estimate the base year for the 2023-2026 forecast.

4.4.2 While we recognise the general principle of using the latest available data, in this instance the 2022 commercial revenues per passenger will remain distorted by current lower passenger volumes where in January 2022 passenger traffic was 50% lower than that of 2019. As shown in the figure below, there has been a significant increase in per passenger revenues across several commercial revenue streams (including retail, car parking and property rents which account for a high proportion of overall commercial revenue). This level of revenue per passenger will not be sustainable as traffic recovers to pre-crisis levels and, hence, combining a 2022 base year with an historical traffic elasticity will lead to a significant overstatement of commercial revenue potential in the next charges period (2023-2026).

Figure 9 - Commercial Revenue / PAX Jan 2022 vs. Jan 2019

[redacted]

4.4.3 We propose that a more appropriate option would be to use 2019 as the baseline year while modifying this for market changes since 2019 that are expected to continue and prorating for 2023-2026 forecast passenger volumes.

4.5 Commercial Charges

4.5.1 In the 2022 Issues paper, the Commission states that there may be some uncertainty about the classification of a number of specific charges, such as commercial or aeronautical charges. In this regard the Commission refers to the US Preclearance Charges (CBP), the De-icing charge and the proposed passenger set-down charge.

4.5.2 Dublin Airport strongly supports the CBP charge remaining as a commercial charge. The US preclearance service is only relevant for airlines operating US transatlantic services and it is also entirely optional for airlines; i.e. airlines can equally choose to post-clear on arrival in the United States.

4.5.3 CBP is a unique commercial product offering and should remain a discrete commercial revenue stream. Dublin Airport has made a considerable investment in the CBP facility and this was done so on the basis that the airport would be in a position to maximise its commercial return from this venture. This in turn, benefits airlines and passengers in the form of lower overall airport charges.

4.5.4 The De-icing charge is a ground-handling charge as defined under section 4.2 of Schedule 1 of S.I. 505 of 1998 and as such this charge forms part of the miscellaneous charges levied by Dublin Airport. There is no basis for the redefinition of this charge as an aeronautical charge.

4.5.5 The proposed passenger set-down charge is a charge which is being considered for implementation by Dublin Airport. The objective of this charge will be to facilitate a reduction of personal transport to the airport, improve the air quality on departures road and add security barriers to protect terminal 1 building.

4.5.6 The basis for this charge is that kerbside access is a scarce commodity and as such pricing should be introduced to ration excess demand and avoid kerbside congestion.

4.5.7 Access to the terminal kerbside is not an essential commodity for passenger air travel, there are other alternatives such as public travel options (buses and taxis) and use of the airport carparking facilities. On this basis there is no justification for the inclusion of a passenger set-down charge as an aeronautical charge.

4.6 Rolling Incentive Scheme

4.6.1 In regard to the Commission's rolling incentive scheme for commercial revenues we believe that this is an important mechanism for encouraging and incentivising strong commercial performance at Dublin Airport, which is ultimately to the benefit of users as it contributes to lower long-run aeronautical charges. We would therefore be strongly in favour of the reintroduction of this scheme for 2023-2026.

4.6.2 While we understand that during 2020-2022 the operation of this mechanism has been skewed by the sharp drop in passenger volumes, this issue will be resolved as traffic volumes are expected to recover over the 2023-2026 period.

4.7 Dublin Airport's Request

4.7.1 Dublin Airport supports a reassessment of the commercial revenue allowances set by the Commission for 2023-2026 but we recommend that the Commission should harness the benefits of its previous detailed assessment undertaken in 2019 and use this as the basis for an updated 2022 review.

4.7.2 We would call for a reinstatement of the Commission's rolling incentive scheme for commercial revenues for 2023-2026 in order to incentivise a strong commercial recovery at Dublin Airport.

5. Cost of Capital

5.1 Cost of Capital Overview

5.1.1 In regard to the regulated rate of return we believe that the current allowed WACC needs to be reassessed and revised upwards as part of the forthcoming review, given the impact of the COVID pandemic on the risk profile of Dublin Airport.

5.1.2 In undertaking its 2022 review, the Commission currently has statutory objectives *'to enable Dublin Airport Authority to operate and develop Dublin Airport in a sustainable and financially viable manner'* and *'to protect the interests of current and prospective airport users'*.[4] In this context, it is critical that the Commission sets an appropriate cost of capital for Dublin Airport for the 2023-2026 period which will take account of the high level of risk which the airport currently faces.

5.1.3 We support the Commission's continued use of the Weighted Average Cost of Capital (WACC) method of calculating the regulated rate of return for Dublin Airport. This methodology involves calculating the cost of capital as the weighted sum of the cost of debt and the cost of equity based on the estimated returns that Dublin Airport would need to offer holders of debt and shareholders, respectively.

5.1.4 In setting its weighted average cost of capital for the 2023-2026 period, Dublin Airport believes that the current estimation of the WACC parameters need to be revised and objectively justified.

5.1.5 In this regard we are supportive of a reassessment of the 2019 Swiss Economics analysis of the WACC for Dublin Airport subject to the recommendations set out below.

5.1.6 It is important that the Commission's WACC calculation is grounded in empirical analysis and financial theory rather than simple benchmarks. However, where the Commission is required to use airport benchmarks for example in the case of measuring the asset beta, the benchmarks which are used must be suitable and objectively justifiable.

5.1.7 This should take account of how the uncertain outlook and volatility of the current operating climate for airlines amidst COVID-19 have been reflected in sharp increases in the observed asset betas for publicly traded airport operators (e.g. Aéroports de Paris, Aena, Fraport, Vienna and Zurich) and how this would point to an increase in the cost of equity, all else being equal.

[4] State Airports Act 2004, section 22, sub-section 4.

5.1.8 We also accept that a top-down reassessment of the Risk-free Rate and the Total Market Return will also be necessary to ensure consistency in approach.

5.1.9 In the 2019 Determination, the Commission calculated the cost of debt allowance for Dublin Airport, based on the embedded and new debt approach. However, no allowance was made for transaction costs relating to embedded debt, therefore we strongly believe that the current cost of debt range should be adjusted to include this further allowance (which is part of the efficient cost of raising finance).

5.1.10 As part of this analysis, we recommend that the Commission looks at Dublin Airport's potential exposure to volume risk, revenue risk, regulatory risk and country-specific risk for the period 2023-2026. This updated analysis would take account of the impact of COVID-19 in recent years.

5.1.11 We believe that the onset of the COVID-19 pandemic has raised the systematic risk profile of Dublin Airport and this needs to be reflected in any reassessment with an upward change in the Dublin Airport WACC.

5.1.12 In view of the high degree of market uncertainty currently prevailing we believe that the inclusion of an aiming-up component in the WACC allowance will be critical. The rationale for this aiming up allowance will be the necessity to address asymmetry in incentive mechanisms and /or cost allowances and to support the financial viability of the airport operation. The Commission previously provided for such an aiming-up allowance in its 2019 determination and there are even stronger grounds for it in the current market environment.

5.1.13 As previously outlined Dublin Airport experienced severe losses in revenue in 2020 and 2021 due to COVID-19. This is unprecedented and if Dublin Airport is expected to bear the full revenue impact of this demand side shock, then this will call into question our ability to recover efficient investment in the airport infrastructure. There are likely to be important consequences for our longer-term investment prospects and how debt providers assess the risk of our business.

5.1.14 We believe that this is a key factor which must be considered as part of the overall WACC reassessment.

5.2 Changes in the Cost of Equity

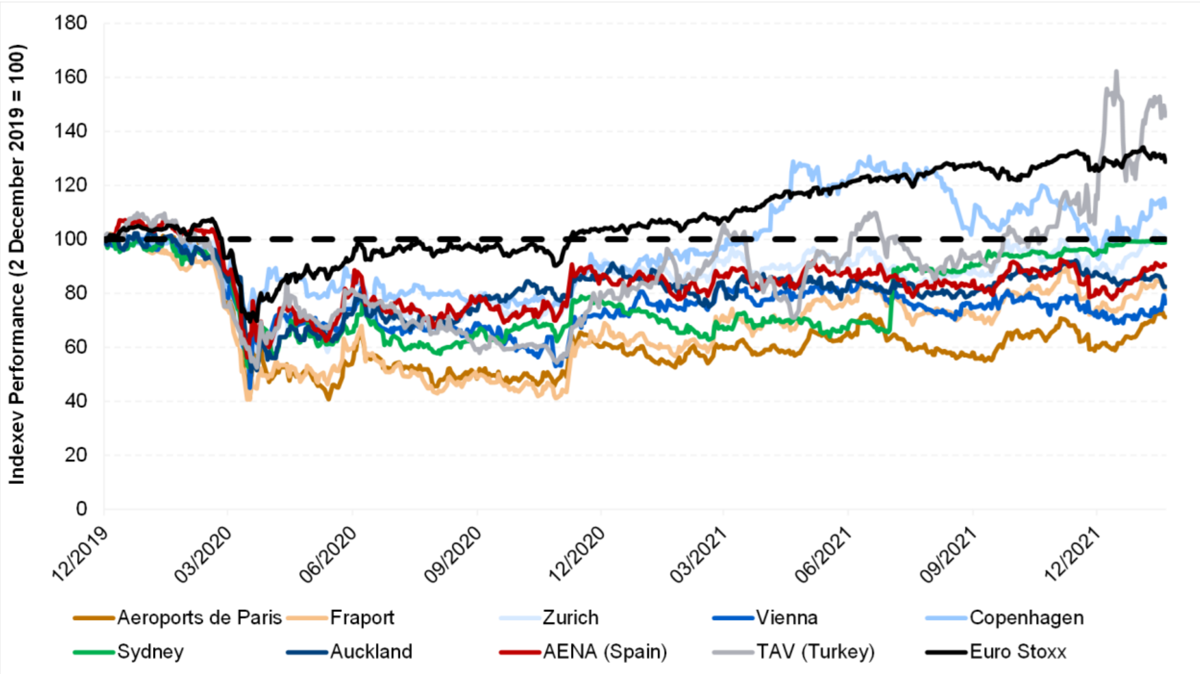
Asset Beta

5.2.1 The latest market evidence clearly indicates that the current asset beta estimate of 0.5 used by the Commission is artificially low and this should be revised upwards to reflect the current higher level of risk faced by Dublin Airport and its comparator airports.

5.2.2 It is clear from market evidence that all airports comparable with Dublin Airport have experienced a declining equity performance since the onset of the pandemic, e.g. with initial estimate being a 50 per cent equity loss.

5.2.3 It should be noted that only 3 airport groups have fully recovered their March 2020 values (TAV, Copenhagen and Zurich) and all the comparator airports have materially underperformed the market (Eurostoxx) other than TAV.

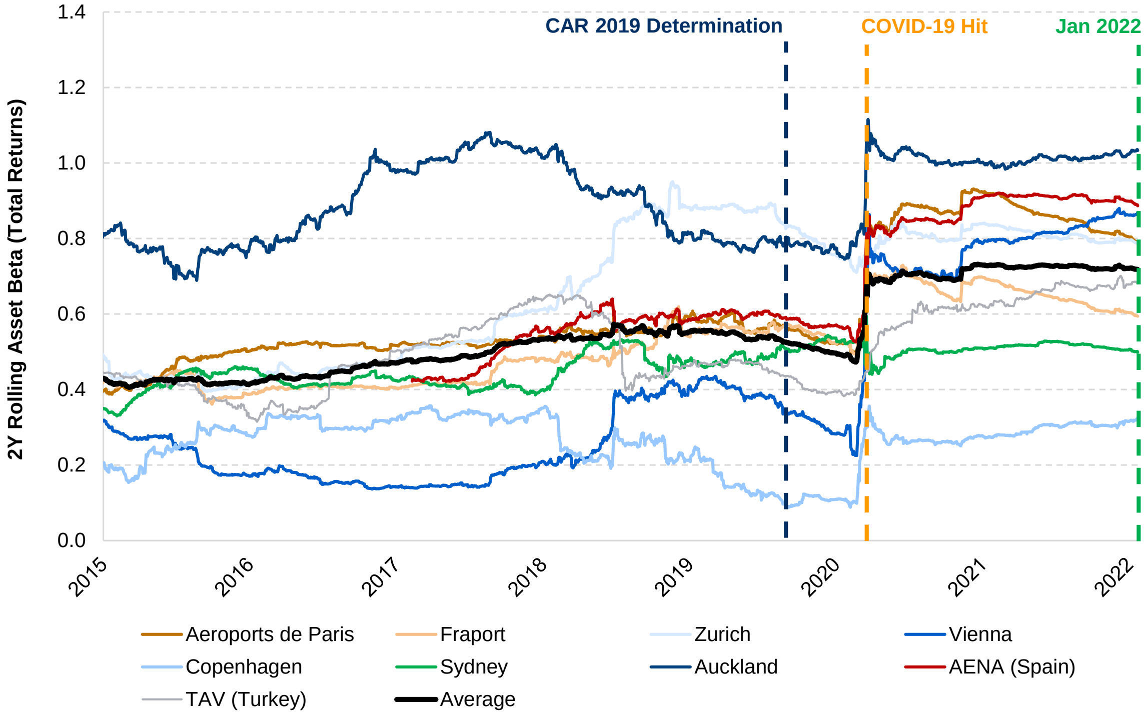
FIGURE 10 - PERFORMANCE INDEX 2019



Source: NERA analysis

5.2.4 The impact of COVID-19 is unlike previous short-term shocks. The loss of traffic has been many times greater and the effects have lasted for much longer. Market evidence demonstrates that the two year asset betas have increased on average by 0.2 since the 2019 Determination, where this is as a result of the step increase in beta risk since early 2020 when the COVID-19 pandemic began. The chart below shows clear evidence of a structural break in the data from March 2020, with both 2-year and 5-year asset betas remaining significantly above historical levels since that time. Importantly, there has been no sign of a reversion to pre-crisis levels—the higher beta levels have now persisted for some time.

FIGURE 11 - TWO YEAR ROLLING ASSET BETA



Source: NERA analysis

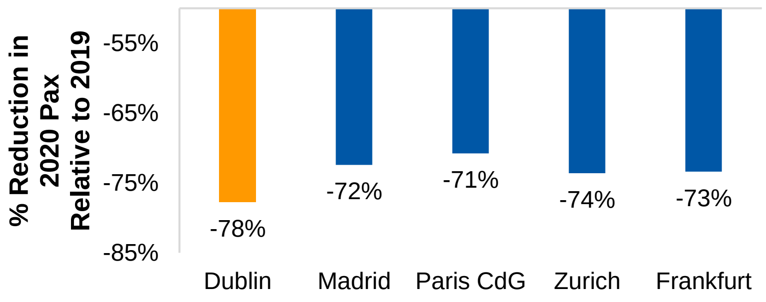
Note: Cut-off date of 21 January 2022; debt beta of zero; AdP and Fraport leverage calculated using financial statements data; regional index for European stocks and local index for Australia, New Zealand and Turkey. Source: NERA analysis

5.2.5 It is important that in reassessing the asset beta for Dublin Airport the appropriate comparators are used, we believe that in selecting comparator airports, the focus should be on airports that operate under a similar five-year incentive based regulatory framework similar to that of Dublin Airport and on this basis, we believe the principal comparators should be AENA and AdP. This approach aligns with the approach used recently by the CAA where in recent regulatory proposals for Heathrow Airport, the CAA in estimating the asset beta for Heathrow placed the greatest weight on AENA as an airport comparator followed by some weight on ADP, Fraport and Zurich as additional comparators. Given that Heathrow Airport also operates under a five-year incentive based regulatory framework similar to Dublin this would suggest AENA as a strong comparator airport.

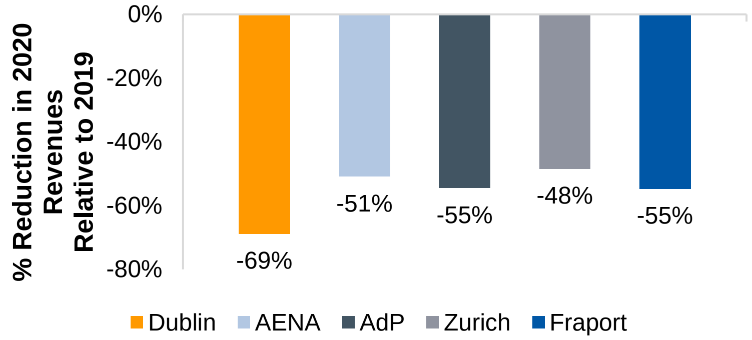
5.2.6 In its Issues paper CP1/2022, the Commission has referred to how Dublin Airport has received the benefit of regulatory support through the interim reviews in 2020 and 2021 and this has mitigated the COVID-19 risk, however Dublin Airport has also experienced the most extensive demand and revenue reductions due to the pandemic when compared with peer airports.

5.2.7 Dublin Airport experienced a -78% reduction in passenger numbers in 2020 compared to 2019, greater than principal comparators such as AENA and AdP. Dublin Airport's revenues were also reduced by 69% in 2020 compared to 2019, also greater than that of comparator airports.

Figure 12 - Reduction in 2020 Pax Relative to 2019



Source: Eurostat data



Source: Factset data on airports annual accounts

5.2.8 In addition, Dublin Airport's principal comparators (AENA, AdP) also received Covid regulatory mitigations, and they have risk sharing mechanisms built into their regulatory frameworks.

5.2.9 We believe that for the 2023-26 regulatory period, the asset beta needs to be based on estimates relevant to the pandemic given that

- There is no expectation of an immediate end to the impact of the pandemic therefore pre-Covid beta evidence is not relevant
- Investor perception of risk has permanently changed, i.e. greater perceived systematic/ beta risk
- Dublin Airport has not been compensated for pandemic related risks to date and such risks cannot ignored going forward.

Total Market Returns (TMR)

5.2.10 In any updated estimate of the WACC, we would expect that the TMR would be reassessed. The latest data would suggest that the historical TMR has increased since it was last assessed by the Commission in 2019.

Figure 13 - TMR 2019 Price Control

	2019 price control	Updated
	1900-2018	1900-2020
Ireland		
1Y holding	6.7%	6.9%
2Y holding	6.7%	6.9%
5Y holding	6.6%	6.8%
10Y holding	6.5%	6.7%
Europe		
1Y holding	6.0%	6.1%
2Y holding	6.0%	6.1%
5Y holding	5.9%	6.0%
10Y holding	5.9%	6.0%
World		
1Y holding	6.5%	6.7%
2Y holding	6.5%	6.7%
5Y holding	6.4%	6.7%
10Y holding	6.4%	6.6%

Source: NERA analysis of DMS data

Risk Free Rate (RFR)

5.2.11 The RFR would also need to be reassessed in any updated estimate of the WACC for Dublin Airport. We anticipate that the real RFR has decreased since it was last estimated by the Commission in 2019 due to the decline in nominal bond yields and the increase in expected inflation, although we would expect that this decrease will be partly offset by higher forward rates.

5.3 Changes in the Cost of Debt

Cost of Embedded Debt

5.3.1 We believe that a reassessment of the cost of embedded debt will be necessary as part of any updated estimate of the WACC for Dublin Airport. We anticipate that a calculation of the cost of embedded debt using the methodology adopted by the Commission in 2019, will show a reduction in the cost of embedded debt for Dublin Airport given that 60% of our existing debt has been issued in last 2 years at a relatively lower rate, and expected inflation has increased since 2019 from 1.2% to 1.9%.

Cost of New Debt

5.3.2 It is anticipated that any reassessment of the cost of new debt using the methodology previously employed by the Commission in 2019 will show that the cost of new debt has declined due to the decreasing iBoxx yield and higher inflation expectation.

5.4 Dublin Airport's Request

5.4.1 We are fully supportive of the Commission' intention to reassess the cost of capital for Dublin Airport for 2023-2026. However, we strongly recommend that in carrying out this exercise, the Commission must take account of the devastating impact of COVID-19 on the airport business and Dublin Airport's continued high exposure to volume risk, revenue risk, regulatory risk and country-specific risk for the period 2023-2026. This needs to be reflected in a higher WACC allowance for 2023-2026.

5.4.2 We would also recommend the continued inclusion of an aiming-up component in the WACC allowance to take account of the current high degree of market uncertainty. The rationale for this aiming up allowance is the need to address asymmetry in incentive mechanisms and /or cost allowances and to support the financial viability of Dublin Airport over the period 2023-2026.

6. Capital Expenditure

6.1 Capital Expenditure Overview

6.1.1 While Dublin Airport remains committed to our medium-term goal of developing the airport capacity and infrastructure to deal with 40 million passengers per annum as set out in our Capital Investment Programme (CIP2020+), the COVID-19 pandemic has impacted the time frame for this development.

6.1.2 During 2020 and 2021, capital projects were deferred and timelines elongated in efforts to reduce spending and preserve Dublin Airport's finances. The timing and pace of recovery in air travel demand remains uncertain, though there are some grounds for optimism that traffic growth will recover in 2022.

6.1.3 Dublin Airport welcomes the Commission's proposal to reassess the capital allowances and treatment of capital spending as part of its forthcoming regulatory review. In preparation for this review, Dublin Airport has reviewed and refined its original CIP2020+, to best reflect the needs of airport users in the aftermath of COVID-19. The duration of CIP2020+ will also be extended by two additional years to balance the two years that were lost to COVID-19. This CIP will remain focused on building capacity to accommodate 40 million passengers per annum (mppa), though the time horizon for this has shifted to the end of the decade.

6.1.4 Since 2019, there has also been a change to the regulatory environment in terms of planning laws, COVID-19 measures and sustainability/carbon reduction laws. The projection of construction inflation has become more complex due to the disruptive effects of the pandemic. Dublin Airport would recommend that all of these factors be considered by the Commission in this regulatory review when setting capital allowances for existing and new projects over the period 2023-2026.

6.1.5 We welcome the Commission's commitment to providing the flexibility to adjust capital expenditure in response to changing circumstances or the changing needs of users while also ensuring sufficient regulatory certainty for Dublin Airport regarding remuneration of efficient costs.

6.1.6 Due to both a) the quantum of the capital required to meet customer and sustainability requirements and b) the damage done to Dublin Airport's balance sheet since 2019, the allowance of capital projects must be accompanied with a robust financial viability assessment which gives Dublin Airport confidence that it can embark on this investment programme in a financial position that can withstand the majority of likely market conditions.

6.2 Capital Expenditure Allowances

6.2.1 The Commission has stated its intention in the 2022 review to consider its capital allowances in relation to the updated Capital Investment Plan (CIP) that Dublin Airport will provide as part of its 2022 regulatory proposition and following consultation with airport users.

Revised Capital Expenditure Programme 2023-2026

6.2.2 Dublin Airport is currently finalising a revised version of its CIP 2020+ which is designed to accommodate a forecast medium-term demand level of 40 mppa. The original CIP2020+ has been adjusted to take account of investment progress to date, forecast traffic recovery, project timelines, new legislation, new regulations, and the addition of 2025 and 2026 in the forthcoming 2023-2026 regulatory period.

6.2.3 Dublin Airport will formally consult with our airport users on our draft revised CIP in March where the results of the review of the original CIP2020+ capacity projects will be presented, proposing projects to be cancelled and deferred. These changes are being driven by the new traffic projections and sustainability/carbon reduction requirements. Dublin Airport will then welcome airport user feedback on these proposals prior to finalising the revised CIP2020+ and submitting this to the Commission.

6.2.4 It is intended that on completion of this process, Dublin Airport will be seeking the Commission's approval for revised capital allowances relating to proposed investment in the Core (Asset Care, Security and IT), Commercial, and Capacity categories included in the 2019 Determination and with the addition of sustainability projects as a fourth category.

Treatment of Capital Expenditure

6.2.5 Dublin Airport welcomes the Commission's stated intention in the 2022 Issues paper to retain its current approach to capital expenditure whereby it will have grouping allowances for different categories of projects allowing Dublin Airport some flexibility in spreading its investment across a series of projects.

6.2.6 Dublin Airport supports the retention of this approach which is currently being applied in the 2019 Determination. We agree with the Commission that this methodology strikes a balance between incentivising efficiencies while allowing for business flexibility and regulatory certainty.

6.2.7 We understand that the Commission may have cause to deem a certain capital project as a 'Deliverable' based on its essential requirement however this approach should be kept to a minimum as we believe that Dublin Airport is actually best placed to manage the provision of airport infrastructure in accordance with our airport users' requirements.

6.2.8 Dublin Airport supports the continuation of the StageGate process which was introduced by the Commission in the 2019 Determination. We believe that this process has greatly enhanced the regulatory framework relating to capital investment by adding a layer of flexibility in relation to the evolving scope and cost of projects which works in the favour of both the airport and its users. We will endeavour to propose improvements and to refine the process for the benefit of all stakeholders.

6.2.9 Dublin Airport welcomes the proposal to subsume outstanding PACE projects into the new CIP. We propose that any projects proposed to be transferred be cost adjusted to reflect inflation since there original submission

6.2.10 Dublin Airport will continue to adhere to the reporting measures relating to capital expenditure set out by the Commission in the 2019 Determination. We understand this are necessary in the interest of regulatory accountability.

Triggered Projects

6.2.11 To date the Commission has adopted both demand and profiling triggers in the price cap relating to capital expenditure projects. While in principle Dublin Airport is supportive of the use of price cap triggers pertaining to capital investment, we would however have significant concerns about the reintroduction of reprofiling triggers during the period 2023-2026.

6.2.12 It is obvious that there will remain a high degree of uncertainty in the aviation market in the coming years therefore the inclusion of reprofiing triggers in the annual price cap will add to our company's regulatory risk during this period of recovery.

Inflation

6.2.13 Capital investment at Dublin Airport is subject to construction price inflation. Construction price inflation has been running high since 2019. The original CIP 2020+ inflation allowance has not been sufficient to keep pace with actual inflation in the construction market. There is a concern that the slow recovery from the supply disruptions caused by the pandemic, plus a sustained high level of demand in the Irish construction sector, could result in continued high inflation over the 2023-2026 period. This, coupled with the elongation of timelines for the construction and delivery of the CIP2020+ projects, means that additional measures are now necessary to allow for construction price inflation.

6.2.14 We welcome the fact that the Commission has raised this matter in its 2022 Issues paper where it has proposed for consideration two potential approaches for dealing with this issue –de-risking Dublin Airport for construction inflation by performing an ex-ante adjustment for cost inflation or indexing the escalation element of the allowance to a construction inflation index.

6.2.15 At this juncture Dublin Airport would favour the later approach where our capital costs could be indexed to a recognised construction price index. We believe that on balance this would be the most accurate approach which would deliver an equitable solution for both the airport and airline users allowing capital costs to reflect the market cost of the provision of airport infrastructure.

Sustainability

6.2.16 In its 2022 Issues paper, the Commission acknowledges that going forward it will likely have a statutory responsibility to "*take account of the policies of the Government on aviation, climate change and sustainable development*".

6.2.17 In this context, Dublin Airport would like to reiterate that we are committed to achieving net-zero carbon emissions by 2050. The Government published the Climate Action and Low Carbon Development (Amendment) Bill 2020, which established a mechanism of 5 yearly Carbon Budgets, and in November 2021 published the Climate Action Plan 2021, which commits Ireland to a legally binding target of net-zero greenhouse gas emissions no later than 2050, and a reduction of 51% by 2030. In order to achieve these targets Dublin Airport will be seeking regulatory allowances relating to a number of newly proposed sustainability projects which will be included in the revised CIP2020+. In order to meaningfully support Dublin Airport to achieve the targets and policies of the Government on aviation, climate change and sustainable development, remuneration of sustainability related capex should be accelerated such that this investment does not dilute Dublin Airport's key debt metrics.

FIGURE 14 - SUSTAINABILITY PROJECTIONS

The investment in longer life assets dilutes Dublin Airport's debt metrics.

For example, an asset costing [redacted] with a 15-year asset life and at a WACC of [redacted] would give EBITDA (i.e. remuneration) of [redacted] and FFO of €[redacted]. This would give an FFO: Net debt range of [redacted] over a 4-year period, averaging [redacted]. In terms of Net Debt/EBITDA, the metric ranges from [redacted], averaging [redacted]

	Year 1	Year 2	Year 3	Year 4	Average
EBITDA (€'m)	[redacted]				[redacted]
FFO* (12.5% tax) (€'m)	[redacted]				[redacted]
Net Debt* (€'m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

Reviewing across multiple WACC and asset life combinations shows that any asset life >10 years will have a similar impact on credit metrics and give metrics directly related to this investment which are lower than the [redacted].

FFO: Net Debt		WACC			
		[redacted]	[redacted]	[redacted]	[redacted]
Asset Life	10	[redacted]	[redacted]	[redacted]	[redacted]
	15	[redacted]	[redacted]	[redacted]	[redacted]
	20	[redacted]	[redacted]	[redacted]	[redacted]
	25	[redacted]	[redacted]	[redacted]	[redacted]
	30	[redacted]	[redacted]	[redacted]	[redacted]

ND / EBITDA		WACC			
		[redacted]	[redacted]	[redacted]	[redacted]
Asset Life	10	[redacted]	[redacted]	[redacted]	[redacted]
	15	[redacted]	[redacted]	[redacted]	[redacted]
	20	[redacted]	[redacted]	[redacted]	[redacted]
	25	[redacted]	[redacted]	[redacted]	[redacted]
	30	[redacted]	[redacted]	[redacted]	[redacted]

This impact can be mitigated by setting a remuneration profile which targets to have an average impact on credit metrics in line with CAR's financeability target metrics. The table below illustrates how setting a remuneration profile of [redacted] for a [redacted] project gives an average impact in time with the [redacted] FFO: Net Debt over four years. This ratio would hold for all levels of investment.

	Year 1	Year 2	Year 3	Year 4	Average
EBITDA (€'m)	[redacted]				[redacted]
FFO* (12.5% tax) (€'m)	[redacted]				[redacted]
Net Debt* (€'m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
FFO: Net Debt	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ND / EBITDA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

**Ignoring impact of interest costs*

In order to recognise the importance of the sustainability capex being proposed by Dublin Airport, and to align with CAR's updated statutory responsibility, it is proposed that this approach is adopted for the remuneration of sustainability capex in the updated CIP.

6.3 Dublin Airport's Request

6.3.1 Dublin Airport welcomes the Commission's proposal to reassess the capital allowances and treatment of capital spending as part of its forthcoming 2022 regulatory review. In preparation for this review, Dublin Airport has reviewed and refined its original CIP2020+, to best reflect the needs of airport users in the aftermath of COVID-19.

6.3.2 The Commission must now address our capital investment requirements for 2023-2026 in order to ensure that service quality standards are maintained and essential investment is undertaken at the airport.

6.3.3 Dublin Airport will formally consult with our airport users on our draft revised CIP in March where the results of the review of the original CIP2020+ capacity projects will be presented, proposing projects to be cancelled and deferred. It is intended that on completion of this process, Dublin Airport will be seeking the Commission's approval for revised capital allowances relating to proposed investment in the Core (Asset Care, Security and IT), Commercial, and Capacity categories included in the 2019 Determination and with the addition of sustainability projects as a fourth category.

6.3.4 Dublin Airport welcomes the Commission's stated intention in the 2022 Issues paper to retain its current approach to capital expenditure whereby it will have group allowances for different categories of projects allowing Dublin Airport some flexibility in spreading its investment across a series of projects. This methodology strikes an appropriate balance between incentivising efficiency while allowing for flexibility.

6.3.5 Dublin Airport is seeking the indexation of our capital costs to a recognised construction price index going forward. We believe that this will allow capital costs to better reflect the market cost of the provision of airport infrastructure.

6.3.6 Dublin Airport is seeking support from the Commission to enable us to reach our sustainability targets through a remuneration treatment which would ensure that no damage is done to target credit metrics over the upcoming determination period.

7. Passenger Forecast

7.1 Passenger Forecast Overview

7.1.1 As highlighted in the Issues Paper, passenger forecasts are a central building block in a determination, as they are the denominator in the price cap calculation. They also have a direct impact on other building blocks.

7.1.2 The calculations for the price cap, requires traffic forecasts to set targets for passenger numbers, commercial revenues and operating expenditure. The main driver for commercial revenues is passenger numbers, which in return is a key component in determining the maximum level of airport charges.

7.1.3 When considering traffic forecast methodologies, it is important that we consider both segmented market demand growth in a post-COVID-19 world, and the impact (if any) of capacity constraints.

7.1.4 The traffic forecast methodology for the 2019 Determination followed an approach based on economic models relating potential traffic growth at Dublin Airport to a macroeconomic indicator. In that instance, the GDP of the Republic of Ireland was used.

7.2 Impact of COVID-19

7.2.1 From March 2020, COVID-19 has had a detrimental impact on Dublin Airport, with international travel bans, mandatory testing and hotel quarantine impacting traffic volumes immensely. Passenger numbers declined by 25.5m for 2020 against 2019, down 77%.

7.2.2 Dublin Airport was disproportionately hit by the downturn in traffic. In 2021, the airport was 22nd out of the Top 25 2019 Airports (14th in 2019). Dublin Airport had the lowest 2021 traffic out of 30m-40m airports. Only UK airports had a lower % of 2019 passenger numbers than Dublin.

Figure 15 - Regional Performance – Passengers v 2019

[redacted]

7.2.3 Passenger numbers did marginally improve for 2021, with a decline of 24.5m passengers v. 2019, down 74%. In 2021 we saw numbers increase by 14% points against 2020.

7.2.4 Continental Europe traffic had the highest recovery for passengers in 2021 at [redacted] 2019 levels and [redacted] v. 2020. Although transatlantic traffic was impacted the most v. 2019 at -[redacted] 2021, this was an increase of [redacted] points against 2020.

Figure 16 - Passengers 2019-2021

[redacted]

7.3 Determining the Baseline

7.3.1 Dublin Airport agree that deciding on an appropriate starting point is critical for traffic forecasting throughout the period of 2023-2026. As 2022 moves on, there will be a lot more information known about how the post-pandemic recovery is shaping up, along with the future size and shape of the airlines that operate in Dublin.

7.3.2 Accurately determining the baseline is dependent on transparent engagement with the airlines in Dublin Airport to understand their plans and outlook for 2023.

7.3.3 Understanding when the first "normal" year of growth will be seen could also be a consideration when defining the baseline.

7.3.4 In 2019, Dublin Airport proposed a similar approach of determining a baseline. At the time of the determination, it was becoming clear what the demand in Dublin Airport would be for 2020 and therefore could have been used as the base year for the forecast. This was not considered in the final determination.

7.4 Forecast Methodologies

7.4.1 The Issue's Paper highlights the key question in relation to passenger forecasting for this review being: 'What methodology and data sources should we use to forecast passenger numbers?'

- Considering how to estimate a reasonable centreline traffic forecast, given the impact of COVID-19 on the previous methodology.
- The need to be cognisant that the scope for variance from forecasts is likely to remain higher than prior to COVID-19, regardless of the methodology that is ultimately chosen.

7.4.2 In the 2019 Determination, passenger growth over the regulatory period was estimated using Irish GDP as the driver. Based on the impact of COVID-19, GDP has not been the primary driver in the last few years for obvious reasons. We believe the pace of return in different sectors, potential for further restrictions based on different country rules, and mix of passenger category/demographics will have a significant impact on traffic forecasting.

7.4.3 Given the current market conditions and the decoupling of Irish GDP from traffic we do not believe that a simplified GDP based model will be appropriate to project traffic at Dublin Airport with any degree of accuracy.

7.4.4 Aside from using Irish GDP as driver going forward into 2023, the Issues Paper has highlighted numerous methodologies for consideration that we have focused on in the table below.

Figure 17 - Forecast Methodologies for Consideration

Forecast Methodologies for Consideration		
Methodology	**Dublin Airport Review**	**Dublin Airport Suitability**
2019 Determination methodology - GDP	As noted in the Issues Paper, there is no longer a link between Irish GDP and Dublin Airport traffic growth due to the traffic restrictions on aviation during the pandemic, coupled with the Irish GDP growth in both 2020 & 2021. To accurately forecast out of the pandemic, an approach consisting solely of Irish GDP should not be considered. Dublin Airport also argued this in the 2019 determination as a significant proportion of the traffic now originates in countries outside of Ireland.	Not Suitable
Multivariate Causal Forecast	The Multivariate Causal Forecast approach is something that could be considered if there are appropriate macroeconomic variables used.	Suitable

Forecast Methodologies for Consideration		
Methodology	**Dublin Airport Review**	**Dublin Airport Suitability**
	While the Irish economy grew in both 2020 and 2021, major economies such as the UK, USA, Germany, and France all shrunk in 2020. There are potentially other variables that could be used that trended similarly to the traffic in Dublin, but these would potentially be related to the aviation / travel / hospitality industries and forward-looking forecasts would hold similar issues as there is still a lot to learn about the pandemic recovery. Dublin Airport will continue to investigate whether this is an appropriate methodology.	
Disaggregated Forecast	There is potential to use a Disaggregated Forecast by region to determine the baseline for 2022 and/or 2023. For 2022, capacity for Summer 22 is becoming clearer and an initial view of Q4 capacity will be available in Q2 2022. Understanding the performance of load factors and the longevity of recovery is key, i.e. are initial strong loads based on pent up demand and will this fall away into Q4 2022 and 2023. Dublin Airport do not currently believe this is an appropriate methodology to calculate the period 2024-2026. It would be relying on certain variables to accurately forecast. There is a possibility of this being combined with the multivariate causal approach to calculate traffic at a regional level using the most appropriate macroeconomic variables. As outlined above, this method was proposed by Dublin Airport in the 2019 determination to set the baseline for 2020.	Suitable (For Certain Years)
Judgement Based Forecasts	As outlined in Issues Paper, it is difficult to be transparent with Judgement Based Forecasts. As with Disaggregated Forecast by Region, there is potential to use a Judgement based approach for 2022. Without introducing other variables, the use of judgement for 2023-2026 becomes more difficult.	Suitable (For Certain Years)

Forecast Methodologies for Consideration		
Methodology	**Dublin Airport Review**	**Dublin Airport Suitability**
	In theory all forecasts are judgment based, considering methodologies. Also there has to be a level of judgment as to whether the model could be wrong materially.	
Long Term Trend	The Issues Paper outlines difficulties with the Long-Term Trend approach, and it would have to be adopted for more than one determination to ensure that there all stakeholders see a benefit. Dublin Airport do not believe this is an appropriate methodology to use in a "normal" determination. However, there is the possibility of using a longer-term CAGR to calculate future growth. The time period would most likely need to start in 1990s/2000s to get realistic growth rate for the period of the review.	Unsuitable
Industry Forecasts	There are a number of available industry forecasts, with some more granular and up to date than others. Forecasts are evolving, but most analysts agree that recovery to 2019 levels will be by 2024/2025. Dublin Airport believes that certain forecasts represent a good indication of how traffic will evolve over the coming years and there may be potential to use a combination of these to calculate the outturn from 2023-2026.	Suitable

7.5 Further Considerations

7.5.1 The current difficulty is that it remains unclear what path the recovery of traffic will take. It is unlikely that traffic will grow in a predictable manner from one year to the next, especially as we see travel rules and requirements in countries differ across the globe. While there has always been uncertainty over traffic growth, the scale of this uncertainty, at least for now, exceeds any previous regulatory determination for Dublin Airport, hence the requirement for change in approach and methodology for this building block.

State Funding

7.5.2 The Issues Paper references the 'State Funding' provided to Dublin Airport as part of a broader scheme to support state airports during the pandemic.

7.5.3 On the 14th of December 2021, Dublin Airport received a response from the Department of Transport, informing us that they have received formal notification from the EU Commission approving the amendment to the State Aid Scheme which will allow for the provision of €90m in Exchequer funding to the State Airports. The €90m in funding was provided to the three State Airports on a pro-rata basis, based on 2019 passenger numbers. Funding has been provided to the airports as follows: Dublin Airport €79.56m; Cork Airport €6.3m and Shannon Airport €4.14m.

7.5.4 In response to the Commission commenting on this, it is important to remind stakeholders that this funding will not financially benefit Dublin Airport and is being distributed by Dublin Airport's incentives scheme and through our Aeronautical Charges.

7.5.5 Dublin Airport has used this funding to provide extensive discounts/rebates on our airport charges, in order to promote traffic restoration at the airport. These discounts and rebates were initially implemented in 2021 and have been extended these into 2022.

Industry Forecasting and Airline Engagement

7.5.6 The Issues Paper comments that that there are likely to be mixed incentives for stakeholders in relation to traffic forecasts. The Commission use the example that Dublin Airport may wish to understate expected traffic growth, as this would, all else equal, lead to a higher price cap. Considering that example, the Commission also highlight, that it is possible that Dublin Airport may wish to set out ambitious forecasts so that we may seek higher allowances in relation to Capex and opex.

7.5.7 We would like to note the Dublin Airport intend to be fair, open, and transparent in the methods and approaches to forecasting we believe are appropriate for 23-26.

7.5.8 On the 8th of February 2022, Dublin Airport opened a consultation with airlines asking for their predicted Traffic Forecast numbers for 2023-2026. We believe it is good practice to take a proactive approach to traffic forecasting, given the current impacts on the industry since the outbreak of COVID-19. This is part of our goal to work in tandem with our stakeholders in the hope that we can reach a common goal in the restoration of pre-pandemic traffic levels and have fair and reasonable price cap the benefits all.

7.6 Dublin Airport's Request

7.6.1 We are of the view that 2022 will also be an anomalous year. This is primarily due to the continued level of uncertainty in the National, European and International aviation markets. The impacts of the pandemic continue to be ever-present challenge in the short term, while the most recent political unrest presents a further significant unknown to the passenger volume recovery over the next few years.

7.6.2 The short-term outlook is also impacted by the exchequer incentives which the Irish Government facilitated for 2022. This should be considered when calculating 2023 as this will be priced by airlines into certain additional capacity.

7.6.3 Traffic forecast cannot be purely unconstrained. Any forecast will need to consider the limits of airport processor capacity. The traffic recovery mix will have an impact when processors reach maximum capacity. A combination of aforementioned methodologies could plot a path forward to an accurate forecast.

7.6.4 Dublin Airport believe that there is potential for some of the approaches outlined in the Issues Paper to be used to calculate the traffic forecast for the period of 2023-2026. These could be used on their own or there is the possibility of using a combination of approaches.

Our Ask: Approach to Forecasting

7.6.5 Dublin Airport's view is that the approach used in the 2019 determination is not appropriate at this time as the link between Irish GDP and traffic growth has been broken. Dublin Airport believe that the most appropriate forecasting approach, currently, is to use a combination of disaggregated and judgement-based forecasts along with the latest industry/benchmark analysis available.

8. Service Quality

8.1 Service Quality Overview

8.1.1 While Dublin Airport were not in support of the re-introduction of a limited number of SQM financial penalties for 2022, we were appreciative of the fact that their re-introduction was not a ‘full sweep’ of all measures originally set out in the 2019 Determination. Since 2020, we have endeavoured to face and mitigate many operational challenges in Dublin Airport associated with our metrics in light of COVID-19 and have been focused on addressing the challenges that COVID-19 has created for our business.

8.1.2 We believe this re-determination is an opportunity to review and align metrics with passenger’s changing needs in a post COVID-19 world with metrics that are achievable, fair and pragmatic.

8.1.3 We understand that the Commission are of the view that a broader metric scheme should be reinstated at Dublin Airport from 2023, but in doing so, they should be reinstated cautiously with careful consideration to passenger’s changing needs and expectations of the airport. We agree that the service quality regime outlined in the 2019 Determination represents a good starting point for this.

8.1.4 When considering SQM metrics, we ask CAR to work closely with Dublin Airport to ensure incentives are aligned with the desired outcome, whilst tying in the incentives to actions within the control of the airport. We also believe that all metrics should be allowed to evolve over time as passenger demographics and operational challenges have changed since the outbreak of COVID-19.

SQM Regime Considerations

8.1.5 We believe that there are five key areas that CAR must consider in this re-determination for SQMs.

1. Review of metrics to ensure the most important drivers are included *(subject to economic analysis regarding cost of delivery and degree of control by daa).*
2. Expansion of the ethos of the regime by reporting on ‘non-penalty’ measures, i.e. metrics deemed important to passenger experience but which are not appropriate for penalties such as those dependent on community/third party delivery OR most suited to qualitative reporting.
3. Review of target scores (being challenging but realistic).
4. Discuss the process for setting target for any new metrics (propose initiation of monitoring scores as first step before targets set).

5. Review of methodologies to build in potential for alternative approaches (with consideration on accessing representative sample and economic analysis/cost of delivery).

8.2 PRM

8.2.1 For our PRM metrics we believe CAR should amend targets in line with SLA targets, so there is harmonisation across the applicable measures.

8.2.2 Historically, “assistance from reception” has been the most challenging SLA to achieve as part of the PRM SQMs, and in our opinion, this metric requires amendment for the below reasons:

- It is outside Dublin Airport’s and OCS’s control with high levels of non-pre-advised passengers, as well as difficulty dealing with unpredictability of passenger arrival to desk times.
- Our metrics are above and beyond peer airports, in which the “at” metric is used. This makes a big difference operationally, as it changes the start of the countdown, and ensures we are in line with peer airports.

8.2.3 Dublin Airport believes that having 100% KPI's does not allow for anomalies driven by operational challenges. A max 3% reduction in the KPI's allows for said anomalies (such as, presenting for assistance before check-in is open or arriving late) while continuing to drive high levels of performance and passenger experience. The revised KPI's also incentivise high levels of performance and continued improvement. (100% measure leave no opportunity to pass).

8.2.4 We have carried out high level benchmarking against UK airports regulated by the CAA, and the above would align our quality standards with peer airports.

8.3 Passenger Satisfaction

8.3.1 Airport passenger experience has been core to Dublin Airport’s strategy. Dublin Airport has maintained its commitment in delivering sustained growth in passenger numbers while improving passenger satisfaction and enhancing Dublin Airport’s reputation.

8.3.2 Following the outbreak of COVID-19 in 2020, we have seen a shift in passenger demographics. Since travel re-opened in July 2021, there has been a focus on leisure holidays, visiting friends and relatives, with a collapse in business travel. We have seen strong outbound dominance, with the majority of passengers being Irish residents, only a smaller proportion are inbound passengers. These demographic changes impact on services, such as the higher usage of private car as mode of transport and more hand and checked in luggage.

8.3.3 We are expecting business travel to recover by 2024. While we believe leisure travel will continue to evolve, with sustainable and ethical travel coming to the forefront, and a re-evaluation of priorities leading to a focus on family, life priorities and living life to the full.

8.3.4 Due to the above, certain key aspects of the passenger experience will now be more important than ever such as cleanliness, ease of movement, but also a renewed focus on health, safety and digital aspects of the passenger journey.

8.3.5 Dublin Airport will retain its focus on meeting the evolving needs and expectations of passengers, aiming to consistently deliver the positive experience that our passengers have come to expect. The SQM regime is an important aspect of this in both supporting and challenging us in this regard.

8.3.6 When reviewing passenger satisfactions SQMs, we are asking CAR to consider the three metrics in the table below.

Figure 18 - Passenger Satisfaction Metrics for Consideration

3 Metrics for Consideration	
Ease of Movement	Proposal to replace the metric ‘Walking Distance’ with ‘Ease of Movement’.
Information on Ground Transportation on Arrival	Proposal to change the approach to this metric in one of two ways. Firstly, to establish areas of importance to passengers, then set metric. Secondly to change in methodology of data collection.
Sense of Safety for Health	Added for monitoring in 2022. Proposal not to be included in metrics from 2023 onwards as target, but to monitor going forward.

8.3.7 Dublin Airport are of the opinion, it would be sensible and pragmatic to maintain the original list of passenger satisfaction metrics from the first Interim of the 2019 Determination for 2020, but with consideration to the above three metrics.

8.4 Assets and Baggage Handling

8.4.1 Dublin Airport was successful in meeting its metrics and targets for the availability of baggage handling, IT systems, and self-service check in kiosks and bag drop machines in 2020-2021. Across the business in relation to Assets and Bagging the impacts of COVID-19 had a great impact on the operation side of these SQMs.

T2 Lift, Escalator & Travelator Monitoring

8.4.2 The T2 lift, escalator, and travelator availability monitoring system provides live information on the availability status of passenger facing lifts, escalators and travelators in T2. This information is then recorded and stored via the Ignition platform.

8.4.3 Key challenges in this area sit with our service partner, resourcing and recruitment, training, supply chains – lead times and reduced maintenance availability in 2021/2022.

Fixed Electrical Ground Power (FEGP)

8.4.4 For FEGP, the availability monitoring system provides live information on the availability status of FEGP units across the Dublin Airport Campus. This information is then recorded and stored via the Ignition platform. This system monitors 57 units in total across Piers 1, 3 & 4.

8.4.5 Key challenges in this area sit with, increased demand, resourcing and recruitment, training and supply chains – lead times.

AVDGS

8.4.6 The AVDGS monitoring system aims to provide live information on the availability status of all AVDGS units across the Dublin Airport Campus. This information will be recorded and stored via the Ignition platform.

8.4.7 Key challenges in this area sit with, increased demand, resourcing and recruitment, training, supply chains – lead times and new technology.

Availability of Baggage System

8.4.8 Dublin Airport will be expected to avoid any delays of more than 30 minutes in providing ground handlers at check-in desks with access to a functioning outbound baggage system or a comparable alternative that achieves the outcome of delivering departing bags to the make-up position. Similarly, for the inbound baggage system, Dublin Airport will be expected to avoid any delays of more than 30 minutes in providing ground handlers at make-up positions with access to a functioning inbound baggage system or a comparable alternative that achieves the outcome of delivering bags to the arrivals hall carrousels.

8.4.9 Considerations for Assets and Baggage Metrics are:

1. Aligning our availability % for all Assets and Baggage metrics, for consistency.
2. Considerations should be given to the fact that a full baggage system will not be available for use until End of Q1 2023 resulting in reduced capacity and resilience for the T1 area.
3. Considerations should be given to the fact that Dublin Airport are operating with reduced resources both technically and operationally as a consequence of COVID-19.

4. Considerations should be given to the fact that Dublin Airport are undergoing a major restructuring of new ways of working that will have an expected effect on the training and capabilities of new staff.

8.5 Security

8.5.1 In the 2019 Determination, CAR set out that all passengers should queue for less than 30 minutes, and for less than 20 minutes at least 70% of the time.

8.5.2 Dublin Airport have faced continued challenges of meeting our requirements for this specific service quality metric. These challenges are pre-dominantly but not limited, due to the ongoing issues of COVID-19.

8.5.3 Our focus in security is to ensure that something does not get on an aircraft that shouldn't, complying fully with all European and Irish regulations. While we do not want any passengers delayed coming through the screening process, our focus cannot prioritise this over passenger security and safety.

8.5.4 Dublin Airport are of the view that continuing with the fines set in the 2019 Determination increases the risk of focus being leaned too heavily on queue times. COVID-19 cases and close contacts have placed significant pressure on our security staff resources. Whilst we are committed to providing a fast and efficient service through security, the safety and health of both daa staff and passengers remains a priority.

8.5.5 During testing times for our security staff, Dublin Airport have made concerted efforts to increase recruitment in our security teams, in what is a competitive market. Our recruitment efforts have been made more challenging due to enhanced background checks. As of 1st of January 2022, increased background checks are required for all staff to hold an Airport Identity Card. This will cause even more significant delays to the already long vetting process, as well as increase the numbers of people who do not make it through the recruitment process

Request for Consideration

8.5.6 Dublin Airport agrees with the Commission that Service Quality metrics are an important and valuable means to meeting passenger expectations and allowing for speed of movement through the airport.

8.5.7 For security service quality, we don't agree with these metrics being in the form of a financial penalty. As noted above, our core focus is stopping something from getting on an airplane that shouldn't. We must prioritise security and safety. When passenger queue breaches do occur, they often do so for reasons outside of our control.

8.5.8 We are asking the Commission to consider removing the financial penalty and replace this with a reward or bonus-based scheme instead. When considering having a bonus or reward system in place, we are of the view that the maximum queue time should remain at 30 minutes as a minimum. As discussed below, the scheme used at Heathrow Airport in the UK is not a penalty-only scheme.

8.5.9 Alternatively, we would like the Commission to consider reducing the metric of 100%. Current targets are set that passengers should queue for less than 30 minutes 100% of the time.

8.5.10 As we look to refine this ask, we intend to keep working with the Commission on this area of Service Quality.

8.6 Broader Service Quality Framework Consideration

Consideration of Service Quality Rebates and Bonuses (SQRB)

8.6.1 SQRB is a way to achieve 'out performance'. This viewed as a positive outcome as it focuses entities' attention on the outcomes that are most important for customers.

8.6.2 Bonuses induce companies to try to outperform in the short-term, but in the medium term this outperformance becomes the new norm.

SQRB Benchmarking

8.6.3 The CAA introduced a 'Service Quality Rebate Scheme' at LHR.

- The 'airline community' were in favour of the SQRB scheme which has worked well and driven the right behaviours.
- The maximum amount of rebates that could be paid is 7% of airport charges.
- The scheme includes a bonus element on passenger satisfaction measures to reward high performance that benefits passengers.

8.6.4 Aena, Aéroports de Paris and Aeroporti di Roma also include financial rewards in their service quality scheme.

8.6.5 Ofgem use a symmetric incentive structure whose 'bonus' rate for beating the annual target is less than its penalty rate for failing to meet target.

8.6.6 The aim is to promote reliability, annual bonus earned is subject to a natural cap by virtue of the natural limit to annual availability, whilst annual penalty is limited to mitigate investor risk; however residual penalty may be spread over several years.

8.6.7 Ofgem use a model known as RIIO (Revenue = Incentives + Innovation + Outputs). This is a performance based regulatory model created by the UK's regulatory. RIIO seeks to reward utilities for innovation and for delivering outputs that meet the changing expectations of consumers and society

8.6.8 Ofwat, the UK's water regulator uses a 'Outcome Delivery Incentive (ODI), incorporate SQRBs. The water sector in England and Wales, some companies have outperformed and earnt net bonuses from ODIs while others have underperformed and incurred net penalties.

8.6.9 In our view, CAR is missing an opportunity by not allowing a bonus incentivised scheme, as we believe they could give Dublin Airport scope to outperform financially in future and encourage innovation.

8.7 Dublin Airport's Request

FIGURE 19 - SUMMARY OF SQM CONSIDERATIONS FOR 23-26

SQM Regime and Specific SQM Considerations	
SQM Regime	Five key considerations when reviewing metrics.
	Consideration of SQBR Scheme.
	Consider how revised metrics may have a knock-on impact for OPEX / CAPEX.
PRM	PRM metrics in line with SLA targets.
Passenger Satisfaction	Three updated metrics for consideration, to reflect the change in needs of passengers, due to COVID-19.
Assets & Baggage	Have a consistent % value for all Asset and Baggage availability metrics.
	Consider the challenges facing the implementation of new baggage systems in T1.
Security	**Replace financial penalties with a reward-based metric.**
SQRB	**Consider the benefits of an SQRB regime in-line with the benchmarked examples by the CAA and in other regulated industries.**

9. Financeability

9.1 Finanacability overview

9.1.1 The Commission currently has statutory objectives 'to enable Dublin Airport Authority to operate and develop Dublin Airport in a sustainable and financially viable manner' and 'to protect the interests of current and prospective airport users'. In order to achieve these objectives, the Commission must ensure the financial viability of Dublin Airport over the regulatory period 2023-2026.

9.1.2 The 2019 Determination applied the Centrus recommendation to target FFO: Net Debt ratio above 15% and a Net Debt/EBITDA ratio of less than 5x.

9.1.3 As Ireland's aviation industry seeks to emerge from COVID and target's growing towards 40mppa at Dublin Airport by the end of the decade while meeting sustainability requirements, the financeability review for the upcoming determination period will be the building block of this review. If Dublin Airport does not have confidence in its financial robustness for the coming years, it will not be able to invest in the facilities required to meet user needs.

9.1.4 In order to ensure financial viability for 2023-2026, the Commission must enable Dublin Airport to minimise financial risk, access funding markets and raise debt at a reasonable cost and terms all of which can only be achieved if Dublin Airport maintains an appropriate investment credit rating.

9.1.5 Dublin Airport agrees with the Commission assessment that '*Financeability matters to both the airport and its current and future users, as a high level of risk could result in the airport operator becoming unable to raise the debt necessary for Dublin Airport to invest in its Capex plans, or worse, to not be able to continue operating the airport.'*

9.1.6 In advance of reviewing for financeability, it is important that the Commission acknowledges that the building blocks which make up the financial forecast under review are, in fact, just forecasts and as such already contain a risk that they are not likely to play out as planned. The reality that the Commission sets forecast targets which are, by their own nature, likely to be harder to achieve, increases this risk. It is therefore crucial that fair and varied sensitivities on all building block assumptions are reviewed when determining a financially robust price cap.

9.2 Impact of COVID-19

9.2.1 As of March 2020, airports and airlines in Europe faced severe challenges as a consequence of the COVID-19 pandemic. This pandemic was an exceptional and unforeseeable circumstance that caused a disruptive and disproportionally large drop in air traffic and the relating revenues of airports and airlines.

9.2.2 Dublin Airport proved to be exceptionally hard hit by the COVID-19 pandemic where annual passenger throughput fell to 7.4m in 2020 and 8.5m in 2021, some 78% and 74% down in 2019. This caused a drastic reduction in aeronautical and commercial revenues since March 2020.

9.2.3 Dublin Airport's net debt will have almost doubled from [redacted] in December 2019 to [redacted] by December 2022, while the capital investment programme required in 2023-2026 will be of similar value as was initially required for 2020-2024. The impact has reduced both the value of Dublin Airport and its credit metrics:

- The value of Dublin Airport, as measured but RAB values less Net Debt was forecast to increase by €0.21bn from €1.14bn in 2019 to €1.35bn in 2022. By contrast, the value is now expected to stand at [redacted] some [redacted] lower than 2019 and [redacted] lower than the forecast position.
- The increase in net debt, coupled with reduced profitability has pushed Dublin Airport's below the threshold for BBB+. This is likely to continue for the coming determination period without material adjustment to the price cap. A proforma reforecasting of CAR's 2019 model with the updated starting debt position of €1.1bn shows Net Debt / EBITDA ranging from 7.4x to 6.6x and FFO: Net Debt ranging from 12.0% to 13.7%. These metrics fall out of CAR's 2019 target FFO/Net Debt ratio above 15% and a Net Debt/EBITDA ratio of less than 5x.

9.2.4 Since 2020, the daa Group has been required to increase its debt facilities by €1bn, drawing down some €350m EIB funded debt, raising €500m in Oct 2020 plus a further €150m in Sept 2021 on the Eurobond market, and extending its revolving credit facility by €150m. This significant decision was necessary to maintain the Group's operational liquidity during these particularly challenging times.

9.2.5 Dublin Airport's financial position has deteriorated drastically since 2019 and there has been a substantial loss in aeronautical revenues over the period 2020-2021 directly attributable to the outbreak of the pandemic.

9.2.6 The current price cap model at Dublin Airport is based on an average price cap per departing passenger, which in turn is based on the total annual required revenues which Dublin Airport is permitted to earn. This is illustrated below in the table below.

FIGURE 20 – FORECAST VARIANCE ON FINANCEABILITY

	Pax Traffic Forecast	Total Revenue	Annual Price Cap
CAR 2019 Determination	34m	€255.2m	€7.58
2020 DAP Actual	7.4m	€73.4m	
2020 Variance	***-26.6m***	***-€181.8m***	
CAR 2019 Determination	35.1m	[redacted]	€7.50
2021 DAP COVID position	8.5m	[redacted]	
2021 Variance	[redacted]	[redacted]	

Source: Dublin Airport, draft & unaudited

9.2.7 As illustrated above the unexpected and substantial fall in passenger volumes over 2020-2021 meant that actual aeronautical revenues at Dublin Airport were only a fraction of allowable revenues under the price cap model, this resulted in a sizable revenue loss for the company when combined with the collapse in Dublin Airport's commercial revenues over the period 2020-2021.

[redacted] As a result, Dublin Airport's balance sheet has now been decimated. Our debt profile has been severely negatively impacted, we now have a net debt : EBITDA metric [redacted]

9.3 Financeability 2023-2026

9.3.1 Dublin Airport's financial position has changed drastically since 2019. The 2019 Determination took place with Dublin Airport carrying low debt and reporting record high profit levels, however for the upcoming 2023-26 regulatory period, Dublin Airport will be commencing with record debt levels following 2 years of record losses.

FIGURE 21 FINANCIABILITY 2023-2026

2019	2023
Net debt €575m FFO: Net debt 42.5% Net debt / EBITDA 2.1x Giving headroom for a passenger shock	Net debt [redacted] Debt metrics [redacted] No headroom for any shock
EBITDA €276m	Profitability unknown
Passengers 32.9m All time high in year 9 of growth (6.7% CAGR) 40% higher than 2008 peak	Passenger levels uncertain Full recovery expected between 2025-2026
Interest rates at historic lows	Interest rate increases committed & expected
€2bn+ capital investment programme	€2bn+ capital investment programme (plus sustainability)

9.3.2 Given Dublin Airport's deteriorated financial position and increasing capital investment requirement, we believe that the price cap determination for 2023-26 needs to ensure our financial stability by addressing the cause of our increased debt levels, it must allow for the company's restructuring costs and it must enable the future recovery of the company's pandemic related losses.

9.3.3 It is clear that if adequate provision is made for our financeability over 2023-2026 then this would mitigate the need for further regulatory intervention such as the addition of a risk share mechanism while keeping the regulatory model effective.

9.3.4 The Commission's financeability assessment should be grounded in the reality that further debt increases will be required over the period 2023-2026. In testing financial robustness, we believe that CAR should continue to apply minimum credit metric thresholds and should begin by reviewing the appropriateness of the 2019 FFO: Net Debt >15% and a Net Debt: EBITDA <5x in the context of a) Dublin Airport's loss of "financeability headroom" and b) increased uncertainty in the both the credit market and aviation industry.

9.3.5 Dublin Airport must be enabled to maintain a credit rating that will allow for market access to uncovenanted and uncommitted borrowings. In this context it will be important that the Commission recognises the changing profile of credit markets while taking account of the following factors

- Increasing interest rates
- Tapering and ending of QE
- Post COVID balance sheets & sources of capital
- The overall psychological impact in the market of these changes to a decade of stable monetary policy

9.3.6 Any assessment of financeability for 2023-2026 will need to reflect the updated risk profile of the company which is likely to be negatively impacted by the following

- Dublin Airport's increased debt position
- Inflation (risk to daa cost base and impact on consumer spending on travel)
- Increasing interest rates & changing investor market conditions
- Continuing COVID-19 volatility
- Changing travel habits
- Indebted customers

9.3.7 We believe that the Commission should look to determine a price cap which maintains the required credit metrics and is stressed tested for all reasonable scenarios. We support the Commission's interpretation of the minimum credit rating as being BBB+.

9.4 Testing Financeability

9.4.1 Financeability is determined in the regulatory context by examining whether or not the annual price cap resulting from the regulatory building block approach yields sufficient revenues to allow Dublin Airport to cover its operating expenditure, capital expenditure, depreciation and cost of capital while maintaining appropriate financial ratios from the perspective of investors and financial credit rating agencies through a series of plausible scenarios. Ultimately, the implied credit metrics should imply a rating that is consistent with the rating underpinning the cost of debt and therefore cost of capital allowance.

9.4.2 The financeability test is used to provide an analysis of how much is being asked of Dublin Airport under the proposed regulatory determination and to assess whether a potential financeability gap could emerge between regulatory yields and financial requirements for a Dublin Airport over a regulatory determination period. This needs to consider the timing of significant capital commitments and acknowledge that the regulated entity requires confidence in its future finances from this point forward.

9.4.3 A gap between revenues generated and debt repayments can have a significant effect on cashflows and resulting financial ratios for the regulated firm particularly where it is heavily reliant on debt. It is generally accepted that the issue of financeability becomes more acute the higher the gearing of the regulated company and the larger the capital investment requirement.

9.4.4 In the case of Dublin Airport, the Commission must examine the potential range of outcomes from its regulatory targets and price cap proposals for its 2019 Determination and ensure that no financeability gap is likely to emerge and that these regulatory proposals can allow Dublin Airport to comfortably maintain an investment credit rating. Where the outturn credit metrics are not consistent with the assumed rating underpinning the cost of capital, the Commission should consider the overall level of allowed revenues.

9.4.5 Dublin Airport agrees with the Commission that If the regulatory settlement appeared to not be financeable, based on the building block outcome, the Commission will need to make adjustments to enhance financeability.

9.4.6 If following a reassessment of the regulatory building blocks, the regulatory settlement is not financeable over the period 2023-2026, the Commission must use one of the following options (or a combination of below) to address this as a matter of priority

- The introduction of a revenue allowance over and above the level of revenues determined by the regulatory building block approach which would directly compensate for a potential financeability gap, and which would have the effect of increasing the present value of the regulatory company’s revenue returns. A similar financial adjustment is currently being proposed by the CAA for Heathrow Airport where the airport is being provided with a financial buffer in the event of further pandemics going forward. Dublin Airport suggests that at a minimum the company should be given a similar adjustment based on the high level of uncertainty currently prevailing in the aviation market.

- The introduction of an accelerated depreciation approach through shorter asset lives for certain assets. This will allow for a more accelerated recovery of our airport investment, and it will enable a more favourable position for the company in the short run. This would be an approach that the Commission could consider for addressing financeability in 2022-2026. However, this approach will only defer the airport's financeability problems to subsequent reviews and it may not address our fundamental financeability problems over the medium term.

- The inclusion of an 'aiming up' provision in the cost of capital is a prerequisite and a minimum in order to safeguard against underestimating the value of the WACC and given the highly uncertain market environment we find ourselves in.

- Given the exceptional circumstances that prevailed in 2020-2022, compensation for the profound negative balance sheet impact due to COVID-19 through a RAB reconciliation is we believe a necessary and vital component of any financeability adjustment for 2023-2026. A similar component has been proposed and agreed for Heathrow Airport by the CAA.

9.5 Adjustment for COVID-19 Balance Sheet Impacts

9.5.1 As previously outlined Dublin Airport experienced severe losses in revenue in 2020 and 2021 due to COVID-19 where the loss of revenue meant that Dublin Airport was unable to recover its operating expenditure, let alone earn the level of revenue required to recover depreciation, debt costs and a return for equity investors. This has had a severe negative effect on the company's balance sheet and is now threatening our financial viability. This is unprecedented and if Dublin Airport is expected to bear the full revenue impact of this demand side shock, then this will call into question our ability to recover efficient investment in the airport infrastructure.

9.5.2 Consequently, if the airport is expected to bear the full revenue impact of the COVID-19 pandemic, there are likely to be important consequences for our longer-term investment prospects and how debt providers assess the risk of our business.

9.5.3 We believe that it is now imperative that the Commission puts in place a measure to address the losses which occurred due to the exceptional circumstances of recent years.

9.5.4 We propose that the Commission should undertake a RAB reconciliation as part of the 2022 regulatory review where the revenue losses in 2020-22 resulting from COVID-19 (in particular, unrecovered operating costs and debt costs) should be recoverable in future periods via a specific adjustment in the opening RAB for 2023.

9.5.5 We note that such assessments are currently under discussion for a number of airport operators across Europe and that the UK CAA has already acted to provide an explicit RAB adjustment to allow Heathrow Airport to recover some of the lost revenue resulting from the pandemic.

9.5.6 If the Commission was to adopt such a RAB adjustment this would have the following potential benefits

- It would demonstrate the Commission's commitment to the recovery of capital invested in the RAB—this would benefit customers in the long run where it would provide investors with the confidence that they will be able to recover their investments, and therefore lead to a reduction in the cost of capital. The integrity of the RAB is fundamental to securing long-term investment in the airport.

- A smoothing of price increases over the life of the assets—the RAB provides a flexible tool for smoothing revenue recovery over time. By dealing with the lost revenues through the RAB, recovery can be spread out and the immediate impact on prices can be minimised.

- Providing Dublin Airport with confidence to spend what is needed to maintain levels of service and care for assets during the period of traffic recovery.

9.6 Dublin Airport's Request

9.6.1 In order to ensure financial viability for 2023-2026, the Commission must enable Dublin Airport to minimise financial risk, access funding markets and raise debt at a reasonable cost and terms all of which can only be achieved if Dublin Airport maintains an appropriate investment credit rating.

9.6.2 Given Dublin Airport's deteriorated financial position and increased capital investment requirement, we are requesting that the price cap determination for 2023-26 ensures our financial stability by looking at our increased debt levels, allowing for the company's restructuring costs and enabling the future recovery of the company's pandemic related losses.

9.6.3 We are seeking that the Commission puts in place a measure to address the losses which occurred due to COVID-19. We propose that the Commission should allow for a RAB reconciliation where the revenue losses in 2020-22 should be recoverable in future periods via a specific adjustment in the opening RAB for 2023.

10. Conclusion

10.1.1 As we emerge from the COVID-19 pandemic, the forthcoming 2022 Review will be fundamental in enabling the restoration of traffic and stability at Dublin Airport. During the 2022 Review, Dublin Airport believes it will be crucial that the Commission not only reviews the regulated entity's building block allowances, but also gives due consideration to the broader market dynamics and the considerable uncertainty currently prevailing in the industry.

10.1.2 In the coming weeks, Dublin Airport will provide the Commission with its regulatory proposition where we will set out our latest forecasts for the different building blocks. It should be noted that this proposition is being prepared at a time of exceptional uncertainty in the aviation industry as we emerge from a pandemic and we face serious geopolitical unrest.

10.1.3 We look forward to working in the coming months with the Commission to achieve a regulatory settlement for 2023-2026, we believe that it will be extremely important for continued engagement both bilaterally with the Commission and with our broader airport stakeholders.