PRESS RELEASE, 23 December 2022

COMMISSION FOR AVIATION REGULATION SETS NEW DUBLIN AIRPORT PRICE CAPS TO PROMOTE POST-COVID RECOVERY, HIGH QUALITY, AND CAPACITY INVESTMENT

Today (Friday, 23 December 2022) the Commission for Aviation Regulation (CAR) published its Decision on the maximum level of Airport Charges at Dublin Airport for 2023 to 2026. CAR is responsible for setting airport charges in the best interest of airport users (airlines and passengers), balancing efficiency with the delivery of high quality services and infrastructure.

This is CAR's third interim review of the 2019 Determination and is in response to the COVID-19 pandemic, which has had a devastating impact on the aviation industry. CAR has amended the price caps for 2023 and 2024 and extended the period of the determination by two years, setting new price caps for 2025 and 2026. This Decision takes account of submissions received as part of CAR's consultation on its Draft Decision in July 2022.

CAR has set an average base Price Cap of €7.59 per passenger for the period, starting at €7.59 in 2023 and with price caps of €7.53, €7.48 and €7.77 in 2024, 2025 and 2026 respectively. This compares to the average €8.52 CAR proposed in its Draft Decision.[1] If Dublin Airport delivers its capital investment programme as planned, the real price cap will increase up to €9.57 per passenger by 2026.

These Price Caps are in real February 2022 prices, i.e. the effect of inflation has been deducted from them. If inflation transpires as forecast, and Dublin Airport delivers its investment plan in line with its own timelines, these real price caps will convert to nominal (including inflation) price caps of €8.68 in 2023, €9.23 in 2024, €10.30 in 2025 and €11.73 in 2026. These compare directly to a nominal price cap for 2022 of €8.11 (before downward adjustments for service quality).

CAR estimates that the price cap will allow Dublin Airport collect €2.8bn in revenue, €1.4bn from Airport Charges over the 4 years, and a further €1.4bn from commercial activities such as retail, car parking and property rental, in nominal terms.

CAR assesses that the Price Cap serves the best interest of passengers and airlines and will accomplish the following:

- Enable and incentivise the delivery of high-quality airport services to passengers
- Allow Dublin Airport to invest in significant increases in capacity, with a total capital investment allowance of c€3bn (of which €2.1bn is expected to be spent by 2026).
- Allow Dublin Airport to invest in sustainability projects, to enable it to meet its climate targets.
- Ensure Dublin Airport charges an efficient price, which will assist in the aviation industry's recovery from the COVID-19 pandemic and bring associated benefits to the Irish economy.
- Encourage competition between airlines and increase overall connectivity, leading to value and choice for passengers

Publishing the Price Cap Decision Deputy Commissioner, David Hodnett said:

> *"The price cap we have set today will enable Dublin Airport to deliver a high-quality service for passengers from 2023 to 2026.*
>
> *We expect the level of service delivered by Dublin Airport to return to pre pandemic levels throughout the period. We have allowed sufficient levels of operating costs to achieve the high*

[1] Note: All numbers are in February 2022 price level. This may result in differences between numbers quoted here and elsewhere. For example, in February 2022 price level the 2022 price cap is €8.24, whereas the nominal price cap for 2022 is €8.11.

quality service levels we have specified, with associated rebates and bonuses to incentivise delivery.

The price cap reflects confidence in the continued recovery in aviation, and will facilitate further growth by setting efficient charges. We expect passenger numbers at Dublin Airport to be at 31.7m in 2023, which is 96% of 2019 levels. With the recovery of aviation it is timely for Dublin Airport to invest significantly in key pieces of national infrastructure. We have made capital investment allowances of c€3bn, which, when completed by Dublin Airport, will provide capacity to handle 40 million passengers per year at a high level of service.

In our price cap calculations, we also make allowances for sustainability investments of €425m to enable Dublin Airport to achieve its sustainability targets."

NOTES FOR EDITORS

Main Changes from the Draft Decision in July

There are a number of changes since the Draft Decision in each of the price cap components. The most impactful one is that CAR now expects passenger numbers to grow faster than the July forecast, with 1.5m extra passengers now expected in each of 2023 and 2024 and 0.5m in each of 2025 and 2026. CAR now expects traffic to recover to 2019 levels in early 2024 and to reach 35.7m by 2026.

CAR has also increased the amount of capital investment which is contingent on delivery to €1.1bn. This means that airport users will only be required to pay for these projects if they are progressing.

Where CAR differs to Dublin Airport

Dublin Airport has proposed a higher price in the range of €13.04 to €14.77. This is a significant difference, driven by three main factors. First, Dublin Airport forecasts a slower recovery in passenger traffic. Second, Dublin Airport proposes a higher cost of capital (return for investors). Third, Dublin Airport forecasts that operating costs should grow at a much faster rate than CAR's growth forecast.

Statutory Objectives

In setting the price cap CAR is guided by its Statutory Objectives, the thrust of which relates to economic efficiency and seeking to maximise the value that Dublin Airport provides to current and future users. With the enactment of the Air Navigation and Transport Act, 2022, CAR's objectives also have an additional focus on the promotion of sustainability and climate change related policy. Amongst other things, this Act amends the Aviation Regulation Act, 2001, pursuant to which the amended determination is made. This amendment came into effect on 22 December 2022.

Consultation with Stakeholders

In preparing this decision CAR has consulted extensively with stakeholders, including Dublin Airport and airlines via its 'Issues Paper' in February 2022 and its Draft Decision in July 2022. CAR has also engaged with its Passenger Advisory Group, which is composed of organisations representing the diversity of passengers at Dublin Airport. The advice received from the group has, in particular, informed decisions on service quality measures and targets.

Building Blocks

The price cap is based on the following components:

- **Passenger Forecasts**: CAR is forecasting that 31.7m passengers will use the airport in 2023, and that growth will continue, exceeding 2019 levels in 2024, and reaching 35.7m by 2026.

- **Operating Costs**: CAR has allowed operating costs ranging from €305m to €328m per year. The objective is to ensure that Dublin Airport is operated efficiently, with sufficient resources to deliver high-quality airport services. These numbers are in real prices and do not include increases due to inflation (prices and wages), when inflation is included, we expect Dublin Airport to increase operating costs to €349m in 2023 and €403m by 2026, this compared to the €286m it will spend in 2022.
- **Commercial Revenue**: CAR expects passengers to return to pre-pandemic behaviour in relation to retail, food and beverage, and car parking, with revenues of between €276m and €330m expected per year.
- **Cost of Capital**: CAR have assessed that investors in Dublin Airport should get a return of 4.35% (before inflation), this is slightly higher than the Draft Decision, with increases in the cost of equity somewhat offset by decreases in the real cost of debt.
- **Capital Projects allowances**: CAR have allowed c€3bn in capital investment, €360m of which is in sustainable projects. The investment programme will increase capacity of the airport to 40 million passengers per annum.
- **Financeability**: CAR has made adjustments to the settlement to enable the financeability of the investment programme, primarily by including a significant degree of prefunding for certain major projects: 80% of funding will commence when construction of the project is on-site, with the remaining 20% on completion.
- **Quality of Service:** To incentivise a return to pre-pandemic levels of service for passengers, CAR has set a comprehensive set of quality of service measures and associated rebates and bonuses. €0.36 of the price cap is at risk with rebates for underperformance in relation to areas such as security queue times, and a bonus of up to €0.15 is available for exceptional performance. The overall objective of the Quality of Service targets is to return to 2019 levels of service quality from 1 January 2023, including in key areas such as security queue times.

The price cap can change in the period for:

- Inflation: The price cap is set in real prices, meaning it excludes inflation. The price cap will be updated each year to reflect actual inflation, thus insulating Dublin Airport from inflation risk.
- Almost €1.1bn of capacity related capital investment projects are triggered – meaning they are only added to the price cap when the project has received planning permission and is on site – based on planned timelines CAR expect these will add €1.80 by 2026.
- Quality of service rebates and bonus - €0.36 at risk, €0.15 potential bonus

Ends

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