Norwegian Air Shuttle
Oksenøyveien 3
Postboks 115
N-1330 Fornebu
Norway

Commission for Aviation Regulation
3rd Floor, Alexandra House
Earlsfort Terrace
Dublin
D02 W773
Ireland

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Norwegian's response to the 2019 Draft Determination CP3/2019

This response outlines Norwegian's feedback and views on the Commission for Aviation Regulation (CAR) draft determination for the maximum level of airport charges at Dublin Airport in 2020 – 2024.

Increasingly Challenging Environment

Over the last decade, Norwegian has invested heavily in growing and renewing its fleet. This has enabled a rapid growth of our route network on a global level. Norwegian continues to have an ambitious plan to continue to offer high-quality and affordable air travel to passengers on a global basis. Like any other responsible commercial business Norwegian must ensure its day-to-day operation and future growth is based on a sustainable plan and that both internal and external risks are managed appropriately.

With number of ongoing external factors and potential threats, namely increasing oil prices, political uncertainties in some home and destination markets and slowing passenger growth, we need to take great care how to utilise our resources and scrutinise which airports and markets best meet the corporate priorities we have set for the short to medium term.

Priorities for Norwegian

Norwegian has publicly indicated that our strategy and corporate focus is now evolving from rapid growth to a period of route consolidation and modest growth, that is based on a foundation of profitability and a business strategy which will be sustainable in the long run. This is particularly important now when there is clear evidence of excess capacity and increasing competition especially in the European short-haul market.

To support this phase of priorities, we need to adapt the way we work and how we distribute resources and investments, whilst managing number of issues often outside our direct control e.g. the grounding of Boeing 737 MAX aircraft and ongoing issues with Rolls Royce engines on the Dreamliner fleet.

Combining all these factors means that we must ensure our core customer segment, i.e. leisure travellers, are at the heart of our product and pricing decisions. This does not in any way mean that business travellers and other passenger segments are not important to us, but any new investments must be targeted to our core passenger segment.

Proposed Maximum Level of Airport Charges at Dublin Airport

Norwegian continues to indicate our willingness to positively consider new investments at Dublin Airport, subject to an acceptable business case and in the expectation that the passenger experience will be improved.

Norwegian has been reviewing CAR's proposal for the maximum airport charges at Dublin Airport in 2020 – 2024 with great interest. We agree with CAR's views in the consultation document that since the last determination of the price cap in 2014 *"There are two main downward pressures on price, volume of passengers and the level of commercial revenues. The proposed increase in capital costs and operating costs are driving the price in the opposite direction. Within capital costs there are two elements, capital expenditure and the cost of capital, and they are moving in opposite directions, as the large Capital Investment Programme is being somewhat offset by a lower cost of capital*."

Norwegian continues to support the current Regulated Asset Base (RAB) building block approach provided that DAA continues to meaningfully consult with the airport users on the various blocks of the RAB i.e. CAPEX, OPEX, WACC and commercial revenues at Dublin Airport.

We welcome CAR's efforts to carry out both internal and external analysis on the Cost of Capital, and that the new rate has been set at 4% which in our view is more in line with the current market conditions and actual risks than the current WACC of 5.8%.

We agree with CAR on the annual passenger number forecast of 3% as this modest increase is in line with what we are expecting at similar sized airports in our network. We will engage constructively with Dublin Airport in sharing traffic forecasts if these are requested.

The forecast on Dublin Airports commercial revenue increase during the next 5-year period is in our view too conservative due to the increased footprint of commercial property and the expected increase of passenger numbers.

We were also encouraged by CAR's bottom up assessment of Dublin Airports operating costs as in our view further discipline on DAA's OPEX front is required.

We confirmed in our response to DAA on the CIP 2020+ consultation in December 2018, that in general we are supporting the ambitious plans for Dublin Airport but equally have concerns that in the current uncertain economic climate some of the plans might have to be reviewed or to be scaled down. Therefore, as we evaluate our plans for new routes and how to allocate aircraft on the network, there should only be a positive impact on these decisions when a maximum price cap is reduced to €7.50 instead of potentially increased to €9.94.

More Clarity and Safeguards Are Required

During the current consultation period Norwegian has been contacted by DAA to advise that the Board of DAA has taken a decision to stand down work on the 2020 + CIP projects to re-evaluate what DAA can afford should the new maximum price cap be applied at Dublin Airport.

Whilst we understand that DAA wishes to review its plans following CAR's proposal, we are concerned that so far DAA has failed to provide any clarity on the potential impact to projects due to this re-evaluation. Therefore, while we wait for further clarity on the impact of DAA's review, we expect the following core infrastructure related projects at Dublin Airport to be safeguarded with no major changes without constructive consultation with the airlines:

- All existing PACE projects which commenced during the 2015 – 2019 price cap determination period will be completed as per original plan.
- No reduction in current and planned capacity in the Dublin Airport CBP infrastructure for US Pre-clearance services.
- No reduction in current and planned capacity for E-Gate technology in all areas where Irish Naturalisation and Immigration Service operates at Dublin Airport.
- No reduction in current capacity and planned implementation of passenger self-service solutions i.e. Bag-Drop, CUPPS, CUSS and Auto-Boarding at Gates.
- Piers and Stands Capacity – especially areas dedicated to US Pre-Clearance flights and Pier 3 infrastructure.
- No changes to the Northern Runway project or increase to the proposed runway triggers which are currently set at €0.26 and €0.02 respectively.

Norwegian is requesting further clarity and dialogue with CAR how the following proposed areas would be implemented and what benefits or improvements they would deliver to the airport users:

- Bonus scheme for Dublin Airport if quality of service standards is exceeded – how would the new quality standards and trigger points for bonuses be consulted?
- How will passenger's views and priorities be taken into account when new core service quality standards are evaluated?
- Summarise how the proposed "StageGate" process (as recommended in the "Dublin Airport Capital Allowances Report" by Steer in June 2019) for Capex investments with stakeholders will be carried out, on what frequency and how the outcome can be reflected on the maximum price cap which is fixed for 2020 – 2024.

Conclusion

Norwegian supports the proposed maximum price cap of €7.50 each year in 2020 – 2024 at Dublin Airport . We believe the new determination by CAR is fair and balanced therefore stimulating growth and opportunities for the airlines, which will ultimately benefit the passenger, whilst safeguarding the ambitious €1.8bn investment programme at Dublin Airport.

Yours sincerely,

Mika Sihvonen
Airport Regulation Manager
Norwegian