DUBLIN AIRPORT

Response to Commission for Aviation Regulation

Interim Review of the 2019 Determination in relation to 2020 and 2021

27th November 2020

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Impact of COVID-19 on Aviation Sector

The onset of the COVID-19 pandemic has proved catastrophic for the aviation market and has led to the collapse of traffic at Dublin Airport during 2020. We are now expecting that 2020 passenger traffic at Dublin Airport will be down some 24 million when compared to 2019. It is evident that Dublin Airport will have fewer than 8 million passengers this year. This means that the traffic at the airport will be back at 1995 levels with, in effect the loss of 25 years of growth.

We believe that the current difficulties will be mirrored in 2021 and our industry will continue to face unprecedented challenges for a number of years. For 2021, there is a considerable amount of uncertainty around passenger traffic.

Financial Impact of COVID-19

Dublin Airport's aeronautical and commercial revenues have all but disappeared since the outbreak of COVID-19, we are now facing one of the most financially challenging times in our eighty-year history. [redacted]

Out of necessity daa has actively responded to this crisis, we took the decision to implement a range of cost cutting actions in order to safeguard the financial viability of Dublin Airport. Currently all daa employees are on a prolonged period of reduced pay and hours. A Voluntary Severance Scheme has also been introduced with the aim of right sizing our business.

Price Regulation Response to COVID-19

From a financial perspective, Dublin Airport relies significantly on the revenue generated from the airport charges levied on its airline customers to fund the provision of essential aeronautical services and the development of the airport in line with our statutory duties under both the Air Navigation and Transport (Amendment) Act 1998 and the State Airports Act 2004. Our aeronautical charges are currently subject to the annual price cap for 2020 set by the Commission in its Determination on the Maximum Level of Airport Charges at Dublin Airport for 2020-2024, dated 24 October 2019 ("the 2019 Final Determination").

We believe many aspects of the 2019 Final Determination have now become outdated given the drastic impact of the COVID-19 pandemic on the Dublin Airport business. We agree that many of the assumptions underpinning the 2019 Final Determination are not reflective of this current reality.

Dublin Airport believes that the Commission now has a critical role to play in aiding recovery. Dublin Airport is a vital element of national infrastructure and has a key role to play in both the economic recovery and the future growth of the country post COVID-19 and BREXIT. This can only be achieved if the longer-term financial viability of the airport is protected and it can meet its statutory objects[1].

We agree with the Commission's proposed regulatory response to COVID-19 where it has now issued a draft decision relating to a discrete review of immediate issues pertaining to the price caps in 2020 and 2021, and its proposal to perform a full Interim Review of the 2019 Determination for the period 2022 onwards at a later date. We believe that these set of proposals are on balance reasonable and appropriate given the exceptional circumstances we are experiencing and the inability to predict with any degree of accuracy the short to medium term prognosis for the aviation sector.

Dublin Airport notes the Commission's proposal to look at individual caps related to specific airport charges in assessing price cap compliance for 2020. We believe that this is a pragmatic and practical approach in the wake of the circumstances arising from the impact of the COVID-19 pandemic. Dublin Airport believes that the Commission's proposal whereby we will be asked to demonstrate that under each individual charging heading, the airport's average revenue yield is less than or equal to the agreed unit price, is appropriate as this will assure the Commission and our airport users that Dublin Airport has been compliant and has not over collected on airport charges during 2020.

Alternatively, the use of the average revenue per passenger to test compliance for 2020 would unduly penalise Dublin Airport due to the inadvertent distortion in this yield for 2020 arising from the ratio between the higher aircraft movements and lower passenger volumes in 2020 and thereby fetter Dublin Airport operating in a sustainable and financially viable manner.

Dublin Airport's preferred option for 2021 would be for the Commission to extend its 2020 compliance proposal into 2021 such that Dublin Airport's 2020 charging strategy would continue to be precisely allowed as the determined maximum levels of charges in 2021. This is the only plausible approach given the huge level of uncertainty around traffic volumes at this time and the difficulties associated with traffic forecasting.

Option 3 which is currently being proposed by the Commission is likely to further damage the financial viability of the airport. In addition, it will potentially require numerous changes to

[1] In this regard it is worth noting that at recent S&P event the UK CAA indicated that it believes that the best way for it to protect consumers was by supporting Heathrow Airport the regulated entity: https://www.spglobal.com/ratings/en/events/webcast-replays/infrastructure-utilities-conference-2020-emea-infrastructure-projects

charging over the course of 2021 in an effort to achieve any degree of compliance to a single figure such as €7.50. This is likely to prove very destabilising for the industry as a whole.

During this forthcoming review process, Dublin Airport fully commits to the continuation of collaborative engagement with all stakeholders, so that we collectively achieve a balanced regulatory settlement that will primarily best serve passengers, but also the various stakeholder interests throughout the wider airport community.

Pricing Response to COVID-19

Dublin Airport understands that the aviation sector in Ireland has been exceptionally hard hit by COVID-19 and that our airport customers are similarly experiencing extremely difficult trading conditions. Throughout the pandemic, in response to requests, we introduced emergency relief for the long-term parking of aircraft and support for emergency PPE cargo operations. The parking supports will be extended through winter 2020/21 season.

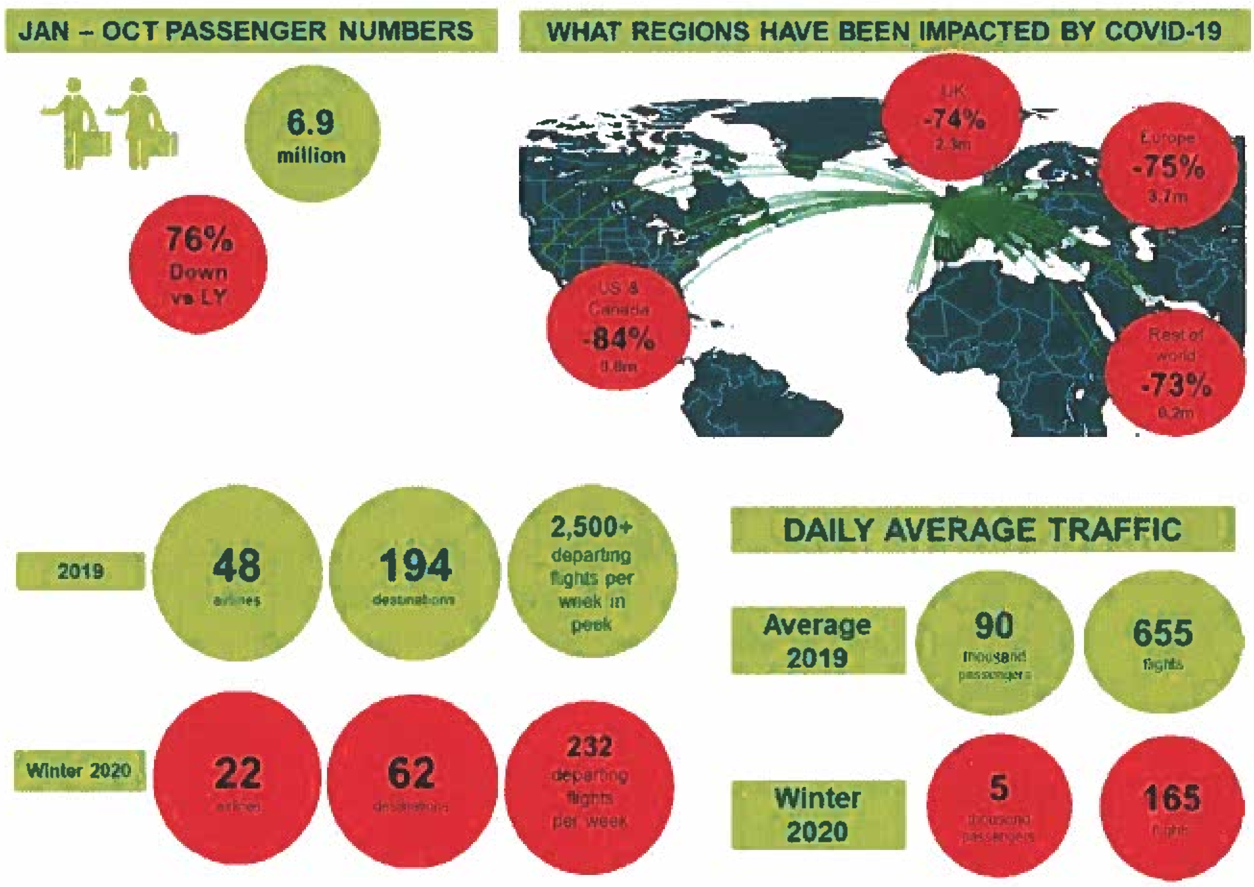
In regard to our pricing policy we propose that a reasonable balance needs to be struck during these exceptional times. Transferring further financial damage from one effected stakeholder to another should be avoided, as it simply moves the problem around rather than trying to reach a workable solution for all effected stakeholders. Hence, why we are suggesting that our current 2020 level of airport charges should be fixed until Summer 2022. A reduction in charges at this difficult time will further damage the airport's precarious cashflows, with no guarantees that these savings will be passed onto consumers or have any potential for stimulating additional traffic demand at the airport. However, we do appreciate that it would be perverse for Dublin Airport to increase its airport charges at a time when demand for air travel is so depressed and our airline customers are in financial difficulty.

A holistic approach to dealing with the crisis is necessary to ensure all stakeholders can benefit and deliver in their respective areas to the economic recovery of the aviation industry. Dublin Airport is recommending the continuation of our existing airport charges throughout 2021 and we request that the Commission accept this approach as equivalent to price cap compliance (similar to the approach proposed for 2020). We believe this is the best and most effective approach given our limited ability to project a level of airport charges that will likely deliver price cap compliance at this difficult and uncertain time, when demand is so depressed and air travel is advised against. Furthermore, the same demand uncertainties are just as prevalent now as at the start of the pandemic.

The recent government proposals to implement zero aeronautical charging for part of 2021, which will be funded by government rebates also substantiates the positioning for retaining the 2020 charges into 2021. There will also be a considerable focus on cargo movements as COVID-19 vaccines are distributed throughout 2021.

Given due consideration to each of these points and the high degree of volatility there is a strong likelihood that the charging levels projected will not achieve the desired outcome. We firmly believe that our alternative proposal will provide stability in an unpredictable market for the broader aviation sector in Ireland.

Impacts of COVID-19 on Dublin Airport (Jan-Oct 2020)



1. Introduction

1.1 Introduction

1.1.1 Dublin Airport welcomes the publication of the Commission's paper CP9/2020 Draft Decision on an Interim Review of the 2019 Determination in relation to 2020 and 2021 on the 23rd October. We support the Commission's decision to carry out a narrow interim review in 2020 in order to address the immediate unintended consequences for the 2019 Determination that the pandemic has created. This is the only sensible approach given the unpredictability of the current landscape and the inability to assess with any degree of accuracy the short to medium term future of the aviation sector in which all the stakeholders operate.

1.1.2 We welcome the fact that this review is seeking to address the immediate consequences of COVID-19, and the proposals to make changes to the 2019 Determination to remove adjustments which are based on out-dated targets, which provide perverse incentives, or which would have an adversely negative impact which was not originally anticipated.

1.2 Overview of COVID-19 Impacts

1.2.1 The onset of the COVID-19 pandemic has proved to be the largest disaster which the aviation market has incurred in history. It has led to the collapse of traffic at Dublin Airport during 2020. We are now expecting that passenger traffic at Dublin Airport will be down some 24m compared to 2019, given that, we are projecting that Dublin Airport will have fewer than 8 million passengers this year. This means that the traffic at the airport will be back at 1995 levels with, in effect the loss of 25 years of growth.

1.2.2 The impact of the outbreak of the COVID-19 pandemic on Dublin Airport's financial position has been severe with YTD losses for the first nine months of 2020 amounting to over [redacted]. Overall, the impact of COVID-19 is anticipated to result in a [redacted] reduction in gross margin for the company this year compared to the Commission's forecast in the 2019 Final Determination. Dublin Airport has taken swift action to reduce its cost base for 2020 which is expected to now reduce by [redacted] thereby mitigating the overall loss for the company at EBITDA level to [redacted].

1.2.3 The events of the last few months have fundamentally changed all the business parameters at Dublin Airport and going forward the outlook for the timing of a recovery still remains uncertain. While the full impact of COVID-19 in the years ahead is yet unknown, it is expected that there will be profound operational and financial implications for Dublin Airport and the aviation sector as a whole.

1.2.4 The impact of the pandemic has proved particularly catastrophic for our aeronautical revenues where combining the annual price cap for 2020 with substantially reduced passenger volumes is resulting in total aeronautical revenues substantially below the required levels envisaged by the Commission under the 2019 Final Determination. Currently this differential is estimated at €194m.

2. Price cap for 2020 and 2021

2.1 Introduction

2.1.1 The onset of COVID-19 has had a devastating impact on the aviation sector in Ireland. Against this backdrop Dublin Airport has considered its pricing response to the current crisis, where we are now proposing to introduce a flat price strategy where we wish to retain airport charges at their current level throughout 2020 and 2021.

2.1.2 This strategy is consistent with the approach currently being adopted throughout the aviation sector. Many European airports are either pushing 2020 charges into 2021 with no changes to the charging menu or increasing charges to reflect severe revenue declines coupled with the need for COVID-19 cost recovery. It should be noted that to date, ISAs throughout Europe have accepted this as a rational position, given the adversarial nature of evolving pricing during the pandemic.

2.2 The Commission's Proposal for the 2020 Price Cap

Review of the Commission's proposal for 2020

2.2.1 Dublin Airport welcomes the Commission's proposal to look at individual caps related to specific airport charges in assessing price cap compliance for 2020. We believe that this is a pragmatic and practical approach in the wake of the circumstances arising from the impact of the COVID-19 pandemic.

2.2.2 While Dublin Airport has always endeavoured to set its aeronautical prices in compliance with the annual price cap, 2020 is proving to be an exceptional year. Dublin Airport held its annual airport charges consultation process in the final quarter of 2019 and airport charges were set in agreement with airport users based on compliance with the 2020 annual price cap of €7.58.

2.2.3 However, the impact of the COVID-19 pandemic has completely distorted our aeronautical revenue projections. There has been a drastic reduction in traffic at Dublin Airport with passenger volumes falling to unprecedented low levels. This has had a substantial effect on the average revenue per passenger which Dublin Airport is likely to earn for 2020.

2.2.4 While overall traffic at the airport has declined sharply a certain amount of cargo operations and aircraft movements have continued to operate since the outbreak of COVID-19. Aircraft movements where appropriate have continued to be levied with the current agreed airport charges.

2.2.5 Since Dublin Airport's price cap compliance is calculated based on the average revenue generated per passenger, the low passenger numbers for 2020 will result in an unexpectedly higher yield per passenger.

2.2.6 This higher yield per passenger would ordinarily represent a higher amount of aeronautical revenue being generated by the airport but this is not the case in this instance. This is simply a volume effect where the sharp decline in passenger numbers divided into the revenue generated from non-passenger related airport charges such as aircraft movement and parking charges have distorted the average revenue per passenger yield.

2.2.7 As previously outlined to the Commission, the total revenue yield generated by Dublin Airport in 2020 is likely to be substantially below that envisaged under the Commission's price cap calculation and this will result in a substantial loss in aeronautical revenue for the company as illustrated in the table below.

TABLE 1 Dublin Airport Aeronautical Revenue impacts

	Pax Traffic Forecast	Total Revenue	Annual Price Cap
2020 CAR Final Determination	34m	€255.2m	€7.58
[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	

Source: Dublin Airport July 2020

2.2.8 Dublin Airport believes that the Commission's proposal whereby we will be asked to demonstrate that under each individual charging heading, the airport's average revenue yield is less than or equal to the agreed unit price, is appropriate as this will assure the Commission and our airport users that Dublin Airport has been compliant and has not over collected on airport charges during 2020.

<u>Dublin Airport's preferred approach</u>

2.2.9 Dublin Airport welcomes the Commission's proposed individual cap approach to assessing price cap compliance in 2020. We believe that this is a necessary and pragmatic approach given the exceptional circumstances of 2020. This is a proportional solution which will strike a balance between the interests of airport users and the financial viability of the airport.

2.2.10 The use of the average revenue per passenger to test compliance for 2020 would unduly penalise Dublin Airport due to the inadvertent distortion in this yield for 2020 arising from the ratio between the higher aircraft movements and lower passenger volumes in 2020.

2.3 The Commission's Proposal for the 2021 Price Cap.

Review of the Commission's Options for 2021

2.3.1 In its draft decision the Commission proposed four options for consideration in regard to the price cap for 2021. Dublin Airport has considered each of these proposed options in the context of aeronautical pricing for 2021.

Option 1

2.3.2 Dublin Airport believes that the application of option 1 could prove very detrimental for the company. The imposition of the current price cap formula could result in the implementation of a number of downward adjustments to the base €7.50 price cap for 2021 requiring a substantial reduction in our current airport charges at this difficult time. This would create additional losses in aeronautical revenues, further jeopardising the viability and sustainability of airport services in Ireland. Furthermore, this could undoubtedly negatively impact Dublin Airport's credit rating. Finally if this approach were to be taken there would be no potential for stimulating additional demand in the aviation sector and no guarantee that the charging reductions will be passed onto consumers.

Option 2

2.3.3 While preferable to option 1, option 2 is also not considered to be practical from the airport's perspective. Given that option 2 would lead to a base price cap of <€7.50 there would be a requirement for a reduction in airport charges for 2021As illustrated in our response to Option 1, this would further damage the airport's precarious cashflows, increase instability and profoundly heighten risk during this difficult commercial period with implications for the longer term capability of the business to support a return to growth in the future.

Option 3

2.3.4 Option 3 proposes a fixed price cap of €7.50 for 2021. While this would be preferable to options 1 or 2, Dublin Airport would have strong reservations about this option. This is due to the fact that the impact of the COVID-19 pandemic is expected to continue into 2021 with passenger numbers at Dublin Airport forecast to be substantially lower than the projection used by the Commission in the 2019 Determination.

2.3.5 This will lead to a distortion in average revenue where based on our current airport charges, average revenue per passenger for 2021 will be predicted to be higher than the €7.50 price cap, despite the fact that total aeronautical revenue will obviously be substantially lower than that envisaged by the 2019 Determination. This per pax outcome is not deliberate, rather an inadvertent function of the ratio between higher aircraft movements and lower passenger volumes.

TABLE 2 2019 FINAL DETERMINATION V'S COVID-19 IMPACTS

	Pax Traffic Forecast	Total Revenue	Annual Price Cap
2020 CAR Final Determination	35.1m	€263.3m	€7.50
[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	

2.3.6 As a result, in order for Dublin Airport to achieve compliance with a €7.50 price cap we will be required to reduce our current airport charges for 2021.

2.3.7 From an economic perspective the table above illustrates that based on a combination of an average price cap of €7.50 per passenger and our current passenger volume forecast for 2020 our projected total revenues will fall substantially below that projected by the Commission. It is clear that an average revenue yield per passenger of €7.50 will fail to cover the average cost of providing our aeronautical services.

2.3.8 From the company perspective this is not viable as the reduced aeronautical revenues will add to the already serious financial crisis facing the regulated entity without any guarantee that the charging reductions will be passed onto consumers or have any potential for stimulating additional demand.

2.3.9 Given the likely impact of the imposition of the €7.50 price, this decision would run contrary to the statutory objective of safeguarding the financial viability of Dublin Airport.

2.3.10 Furthermore, the objective of achieving price compliance to a precise number like €7.50 per passenger is going to prove very difficult in the current unpredictable environment which has rendered passenger traffic forecasting almost impossible in the short term where our latest forecast for passenger traffic in 2021 is projected to be a range of between 9m and 18m passengers.

Option 4

2.3.11 Dublin Airport's preferred option would be option 4 where the Commission would measure regulatory compliance based on a series of limits such that Dublin Airport's 2020 charging strategy would continue to be precisely allowed as the determined maximum levels of charges in 2021.

2.3.12 This option would allow Dublin Airport to retain its current aeronautical charging levels and it would enable us to achieve price cap compliance by ensuring our average revenue per unit does not exceed the menu unit price across all the individual categories of airport charges.

2.3.13 Option 4 will not require any attempt to project the pricing adjustments necessary to ensure compliance with a single price cap as this is likely to prove a difficult and potentially unsuccessful exercise given the high level of uncertainty and distortion remaining in the market going into 2021.[2]

2.3.14 This option would also allow aeronautical pricing at Dublin Airport to better reflect the average cost of the provision of the aeronautical services. This will better serve to maintain the financial viability of the airport in accordance with the Commission's statutory remit.

2.3.15 Option 4 will ensure that that Dublin Airport's level of charging will remain unchanged and the airlines will face a consistent level of charges therefore there will be no further financial impacts from charging fluctuations for either party at this difficult time.

Dublin Airport's request

2.3.16 We understand that currently the Commission's proposed approach to price compliance in 2021 is option 3 while Dublin Airport believes that the implementation of option 4 is the only viable option. With this in mind we have outlined a range of direct implications associated with both Option 3 and Option 4 in the following table to support this view:

TABLE 3 COMPARISON OF COMMISSION'S OPTION 3 & OPTION 4

Option 3 – Fixed Price Cap of €7.50	Option 4 – Continuation of 2020 Pricing Strategy
a) Potentially require a further reduction in airport charges. b) Reduction in airport charges will lead to: • Economic inefficiency where average revenues do not reflect average cost. • Additional financial losses for the airport.	a) Potentially allowing airport charges to stay at the current 2020 levels. b) Provide price stability for the forthcoming year enabling a market recovery.

[2] For example, American Airlines are currently proposing to run its scheduled passenger flight as a cargo only flight in 2021 given the current low level of passenger demand in the transatlantic market.

Option 3 – Fixed Price Cap of €7.50	Option 4 – Continuation of 2020 Pricing Strategy
• Transfer of economic welfare from airport to airlines. c) Exercise of projecting the appropriate pricing levels to ensure compliance with a single price cap is likely to prove very difficult and incorrect given the uncertainty in the market. d) No evidence that reduction in airport charges will be passed onto passengers at Dublin Airport. e) No evidence that any reduction in airport charges will stimulate traffic demand. f) Compliance with a price cap of €7.50 will require accurate forecast of passenger traffic and revenues for 2021 – extremely difficult in current circumstances latest traffic forecast for 2021 is a range of 9m-18m passengers. g) Option 3 is likely to require numerous changes to the aeronautical charges menu over the course of 2021 in an effort to achieve any degree of compliance to a single figure such as €7.50. This is likely to prove very destabilising for the industry as a whole. h) Fixed Price Cap of €7.50 will lead to further reductions in aeronautical revenues for the airport worsening the current financial crisis for the airport contrary to the Commission's statutory obligation to safeguard the financial viability of the airport.	c) Allow airport charges to better reflect the average cost of the provision of aeronautical services. d) Strike a balance between support for the airport and financial assistance to airlines. e) Better serve to fulfill the Commission's statutory remit regarding the financial viability of the airport. f) Best serves the interests of the consumer and the Irish State.

2.3.17 Considering the above implications to the regulated entity, we hold that the Commission should implement option 4 of its proposed options regarding the price cap for 2021 as the only plausible balanced solution in the interest of the airport, airport users and consumers. This will allow for the continuation of existing charges throughout 2021 which will provide price stability for the aviation market in Ireland in the coming year and balance current high levels of risk between the airport and airport users.

2.3.18 We believe this will be a more balanced and proportional approach giving consideration for both the economic interests of airport users and the financial viability of the airport during these challenging times for the aviation sector.

2.3.19 We are concerned that the implementation of option 3 resulting in a fixed price cap of €7.50 will require a reduction in charges in order to deliver price cap compliance. We would be concerned that any further reduction in airport charges would result in additional losses in aeronautical revenues for the company during this difficult and uncertain time adding to the financial crisis currently being experienced. Notwithstanding this, we would question the consumer benefits of reducing airport charges given that currently airline demand is so depressed that lowering prices to stimulate volume demand is currently not performing particularly given that airport charges account for only a small proportion of overall airline costs.

2.3.20 In addition, if the Commission decides to proceed with option 3 and the use of an average revenue price cap in 2021, we would recommend an adjustment from average revenue per passenger to average revenue per workload unit (WLU) as this would better reflect the current composition of passengers and cargo flight operations at Dublin Airport.

2.3.21 In addition, it should be noted that the Government has very recently outlined a proposal to provide a full rebate to airlines in respect of their airport charges for Q1 of 2021. The detailed process for the implementation of this proposal requires further finalisation, including EU Commission approval, and further communication to Dublin Airport. However, we understand that the Commission was consulted in the development of this proposed scheme. Our outline understanding is that this scheme would give rise to zero charges being levied to airlines for specific aeronautical purposes, with the equivalent revenues being rebated to the airport by government. The duration of this scheme is subject to confirmation, but it appears to apply to Q1 2021 and potentially longer.

2.3.22 This proposal adds further to the complexity and uncertainty faced by the airport in 2021 and supports the view that the only plausible option for 2021 is that current airport charges should remain unchanged and the 2020 compliance mechanism should be extended into 2021.

2.3.23 If the Commission choses to proceed with options 1-3 this could seriously damage the financial viability of the airport with further negative repercussions for the industry going forward.

Regulatory clarification required for charging

2.3.24 Notwithstanding Dublin Airport's preference for the application of option 4 in relation to the price cap for 2021, we understand that we continue to have a requirement to ensure price cap compliance in respect of our airport charges.

2.3.25 However in the current challenging environment our ability to accurately forecast the key inputs for 2021 pricing is now severely compromised; i.e. we are not in a position to accurately provide the usual passenger composition and tonnage estimates to support the calculation of the charges menu for 2021/22 that will ensure price cap compliance against a target average revenue per passenger. Airlines are also continually changing their schedules and looking for a waiver for next summer to retain agility.

2.3.26 Therefore, there is a high risk that even if the current aeronautical charges are altered, they will not deliver the desired average aeronautical revenue per passenger outcome to deliver price cap compliance.

2.3.27 On this basis Dublin Airport will endeavour to monitor its price cap compliance throughout the forthcoming year in order to ascertain if it may be necessary to make adjustments to our airport charges during 2021.

2.4 Triggers and Adjustments

T2 Box 2

2.4.1 Dublin Airport welcomes the draft decision by the Commission to remove the reverse trigger for T2 Box 2 and to retain the T2 Box 2 allowance for 2020 and 2021.

2.4.2 Terminal Two is now ten years in service this month. A sizeable portion of the capital investment (c. €200 million) only entered the Regulated Asset Base in 2020. Hence, customers have enjoyed ten years of usage without paying the full cost related charges but this position cannot be justified going forward.

2.4.3 Retaining the T2 Box 2 reverse trigger would prove to be a punitive measure which would result in an additional reduction in potential aeronautical revenues for Dublin Airport in the immediate future adding to the growing financial crisis facing the company.

Capital Expenditure Reprofiling Triggers

2.4.4 Dublin Airport welcomes the draft decision by the Commission to remove the capital expenditure reprofiling triggers originally included in the price caps for 2020 and 2021. Given the current adverse circumstances impacting Dublin Airport, there is a need for greater reflexibility regarding the timelines and associated penalties fixed for the relevant capital projects. Dublin Airport believes that the capital expenditure reprofiling triggers originally included in the price cap formula for 2020 and 2021 are unnecessarily rigid and potentially penal for the company.

2.4.5 The outbreak of COVID-19 had a drastic effect on capital development at Dublin Airport and there is a concern that the current periods of Lockdown combined with the exceptional upheaval impacting the aviation sector has created a possibility that Dublin Airport could fail to reach some of the capital investment targets set for 2020 and 2021.

2.4.6 In addition, the continued use of these capital expenditure reprofiling triggers could provide Dublin Airport with a perverse incentive to continue progressing capital development projects at a time when it may be appropriate to be more selective with our capital programme and prioritise certain projects of higher necessity given our current challenging business environment.

2.4.7 Retention of these measures in the price cap formula could result in some or all of these reprofiling triggers coming into effect, where this could lead to a substantial reduction in the price cap, creating additional losses in aeronautical revenues and adding to the growing financial crisis facing the company.

Opex Cost Pass Through Mechanism

2.4.8 While on balance Dublin Airport accepts that the opex cost pass through mechanism will not be applicable for 2020 and 2021 given the Commission's removal of all adjustments in the price cap formula for 2020 and 2021, it should be noted that in effect this means that the unexpected operating costs of [redacted] relating to the public health measures mandated by Government regulatory authorities have been left unrecoverable Going forward it is likely that these costs may become substantially higher and it will be important that the airport has a means of recouping these costs in order for it to be in a position to fully implement all of the required regulatory measures set by Government.

2.4.9 Dublin Airport is following the guidelines for healthy passenger journeys as set out in the EU commission (C(2020 3139) and EASA/ECDC draft post COVID-19 guideline papers for the restoration of transport services and connectivity and guidance for the management of airline passengers. Dublin Airport will also continue to work closely with government and competent authorities (HSE/HSA) regarding adherence to national policy. In order to comply with these guidelines, Dublin Airport will see an increase in certain operating costs, e.g. staff COVID-19 testing, increased usage of proactive clothing for all staff (face coverings, gloves etc), ensuring hand sanitisation is available throughout the campus and ongoing maintenance of clear communications on health measures and requirements across campus and in advance of travel. At this point in time it is very difficult to estimate both the direct and indirect COVID-19 costs which will be incurred in 2021 as these requirements evolve. If a resumption of meaningful levels of traffic coincide with the need to maintain strict access controls, social distancing, and other operational requirements these will all need to be considered within the regulatory framework.

2.4.10 Dublin Airport would also like to acknowledge the fact that there remains substantial uncertainty around the final level of rates for Dublin Airport in 2020 which is currently under appeal and also the passenger forecast for 2021. Both of these elements would make the application of the cost passthrough mechanism in 2021 prone to estimation error. However, going forward the operating cost pass through mechanism needs to be fully implemented in order to adjust for unanticipated costs such as the level of rates and other mandated costs.

Quality of Service Adjustment

2.4.11 Dublin Airport welcomes the draft decision by the Commission to remove the financial penalties associated with the Commission's quality of service measures for 2020 and 2021. We believe that this is an appropriate decision in the current environment given the practical difficulties of gathering representative samples across the different types of passengers relevant to the quality of service regime.

2.4.12 We will endeavour to focus on maintaining appropriate quality of service in our airport and we will work to provide the Commission with data relating to our service performance and where possible. We look forward to engaging with the Commission on a possible reassessment of the service quality regime at Dublin in the proposed forthcoming wider interim review of the 2019 Determination.

2.4.13 In the meantime, we will continue to report as per the existing timelines on all service quality measures which continue to have active data.

No Inflation Adjustment

2.4.14 Given the Commission's proposed removal of all adjustments from the 2020 and 2021 price cap formula, Dublin Airport accepts that the Commission is proposing to not apply an inflation adjustment to the price cap for 2020 and 2021.

3. Regulatory Mechanisms

3.1 Capex

Impact of COVID-19 on 2019 Determination Capex

3.1.1 The impact of COVID-19 on capex has resulted in a review of capex demand and a review of project prioritisation to meet forecast demand. This has led to several project timelines extending beyond the end of the CIP 2020 regulatory period of 2024, to 2025. Depending on forecast passenger growth, projects may be pushed out to 2026 in some cases. The capex spend to the end of October 2020 is c.€130m on CIP 2020 projects, the majority of which has been on T1 HBS and T2 HBS projects (c.€90m). Other essential projects that are progressing include;

- Gate Post 9 Expansion (Westlands) (CIP 20.03.004)
- RWY 16/34 Lighting for Low Visibility Procedures (LVP) (CIP 20.01.099 - €5.5m).

3.1.2 In addition, COVID-19 is impacting the delivery of a large number of projects due to government travel restrictions, as well as the requirements for social distancing on construction sites which are imposing additional challenges to project delivery.

3.1.3 The suite of CIP 2020 projects is still valid for 40mppa, however the timelines will be extended in line with the forecast passenger growth post COVID-19. It is essential to progress some Asset Care and Maintenance projects now in order to keep the airport safe, efficient and to minimise disruption to operations. Given that these essential projects will be progressed during 2021 Dublin Airport anticipates that the allowances will be retained as per the 2019 Final Determination.

3.1.4 We have reviewed the CIP 2020 projects and have identified projects that must proceed in 2020 and in 2021 and these are identified in the Appendix. In addition, we have €1.29bn of projects that are included in the StageGate process so for 68% of CIP 2020 there already exists a process of consultation with stakeholders to address capex.

Capex requirements 2020 and 2021

3.1.5 In order to maintain safe operations and drive efficiency, it is essential to progress certain capital development projects. There are 2 broad categories for projects that we are currently progressing from CIP 2020;

(a) The first category are projects that had commenced in advance of the current COVID-19 pandemic and these projects should continue as they are essential and are currently on site. These projects are ultimately required to maintain safe operations at the airport (irrespective of passenger numbers) and deferring them at this point in their development would not be an efficient use of capex and would result in nugatory expenditure. Examples of projects in this category are:

- Gate Post 9 Expansion West Lands (CIP 20.03.004 - €8.5m), essential to meet the requirements of IAA-SRD and provide secure and safe access to West Apron for Cargo and other operations.
- RWY 16/34 Lighting for Low Visibility Procedures (LVP) (CIP 20.01.099 - €5.5m), essential for the introduction of North Runway to allow Runway 16/34 to be used as a low visibility taxiway in order to efficiently manage traffic flows on the airfield.
- Airport Heavy Fleet & Equipment Replacement (CIP 20.02.065 - €9.0m), a portion of this is essential to provide for additional winter fleet and HRET (High Reach Extendable Turret) fire tenders on the introduction of the North Runway.
- Passenger Boarding Bridges (Maintenance & P3 Enhancement) & FEGP (CIP 20.02.004 - €17.2m), a portion of this project is also essential to complete the replacement of the FEGP on Pier 4 (including replacement of cable carrier system), which is required to remove the risk of intermittent failures of the existing life expired FEGP on Pier 4 and the associated safety and operational risks. This is also essential to meet the proposed Commission SQMs post any COVID-19 relaxation.

All of these projects are currently on site and in some cases almost complete. The appendix details other projects that have also commenced and are on site or are advanced to contract award stage and should be completed.

(b) The second category are projects that are required to keep the airport operational and/or address regulatory requirements. These projects are required to replace existing life expired assets which are failing and need to be upgraded to maintain operations, and if they are not addressed will result in an increase safety risk and operational disruption. Examples would include;

- Campus Roads Critical Maintenance (CIP 20.01.034 - €6.5m), which if not addressed will result in pavement failures and the associated safety risk,
- Medium Voltage (MV) Electrical Network (CIP 20.02.001 - €6.3m) – MV testing has shown weakness in the airfield MV cable and needs to be replaced by 2021 in order to remove the risk of unplanned power failures. In addition, the current MV SCADA system will no longer be supported beyond the end 2020 and this also needs to be replaced to ensure continuity.

- Lift Upgrade Programme - Terminal and Multi-Storey (CIP 20.02.005 - €6.2m), it is essential to replace existing life expired lifts and to maintain proposed Commission SQMs post any COVID-19 relaxation.

3.1.6 The appendix details other projects that are essential to the continued operation of Dublin Airport and are essential to avoid unplanned downtime and operational disruption and associated increased safety risks.

3.1.7 In addition, the operational disruption as a result of progressing a number of these projects now, is significant lower due to the reduced volumes of aircraft movements and passengers, and it is essential that these projects are completed now to minimise the future risk to operations, passengers and staff post COVID-19.

3.1.8 We disagree with Ryanair's suggestion that there is a perverse incentive to progress with capex just to avoid clawback at the end of the Determination period. We are only progressing capex where it is essential to maintain safe operations and drive necessary efficiency.

Review of The Commission's proposal

3.1.9 We agree with Commission's position in relation to unspent capex in 2020 and 2021 not being clawed back based on a downside position in other areas. While we do not disagree with Commission's proposal in relation to progressing substantial capex in 2020 or 2021 in principle, (subject to qualifications / suggestions in the above sections) where we must reach agreement with airport stakeholders. However, we would suggest that the €4m (or part thereof) capex threshold proposed, is very low and does not represent substantial capex. Section 3.1.15 below proposes a variation on this.

3.1.10 Furthermore, a large number of consultations represents an inordinate level of time investment by Dublin Airport, Airport users and the Commission when we are still managing through a crisis and adjust to efficiency led resource constraints.

3.1.11 We agree with the exclusion of Appendix G ('Other Projects') and the exclusion of PACE projects with the exception of South Apron Stands Phase 2 as stated.

3.1.12 We also suggest that stakeholders staying silent on capex should represent agreement, otherwise it may be difficult to achieve the 50% threshold proposed.

Dublin Airports request

3.1.13 A significant amount of consultation was completed for CIP 2020 in both 2018 and in 2019, including face to face consultation representing a total of 28 hours of meetings, with 26 attendees from 8 airlines. We believe the threshold of €4m for additional consultation should be increased. Additional consultation of projects at the €4m threshold proposed would be an inefficient use of resources given that best practice indicates that regulation should be proportionate and not impose unnecessary burdens on the industry, particularly during a time of crisis.

3.1.14 We have already demonstrated through this consultation where projects represent safety critical maintenance or are required for regulatory compliance. In addition, a significant amount (c.70%) of the projects above €4m are already flexible projects, and it is essential that we maintain some flexibility on capex delivery in order to efficiently manage the airport operation. In a time where COVID-19 requirements are continually evolving, the need for capex flexibility is increasingly important to manage a portfolio of projects. Removing 70% of capex flexibility would have a detrimental impact on the development and operation of the airport. Most projects under €10m are asset replacement projects and projects that are essential to keep the airport operational and efficient, e.g.

- Small Energy Projects (CIP 20.02.013 - €5.4m)
- Airport Heavy Fleet & Equipment Replacement (CIP 20.01.065 - €9.0m)
- Campus Roads Critical Maintenance (CIP 20.01.034 - €6.5m)
- Airport Water & Foul Sewer Upgrade (CIP 20.02.006 - €4.9m)
- Lift Upgrade Programme (CIP 20.02.005 - €6.2m)
- IT Network Components- Lifecycle & Growth (CIP 20.05.009 - €6.8m)

3.1.15 We believe that the threshold for additional consultation should be increased to €10m and suggest that we have already demonstrated where projects are safety critical or necessary for regulatory compliance. Further details are provided in Appendix 2.

3.2 Commercial Revenue

3.2.1 Dublin Airport acknowledges that as a consequence of the low passenger volumes currently being experienced, the average commercial revenue per passenger has been somewhat inflated. This could lead to outperformance when compared to the Commission's targets for commercial revenue although that is not anticipated to be the case in 2021. Dublin Airport maintains that the commercial revenue rolling incentive mechanism is critical in driving improved performance across the commercial revenue portfolio and should be retained in the regulatory determination post 2021.

4. Future Interim Review of the 2019 Determination

4.1 Scope of any further Interim Review

4.1.1 Dublin Airport supports the Commission's approach to the Interim Review of the 2019 Determination. We welcome the resolution of a number of immediate issues which have arisen following the outbreak of COVID-19 which includes:

- Price Cap Compliance for 2020
- T2 Box 2 Allowance
- Capex Reprofiling Triggers
- Service Quality Metrics
- Operating Cost Passthrough Mechanism
- Commercial Rolling Incentive Scheme

4.1.2 However, in the medium-term, Dublin Airport would recommend a full Interim Review of the current 2019 Final Determination, to allow for a reappraisal of the regulatory building blocks in the wake of the COVID-19 pandemic.

4.1.3 Dublin Airport is currently in the process of managing the impact of COVID-19 as efficiently and effective as possible in order to maintain airport operations and financial viability while ensuring the continued safety of staff and passengers. However, the full impact of COVID-19 on our business remains uncertain and will remain uncertain certainly for the short to medium term thereby making it impossible for the aviation sector to properly plan until the volatile nature of COVID- 19 settles and the impact can be assessed with any degree of accuracy.

4.1.4 Going forward, we will look to reassess our business forecasts with a view to providing the Commission with an updated regulatory proposition for the remainder of the current regulatory determination period. However, in order for this to be a meaningful process market stability will need to be restored and our airport customers will need to provide us with updated assumptions relating to traffic forecasts.

4.2 The Commission's Regulatory Model

4.2.1 While the current regulatory model is consistent and predictable, we believe that this may now be an opportune time to look at how the current regulatory determination process can be improved, to provide sufficient flexibility in the regulatory model to respond to the various positive and negative factors that impact growth trends and operations at Dublin Airport.

4.2.2 In practice this should ensure that the regulatory determination process becomes less prescriptive, more pragmatic, focussed more on principles and outcomes, adopting new approaches to accommodate innovation and ensure adequate incentive-based regulation.

4.2.3 We are in the process of providing the Commission with a detailed submission setting out our proposals for improvements to the current regulatory framework.

4.3 Dublin Airport Next Steps

4.3.1 We look forward to working with the Commission in relation to completing this current review and in resolving how the 2019 Determination should best be adjusted at this time, to fit the changed circumstances prevailing in 2020 and 2021.

Appendix: CIP 2020 Project List – Projects > €4m

CIP 2020 Project List > €4m

CIP Number	Project Title	CAR Final Determination (issued 24 Oct 2019) €m	Flexible / Deliverable / StageGate FDS	Project Status
CIP.20.01.002	Apron Rehabilitation Programme	€40.2	S	Requires StageGate Consultation
CIP.20.01.003	Airfield Taxiway Rehabilitation Programme	€16.4	S	Requires StageGate Consultation
CIP.20.01.004	Apron Road Rehabilitation Programme	€4.4	D	Can Defer to 2022
CIP.20.01.006	Airfield Southern Perimeter Road Upgrade Programme	€4.3	F	Flexible Project
CIP.20.01.008	Runway Approach Lighting Mast Improvement Programme	€11.1	D	Runway 16/34 Complete. RW 10R/28L can defer to 2022
CIP.20.01.009	Aerodrome Ground Lighting (AGL) Improvement Programme	€4.7	D	Essential to Progress Now
CIP.20.01.010	Airfield Lighting Control & Management System Improvement Programme	€4.9	D	Essential - On Site
CIP.20.01.016	Airfield Maintenance Base Improvement Programme	€4.4	F	Flexible Project
CIP.20.01.020	Terminal 1 Façade, Roof & Spirals	€25.2	D	Planning Permission being sought - Works can defer to 2022
CIP.20.01.034	Campus Roads Critical Maintenance	€6.5	D	Essential - On Site
CIP.20.01.039	Airport Roads Critical Maintenance	€5.0	D	Essential to Progress Now
CIP.20.01.065	Airport Heavy Fleet & Equipment Replacement	€9.0	F	Essential - On Site
CIP.20.01.074	Advance Visual Docking Guidance System (5G, Pier 1 & Pier 2)	€5.4	D	Can Defer to 2022
CIP.20.01.099	RWY 16/34 Lighting for Low Visibility Procedures (LVP)	€5.5	D	Essential - On Site
CIP.20.07.032	Unit Load Device (ULD) Storage	€5.0	F	Flexible Project
CIP.20.02.001	Medium Voltage (MV) Electrical Network	€6.3	D	Essential to Progress Now
CIP.20.02.004	Passenger Boarding Bridges (Maintenance & P3 Enhancement) & Fixed Electrical Ground Power	€17.2	D	Airbridge and FEGP Maintenance Essential Works - On Site
CIP.20.02.005	Lift Upgrade Programme - Terminal and Multi-Storey	€6.2	F	Essential - On Site
CIP.20.02.006	Airport Water & Foul Sewer Upgrade	€4.9	F	Essential to Progress Now
CIP.20.02.007	Life Safety Systems (LSS) Upgrade Programme Terminal and MSCP Buildings	€10.1	D	Essential to Progress Now
CIP.20.02.008	Terminal Buildings HVAC Upgrade	€17.8	F	Essential - On Site
CIP.20.02.009	Campus Buildings: Mechanical, Electrical & LSS Upgrade	€9.4	F	Essential to Progress Now
CIP.20.02.010	Pier 3 Life Extension Works - Mech, Elec and Foul Drainage	€14.0	D	Can Defer to 2022

CIP.20.02.013	Small Energy Projects	€5.4	F	Number of projects on site to maximise efficiency
CIP.20.07.030	Large Energy Project - Photovoltaic Farm	€8.5	D	Essential to Progress Now
CIP.20.03.004	Gate Post 9 Expansion (West Lands)	€8.5	F	Essential - On Site
CIP.20.03.006	Terminal 1 Kerbs	€13.6	F	Flexible Project
CIP.20.03.011A	Terminal 1 Check-In (Partial shoreline)	€26.0	S	Requires StageGate Consultation
CIP.20.03.012	Terminal 1 Central Search - Relocation to Mezz Level	€31.5	S	Requires StageGate Consultation
CIP.20.03.013	Terminal 1 Departure Lounge (IDL) Reorientation and Rehabilitation	€32.9	S	Requires StageGate Consultation
CIP.20.03.015	Terminal 1 Baggage Reclaim Upgrade & Alterations	€19.0	F	Flexible Project
CIP.20.03.020	Terminal 2 Check-in Area Optimisation	€13.2	F	Flexible Project
CIP.20.03.021	Terminal 2 Central Search Area Expansion	€4.6	F	Flexible Project
CIP.20.03.028	Terminal 2 Early bag store and transfer lines	€27.9	S	Requires StageGate Consultation
CIP.20.03.029	New Pier 5 (T2 and CBP Enabled)	€298.7	S	Requires StageGate Consultation
CIP.20.03.030	Expansion of US Pre-Clearance Facilities	€55.1	S	Requires StageGate Consultation
CIP.20.03.031	South Apron Expansion (Remote Stands, Taxiway and Apron)	€71.3	S	Requires StageGate Consultation
CIP.20.03.033A	Enablement of Pier 3 for Precleared US bound passengers	€7.6	F	Flexible Project
CIP.20.03.034	Pier 3 Immigration (Upgrade & Expansion)	€4.7	F	Flexible Project
CIP.20.03.036	North Apron Development – Pier 1 Extension (Module 1) & Apron 5H PBZ	€163.5	S	Requires StageGate Consultation
CIP.20.03.043A	Terminal 1 Piers - New Airbridges (6NBE / 3WB)	€23.3	S	Requires StageGate Consultation
CIP.20.03.049	De-icing pad at Runway 10R	€5.0	F	Flexible Project
CIP.20.03.051B	West Apron Vehicle Underpass - Pier 3	€169.0	S	Requires StageGate Consultation
CIP.20.03.052	Surface Water Environmental Compliance	€51.6	S	Requires StageGate Consultation
CIP.20.03.054	New Remote Apron 5M - 17 NBEs	€82.5	S	Requires StageGate Consultation
CIP.20.03.057	Airside GSE Charging Facilities (Ground Handlers)	€4.9	F	Flexible Project
CIP.20.03.071	Hydrant Enablement - Pier 2 & 3	€23.7	F	Flexible Project
CIP.20.04.002	Car Hire Consolidation Centre	€13.6	D	Can Defer to 2022
CIP.20.04.005	Long Term Car Parking - Eastland's (2000 spaces)	€9.4	F	Flexible Project

CIP.20.04.006	Terminal 1 Multi-Storey Car Park Block B (466 spaces)	€17.4	F	Flexible Project
CIP.20.04.007	Terminal 2 Multi-Storey Car Park (680 spaces)	€14.9	F	Flexible Project
CIP.20.04.009	Staff Car Park	€5.8	F	Flexible Project
CIP.20.04.017	Airline Lounges - Expansion, Upgrade & New	€11.4	F	Flexible Project
CIP.20.04.021	West Apron - Accommodation & Welfare Facilities	€4.5	F	Flexible Project
CIP.20.04.025	Commercial Property Refurbishment	€6.0	F	Flexible Project
CIP.20.07.010	Office Consolidation & Refurbishment	€11.6	F	Flexible Project
CIP.20.08.001	Retail Refurbishments, Upgrades and New Developments	€8.0	F	Flexible Project
CIP.20.05.001	Airfield Optimization	€5.6	F	Flexible Project
CIP.20.05.003	Integrations and Data	€5.1	F	Flexible Project
CIP.20.05.005	Business Efficiency	€6.2	F	Flexible Project
CIP.20.05.007	Reliability, Safety, Security & Compliance	€8.2	F	Flexible Project
CIP.20.05.009	Network Components - Lifecycle & Growth	€6.8	F	Flexible Project
CIP.20.05.010	Passenger Processing (excl. Security Screening)	€11.0	F	Flexible Project
CIP.20.05.011	Security Technology Innovation (Biometrics & FOD Detection)	€5.0	F	Flexible Project
CIP.20.05.012	Servers and Storage - Lifecycle & Growth	€5.6	F	Flexible Project
CIP.20.05.015	New Data Centre Hosting Location	€4.0	F	Flexible Project
CIP.20.05.016	Microsoft Enterprise	€6.0	F	Flexible Project
CIP.20.05.020	Innovation Fund	€4.0	F	Flexible Project
CIP.20.06.001	Cabin-Baggage X-Ray Replacement & EDS Upgrade	€16.6	F	Flexible Project
CIP.20.06.014	Screening and Logistics Centre	€13.3	D	Essential to Progress Now
CIP.20.06.015	Intrusion Detection Systems for Dublin Airport Boundaries	€4.0	F	Flexible Project
CIP.20.06.041	Security Screening Equipment - End of Life	€4.5	F	Flexible Project
CIP.20.06.042	ATRS - Central Search Areas (T1 and T2)	€11.0	F	Flexible Project