

WACC for the 2026 determination – Draft Determination response

A report prepared for Dublin Airport

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Executive Summary

Dublin Airport has asked Frontier Economics to review the weighted average cost of capital (WACC) proposed by the Irish Aviation Authority (IAA) in the Draft Determination (DD) for the 2027 to 2031 period.

In our March 2026 report which accompanied the Dublin Airport business plan we estimated a real pre-tax WACC range of 5.78% to 6.44%. Dublin Airport used the low end of this range, 5.78%, for the purposes of estimating charges in the business plan.

The IAA's DD has proposed a significantly lower WACC of 4.56%. We consider that the evidence and analysis presented in the report shows that there is a significant risk that this level of allowed return will be insufficient to attract and retain investment needed for daa to deliver its Business Plan. In our view the allowed rate of return in the DD reflects parameters that have errored on the lower end of the estimation range.

In relation to the analysis the IAA has presented to derive the 4.56% figure, we have concerns in regard to the following specific elements:

- The principle of allowing a high rate of return only to new investment (capex subject to a trigger mechanism), while leaving the rest of the capital base potentially under-funded;
- Asset beta is potentially significantly under-estimated; and
- The lack of aiming-up, despite the parameter level uncertainty and the asymmetric risk borne by daa in relation to traffic volume. We also have concerns regarding IAA's claim that they have aimed up through the use of triggered projects.

Response on asset beta

The DD asset beta of 0.50 is the joint lowest that has ever been set for Dublin Airport. This suggests that the airport's relative risk to the wider economy is at an all time low. The last time a value as low as 0.50 was selected was the 2019 determination. Crucially, this was before the COVID-19 pandemic. This was an event that is likely to have a lasting impact on investor risk perceptions of the aviation sector – as it demonstrated the extreme reductions in cashflows that are possible. When compared against past IAA decisions, the implication of the DD selection is that the impact of the pandemic is negligible.

The IAA's asset beta (drawn from a range of 0.35 to 0.59) relies on a short period of data, only considering evidence from the past 2-3 years. When using a timeframe as narrow as this there is a greater risk that estimates reflect unrepresentative noise or transient events that are not suitable for setting a 5-year price control; particularly as the estimates are volatile.

When placed against other regulatory decisions, the DD asset beta range suggests that the relative risk of Dublin Airport is closer to utility companies than it is to other airports. We consider it intuitive that Dublin Airport is exposed to a far greater degree of revenue risk than

utility businesses, so this finding shows there is a fundamental issue with the figures the IAA is relying upon. Our updated estimate for Dublin Airport's asset beta is 0.59 – 0.70. This is a robust estimate based on a range of timeframes. Our estimate is more closely aligned with recent regulatory decisions for other airports, and clearly differentiates the airport from the ranges typically used in utility sectors.

Response on aiming-up

There are multiple long-run benefits from aiming-up on the WACC. These benefits are recognised in the IAA Issues Paper, but despite this the IAA applied an aiming-up value of zero in the DD. The IAA claim that there is some 'element' of aiming-up embedded in how it treats the cost of debt, but we disagree this is the case. We show that the approach taken contains no generosity.

While any allowance for aiming-up needs to be weighed against the upward pressure on the price-cap that results, we believe that the reasons for applying aiming-up in this next regulatory period are strong.

In addition to the previous reasons we have cited for aiming-up, given that in the DD the IAA rejects any kind of asymmetry allowance in the building blocks of the charging model, we have particular concerns about compensation for asymmetric risk. More specifically, the IAA has rejected an adjustment for passenger risk (as well as the IAA assuming more passengers), no asymmetric risk allowance was provided, and there is no aiming-up on WACC. This is a major source of risk in the aviation sector, and one that investors care about. It is recognised by corporate finance academics, by Europe Economics (the IAA's advisors) and is not adequately compensated for through the CAPM. As it stands, asymmetric risk is completely uncompensated for.

Cumulative impact of the IAA's DD approach

Overall, we find that the DD has pushed several parameters to low levels simultaneously. At the same time, the DD has rejected risk offsetting measures. Cumulatively, this has led to a DD proposal which is imbalanced. The package provides no compensation for asymmetric risk or increased perceptions of risk in the aviation sector following the pandemic. Yet, at the same time, the DD agrees that it is in customers' interests to undertake large investment schemes at the airport – and emphasises the large scale of the plans in place.

The DD places Dublin Airport in an unfavourable position relative to competing investments elsewhere in the aviation sector and across infrastructure more broadly.

To illustrate this point we can make a simple cross-sector comparison. For the PR6 final determination in December 2025, CRU used a post-tax CoE range of 4.64% to 5.46% for ESB electricity networks. The lower end of the IAA's DD range of 4.98% sits in the middle of this PR6 range. This demonstrates that the figures the IAA is using are illogical in terms of relative risk. This is because the utility sector is far less exposed to volume risk.

Updated estimate of Dublin Airport's WACC for the 2027 to 2031 period

We have updated our view of each WACC parameter based on our findings in this report. Our findings are set out in the table below. Compared to the DD, the WACC estimate we have set out is more balanced, provides adequate compensation for relevant risks, and is more consistent with regulatory precedent. **Our conclusion is that an appropriate WACC for the FD is between 5.81% to 6.84%.** We consider an appropriate point estimate to be the midpoint of our range which is 6.32%.

Unlike the DD, our WACC estimate is designed to apply to all parts of the RAB, including the additions from triggered projects.

Table 1 Overall WACC range

Component	Frontier Low	Frontier High	Frontier midpoint
Notional Gearing	50%	50%	50%
Risk-free rate	0.87%	1.03%	0.95%
Total Market Return	6.75%	7.10%	6.93%
Equity Risk Premium	5.88%	6.07%	5.97%
Asset beta	0.59	0.70	0.65
Debt beta	-	-	-
Equity beta	1.18	1.40	1.29
Allowed return on equity	7.82%	9.54%	8.67%
Cost of embedded debt	0.38%	0.38%	0.38%
Cost of new debt	2.12%	2.16%	2.14%
Additional borrowing costs embedded debt	0.30%	0.30%	0.30%
Additional borrowing costs new debt	0.30%	0.30%	0.30%
Proportion of new debt	39%	39%	39%
Allowed return on debt	1.37%	1.38%	1.37%
Vanilla WACC	4.59%	5.46%	5.02%
Corporation tax	15.50%	15.50%	15.50%
Pre-tax cost of equity	9.25%	11.29%	10.26%
Aiming up	0.50%	0.50%	0.50%
Pre-tax WACC	5.81%	6.84%	6.32%

Source: Frontier Economics

Note: Real terms

1 Introduction

Following our report accompanying Dublin Airport’s business plan submission (“business plan submission report”)¹, Dublin Airport has asked Frontier Economics to review the WACC proposed by the IAA in the DD for the 2027 to 2031 period. The DD was published on 14 July 2026 and set out the IAA’s proposals on cost of capital. The IAA also published other reports, including:

- A report by Europe Economics for the IAA on the cost of capital for Dublin Airport; and
- A report by CEPA for Aer Lingus on the cost of capital for Dublin Airport.

In this document we review the information contained in each of those documents alongside the IAA’s own proposals.

The IAA set out the following table summarising the DD real pre-tax WACC.

Table 2 IAA DD WACC

Component	IAA DD Range	IAA DD Point estimate	Dublin Airport Range	Aer Lingus Range
Tax rate	-	15%	16.1%	12.5% - 16.1%
Gearing	50%	50%	50%	50%
Risk-free rate	0.93% - 1.04%	0.98%	1.31% - 1.83%	0.57% - 0.72%
TMR	6.72% - 7.10%	6.98%	6.50% - 6.90%	6.40% - 6.90%
ERP	5.79% - 6.06%	6.00%	5.19% - 5.07%	5.83% - 6.18%
Asset beta	0.35 – 0.59	0.50	0.61 – 0.67	0.46 – 0.56
Equity beta	0.70 – 1.18	1.00	1.22 – 1.34	0.717 – 0.883
Cost of equity	4.98% - 8.19%	6.98%	7.64% - 8.62%	5.43% - 7.36%
Cost of debt	0.83% - 0.85%	0.85%	1.46% - 1.59%	0.59% - 1.01%
Issuance/other	0.05% - 0.10%	0.05% - 0.10%	0.3%	0.1% - 0.2%
Aiming-up / inflation	N/A	Targeted	0.5%	0.1%
WACC (untriggered)	3.36% - 5.27%	4.56%	5.78% - 6.44%	3.59% - 4.92%
WACC (triggered)	-	5.23%	-	-

Source: IAA DD

Note: The IAA proposed one WACC for untriggered projects and another for those subject to triggers

¹ Frontier Economics (2026), WACC for the 2026 determination

The IAA range drew extensively on the work of Europe Economics, and the Dublin Airport range drew extensively on the work of Frontier Economics.

As shown in the table, some of the most significant differences were on:

- Asset beta – where the IAA selected a point estimate of 0.50 compared to the Dublin Airport range of 0.61 to 0.67.
- Aiming-up – where the IAA claimed that “targeted” aiming-up was in place – no specific figures were provided to substantiate this. Dublin Airport applied a 0.5% addition to WACC.

Given the scale of difference, the discussion of those parameters is more extensive, but we cover all parameters in this response for completeness. In the remainder of this document, we discuss each parameter in turn, covering:

- What the DD and other submissions said; and
- Frontier’s view in response, including our updated view on parameter values.

We conclude by setting out the cost of capital we consider appropriate for the Final Determination (FD).

2 Inflation

2.1 Draft determination and other submissions

At the DD, the IAA and Europe Economics used the same two sources of evidence to inform its inflation assumption that we used in our business plan submission report:

- German breakeven inflation, derived from the difference between nominal German government bond yields and the yields on comparable inflation-linked bonds.
- ECB Survey of Professional Forecasters, which provides a long-term euro-area inflation forecast.

CEPA, in its report for Aer Lingus used only German breakeven inflation and questions whether our submission can be directly considered as a Euro HICP forecast.

2.2 Frontier view

We agree with the two sources of evidence that the IAA has used to inform its inflation assumption. While national inflation indices are typically the best reflection of inflation expectations in a given country, there is a lack of Irish market measures of inflation which can directly be used in place of the euro area measures.

Both the sources we have used in our business plan submission report capture Euro area HICP inflation expectations. German breakeven inflation is estimated using the difference in yield of German sovereign nominal bonds and German sovereign index-linked bonds. German sovereign index linked bonds are indexed to Euro area HICP inflation and therefore this measure captures market expectations based on this index.²

Counter to the points made by CEPA, we find no reason to be “unsure” about whether the evidence we use can be considered reflective of Euro HICP.³

We address the differences between Irish CPI and these Euro-area HICP inflation in Section 9.2.2.

We have updated our inflation assumption for the latest evidence from these sources. This is summarised below:

- For German breakeven inflation, we take a 6-month average up to our data cut-off at the end of June 2026. This provides an estimate of 2.04%

² See, for example, [Inflation-linked Federal Securities - Deutsche Finanzagentur](#). “The inflation indexation for both nominal value and coupon payments is based on the unrevised Harmonised Index of Consumer Prices (HICP) of the euro area (total index excluding tobacco).”

³ CEPA (2026), Dublin Airport: Cost of capital for the 2026 determination, p37.

- For the ECB survey we use the latest estimates available at Q2 2026. This provided a longer-term estimate of inflation of 2.00%.

We take an average of these two sources as our inflation assumption, giving **an estimate of 2.02%**. We apply this to both ends of our range across all parameters of the cost of capital where we use an inflation assumption.

3 Cost of debt

3.1 Cost of embedded debt

3.1.1 Draft determination and other submissions

Consistent with the approach adopted in the 2019 and 2022 determinations and our business plan submission report, the IAA and Europe Economics estimate the cost of embedded debt using daa's actual debt portfolio. This involves estimating the actual nominal cost of debt and then deflating using an inflation assumption.

Europe Economics agreed with our approach to estimate the expected forecasted average interest rates of embedded debt over the regulatory period rather than a snapshot at the time of the determination, which was one of the approaches used in the 2019 and 2022 determinations.

As a sensitivity, Europe Economics estimate the cost of embedded debt excluding daa's EIB €200m loan. As Europe Economics note:

*"This loan carries a materially higher interest rate than the rest of daa's embedded debt portfolio, at 4.62 per cent. This reflects the fact that it was drawn in July 2009, in the immediate aftermath of the global financial crisis, when credit market conditions were unusually stressed and borrowing costs were elevated relative to the low-interest rate environment that prevailed for much of the subsequent decade."*⁴

Europe Economics use the estimate derived from the full debt portfolio, -0.49% in real terms, to inform the top end of its range while it uses its sensitivity which excludes the EIB loan, estimated at -0.52% in real terms, as the bottom of its range. It then uses the midpoint of its range as its point estimate, -0.50%.

3.1.2 Frontier view

We agree with the IAA and Europe Economics' approach to use the expected average interest rates over the regulatory period of daa's actual embedded debt. However, while we note that it only has a minor impact on the estimate, we disagree that Europe Economics' sensitivity should be used in the estimation of the cost of embedded debt.

While daa's EIB loan was raised at a higher rate than subsequent embedded debt, as Europe Economics note this was due to the elevated interest rate environment following the global financial crisis. The interest rate environment is not a factor within daa's control, and the IAA

⁴ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p49

does not claim that this EIB loan was raised at an inefficient interest rate. The costs for this debt should therefore be fully funded in the estimation of the cost of embedded debt.

We have updated our estimate of the cost of embedded debt to account for the latest inflation evidence discussed in Section 2, as well as including additional issuances that daa expects to issue before the start of the period. This provides a **cost of embedded debt of 0.38% in real terms**, before accounting for additional borrowing costs.

Table 3 Updated cost of embedded debt estimate

	2027	2028	2029	2030	2031	Average
Weighted average (nominal):	2.13%	2.28%	2.50%	2.54%	2.58%	2.41%
Weighted average (real):	0.11%	0.25%	0.47%	0.51%	0.55%	0.38%

Source: daa, Frontier Economics calculations

Note: Weighted average is estimated using the rate and average amount outstanding over the calendar year for each instrument. We have included in our assessment of embedded debt EUR 20 million of the EUR 288 million EIB loan which daa expects to draw in 2026 as well as a EUR 500 million bond which is expected to be issued in 2026. Since the rates of these issuances have not been confirmed, we use the cost of new debt benchmark of 4.2% nominal discussed in section 3.2 below.

3.2 Cost of new debt

3.2.1 Draft determination and other submissions

In the DD, Europe Economics and the IAA use a notional benchmark approach to estimate the cost of new debt. Europe Economics' estimation of the cost of new debt relies on the same iBoxx EUR Non-Financial 10+Y **A and BBB** benchmark indices that we used in our business plan submission report and then deflates these nominal yields using the inflation assumption discussed in Section 2.

Noting that the benchmark rates have been relatively stable over the last 12 months, Europe Economics use the real spot estimate as a lower bound and the real one-month average as the upper bound. This gives a narrow cost of new debt range of 2.13 per cent to 2.15 per cent, with a midpoint of 2.14 per cent as the point estimate.

It does not apply any adjustments for forward rate evidence on the basis that it does not provide useful evidence on the path of future rates.

CEPA, in its report on behalf of Aer Lingus use both 7-10year and 10+year indices, citing evidence from peer airports, and consider that **only the A rated** index should be relied on due to daa's current strong credit rating.

3.2.2 Frontier view

We agree with the benchmarks that Europe Economics has used in its DD report. In response to CEPA's submission that more weight should be placed on the A rated index due to daa's stronger credit rating, Europe Economics notes:

"The cost of new debt calculation reflects a regulatory assumption about the credit quality of the notional regulated airport, rather than mechanically using on daa's current credit rating".⁵

We agree with this view that the allowed return should be based on a notional credit investment grade rating, and not daa's actual credit rating.

Similarly, we agree with Europe Economics' view that longer-term 10+ year benchmarks are an appropriate benchmark as this reflects daa's own financing profile and long-term nature of the regulated asset base.

While we note that the benchmark rates have been relatively stable, we prefer not to use spot rates as this makes the estimate susceptible to daily volatility. While this has a very low impact for the DD estimates, this could make the estimate less stable when it is updated for the Final Determination. We therefore continue to use a short term 6-month average for our estimate of the cost of new debt.

In our business plan submission report, we applied a forward rate uplift to account for market expectation of future interest rates. We have not applied forward rate adjustments in this updated report. The main reason is that there is not clear evidence that forward rates improve accuracy. However, we do note the IAA has made a change from past precedent in this area – which we were following in our business plan report for Dublin Airport.

We have updated our estimate of the cost of new debt with the latest benchmark evidence up to our cut-off of the end June 2026. The table below shows the 6-month average of the benchmark A and BBB rated 10Y+ iBoxx indices. For the **low end of the range**, we use the average of the A and BBB indices which gives a nominal cost of debt of **4.14%**, whereas for the **high end of the range** we use the yield on the BBB benchmark which is **4.22%** nominal. This is ~20bps higher than the figures in our business plan submission report, which used the same methodology, due to changes in the underlying market rates. This reflects a notional credit rating of between A and BBB which is in line with previous decisions and other regulated companies.

⁵ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p51

Table 4 iBoxx benchmark 6-month average yield

	Non-Financial A 10Y+	Non-Financial BBB 10Y+	A and BBB average
Nominal	4.14%	4.22%	4.18%

Source: Markit

Note: Data to 30 June 2026

3.3 Proportion of new debt

3.3.1 Draft determination and other submissions

The WACC applied to the existing RAB and CAPEX that is not within triggered projects, includes an assumption on the proportion of new debt of 48% based on a total of EUR 1.5b over the five-year period.

Separately, the IAA has implemented a higher WACC of 5.23% that is applicable to new triggered projects. For these triggered projects, the IAA assume 100% new debt rather than the 48% assumption. It says that while it expects that *“trigger projects would require to be primarily funded through new debt, it is unlikely to be the case in practice that they would 100% new debt funded”*.⁶ The IAA therefore considers there to be a degree of aiming up within its triggered project WACC allowance.

3.3.2 Frontier view

The IAA claim that the treatment of debt provides an element of aiming-up is an important claim to explore. It is something that is referenced within the aiming-up on the WACC section, as well as in the discussion of the cost of debt. The key paragraph which sets out the logic for the IAA's claim is paragraph 9.96 of the DD. We review that paragraph below, and as we go on to show, there is no element of aiming-up, or ‘generosity’ in the IAA's figure. That claim from the IAA is erroneous.

The first part of the paragraph sets out that, *“we do not include a separate WACC uplift for cost of carry. We consider that this is appropriately taken account, firstly, in the relatively high weighting applied to new debt, of 48% for the core WACC, and 100% for new triggered projects.”*⁷ The claim that these weightings are “relatively high” is false. Under the IAA's DD assumptions, these simply reflect the balance of untriggered and triggered allowances. The IAA's own financial model for the DD shows that the 48% is specific to an untriggered

⁶ IAA (2026), Draft Determination on the Maximum Levels of Airport Charges at Dublin Airport for 2027-2031, para 9.96

⁷ IAA (2026), Draft Determination on the Maximum Levels of Airport Charges at Dublin Airport for 2027-2031, para 9.96

allowance only scenario (with the 1.5bn of new debt issued in three tranches of 500m).⁸ Given this, applying 100% cost of new debt weighting to any incremental triggered allowances is standard (albeit presented in an unusual way by the IAA in separate categories, rather than as a weighted average of both categories). Incremental CAPEX needs to be financed with incremental capital, and rates used should be consistent with that.

The next sentence sets out that, *“The latter [100% for the new triggered projects], in particular, includes an element of ‘aiming up’ given that while we expect triggered projects would mostly be funded by new debt, it is unlikely that they would be 100% new debt funded”*.⁹ The 5.23% figure that applies to triggered CAPEX is a WACC figure, it weights equity and debt in the notional proportions. As the CAPEX being considered in that case is incremental, the cost of raising incremental capital in the market is the relevant one.¹⁰ Any additional CAPEX from triggered projects must be funded from new debt (and equity) since any cash proceeds remaining from existing debt will have already been deployed.

Lastly, the IAA set out that, *“we are allowing the (higher) cost of equity (using the 50% gearing) in trigger calculations, thereby effectively including a profit wedge before projects are operational.”*¹¹ It is unclear to us what the IAA means here. The 5.23% figure applied is a WACC, reflecting the cost of raising finance in the market and 50% is the notional assumption used in all WACC calculations. We do not consider there to be any ‘profit wedge’ in this allowance. The WACC reflects the economic cost.

Overall, throughout the key paragraph, we find that no relevant figures are provided by the IAA to justify claims of ‘aiming-up’. The view that there is any aiming-up present is based on illogical conclusions. We also note that the IAA address the cost of carry in this paragraph, which we address in section 3.4 below.

We have updated our assessment of the proportion of new debt below. This is based on daa’s latest debt requirement and is designed to inform the WACC estimate that is relevant for the entire RAB, including additions related to triggered projects. Our latest estimate is a 39% proportion of new debt. This is lower than our business plan submission report since some of the expected issuance is now expected to occur in 2026 and we have therefore accounted for this in our cost of embedded debt estimation above.

⁸ As shown by the calculations in the Draft Financial model in the tab “Input” rows 315 to 321 and the tab “Price caps and Ratios” rows 125 to 128.

⁹ IAA (2026), Draft Determination on the Maximum Levels of Airport Charges at Dublin Airport for 2027-2031, para 9.96

¹⁰ We note that the level of untriggered CAPEX already materially exceeds the level of cash that daa has on its balance sheet. Furthermore, it would be extremely challenging to attribute any cash held to any individual source.

¹¹ IAA (2026), Draft Determination on the Maximum Levels of Airport Charges at Dublin Airport for 2027-2031, para 9.96

Table 5 **Profile of debt for upcoming regulatory period**

EUR (000s)	2027	2028	2029	2030	2031	Average
Embedded debt	1,971,497	1,642,306	1,312,305	1,269,164	1,233,847	
New debt	-	509,000	1,268,000	1,768,000	2,393,000	
Total	1,971,497	2,151,306	2,580,305	3,037,164	3,626,847	
Proportion of new debt	0%	24%	49%	58%	66%	39%

Source: Frontier analysis of daa's debt book and issuance plan

Note: Both the EUR 20 million drawdown from the EIB EUR 288 million loan and the EUR 500 million bond issuance that daa expect to occur in 2026 are included in the embedded debt figures.

3.4 Additional borrowing costs

3.4.1 Draft determination and other submissions

In the DD Europe Economics and the IAA acknowledge all three categories of additional borrowing costs:

- Issuance costs;
- Liquidity and RCF costs; and
- Cost of carry.

For issuance costs, Europe Economics estimates an allowance of 5 bps based on daa's actual debt issuances. This approach and estimate is consistent with our business plan submission report.

For RCF costs, Europe Economics apply a similar approach to calculating RCF costs as our approach in our business plan submission report, accounting for the ongoing commitment fee and the initial set up cost of the facility. However, while it also calculates RCF costs at 5 bps, it only applies this uplift to embedded debt since it assumes that debt will be raised using corporate bonds rather than accessing credit facilities.

While Europe Economics, acknowledge that cost of carry can arise, it does not include a specific uplift to the cost of debt. In the DD, the IAA states that it considers the cost of carry is taken into account by its proportion of new debt assumption which it considers to include an element of aiming up.

CEPA in its report for Aer Lingus also acknowledge all three categories of additional borrowing costs, and apply a 10-20 bps uplift to the entire debt stock based on regulatory precedent. This is higher than the allowance included by the IAA in the DD.

3.4.2 Frontier view

We disagree with Europe Economics that RCF costs should only apply to embedded debt. While we do not assume that credit facilities are used to finance new CAPEX, they are needed to provide liquidity and enable daa to manage its entire debt stock. The requirement for liquidity does not reduce as daa's current debt stock matures. We therefore continue to include the 5 bps uplift for RCF related costs to the entire debt stock. This is consistent with how similar allowances are applied in other price controls.

We disagree with the IAA's position to not provide allowance for cost of carry. As noted in Section 3.3 above, we do not consider there to be any aiming up within the IAA's proportion of new debt estimate. In paragraph 9.96, the IAA also says, "*the profile of remuneration created by the 79/21 split between A and B triggers, is likely to result, overall, in debt being remunerated sooner than capex is incurred.*"¹² In principle, the profile of remuneration set out could lead a lower cost of carry than we estimated, but only under specific conditions. **These conditions matter for the relevance of the IAA's argument.** We have two key concerns.

- First, the cost of carry is still relevant for untriggered projects – which are likely to be a significant proportion of the total. The IAA's own model shows three bonds being raised to finance untriggered expenditure – this is exactly the 'lumpy' nature of issuance that gives rise to cost of carry.
- Second, the relevance of the triggers for cost of carry depends on the criteria for activating the triggers. In the DD it is set out that activation of the A triggers requires expenditure of "*an average of at least 570m per year in efficient investment over the regulatory period to date*".¹³ We do not comment in this report on the likelihood of that level of expenditure occurring. But if that hurdle is unrealistic, then the cost of carry remains highly relevant even for the triggered amounts, because the timing benefits of remuneration the IAA highlight would not materialise.

We therefore continue to include a specific uplift for the cost of carry. There is, in principle, some scope for a smaller figure than we estimated, but only under specific conditions (which may be onerous) and for specific amounts. Given this, we retain our cost of carry estimate.

The overall allowance for additional borrowing costs in the DD (5bps on new debt and 10 bps on embedded debt), is clearly below allowances in other regulatory decisions. Table 6 below

¹² IAA (2026), Draft Determination on the Maximum Levels of Airport Charges at Dublin Airport for 2027-2031, para 9.96

¹³ IAA (2026), Draft Determination on the Maximum Levels of Airport Charges at Dublin Airport for 2027-2031, para 11.75

shows the recent precedent from Ireland and GB which ranges from 10 to 29bps on the entire debt stock.

There are no clear reasons why daa would incur substantially lower additional borrowing costs relative to these decisions. In Ireland, the latest PR6 decision from CRU continues its long standing position of including 10 to 20 bps of additional borrowing costs, excluding credit facilities which are passed through elsewhere in the price control. Similarly, the CAA has indicated that it will continue to allow for additional borrowing costs covering all three categories at the H8 initial proposals. The DD therefore provides a significantly lower additional borrowing cost allowance relative to both Irish and other aviation decisions.

Table 6 Regulatory precedent for additional borrowing costs

Regulator	Price Control	Additional borrowing cost allowance
CRU	PR6	10-20 bps
CAA	H8 initial proposals	19 bps
CAA	H7	25 bps
Ofgem	RIIO-3	25-29 bps
Ofwat	PR24	15 bps

Source: CRU, CAA, Ofgem, Ofwat

Note: We have excluded 5 bps from Ofgem's RIIO-2 allowance of 25 bps to account for the CPIH risk mitigation which is not relevant for Dublin Airport. * CRU's allowance on the cost of debt accounts for issuance and cost of carry. CRU also allows pass through of costs related to credit facilities as a cost item, and therefore is treated separately to the cost of debt estimation. See CEPA (2025), PR6 Cost of Capital Estimation, p40.

3.5 Conclusion on the cost of debt

Using the components estimated in the subsections above, we estimate a cost of debt of 1.37-1.38%. This is summarised in the table below.

Table 7 Frontier allowed return on debt range

Component	Step	Low	High	Midpoint
Cost of embedded debt	A	0.38%	0.38%	0.38%
Cost of new debt	B	2.12%	2.16%	2.14%
Proportion of new debt	C	39%	39%	39%

WACC FOR THE 2026 DETERMINATION – DRAFT DETERMINATION RESPONSE

Component	Step	Low	High	Midpoint
Allowed return on debt (excl. additional borrowing costs)	$D = A * (1-C) + B * C$	1.07%	1.08%	1.07%
Additional borrowing costs	E	0.30%	0.30%	0.30%
Allowed return on debt (real)	$F = D + E$	1.37%	1.38%	1.37%

4 Risk-free rate

4.1 Draft determination and other submissions

Europe Economics retain the broad approach from the 2019 and 2022 determinations, where the IAA estimated the risk-free rate using evidence from 10-year Irish and German government bond yields. This is also in line with the approach we have used in our business plan submission report.

Europe Economics used a 1-month average of these benchmarks to reflect a, “*practical balance between reflecting current market conditions and smoothing day-to-day volatility*”.¹⁴ It does not apply any adjustments for forward rate evidence on the basis that it does not provide useful evidence on the path of future rates.

CEPA in its report for Aer Lingus, estimate the risk-free rate using German government index-linked bonds, as they consider them to be the, “*most appropriate Eurozone proxy for a riskless real asset, given Germany’s AAA credit rating, the depth of the German government bond market and the quality of available market data*.”¹⁵

4.2 Frontier view

We agree with the use of 10-year Irish and German government bond yields to estimate the RFR. As noted by Europe Economics, the Thessaloniki Forum recommends that Irish bonds should be used and we consider that continuing to review Irish government bonds alongside German bonds will be an important way of capturing any country-specific risks that would also be relevant for Dublin Airport.

Further we note that the German index linked bond market only comprises of three outstanding bonds, maturing in 2030, 2033 and 2046.¹⁶ The 10-year benchmark that CEPA have used appears to correspond to the yield on the 2033 bond which currently has less than 7 years to maturity. We do not consider this suitably long term to capture the longer-term investment horizon which is relevant for the long-term asset life of infrastructure investments.

We have updated our RFR estimate for the latest data up to the end of June 2026. In line with our business plan submission report, we use the 6-month average of German government bond yields as the low end of our range and the 6-month average of Irish government bond yields at the high end. We deflate the nominal yields using an inflation assumption of 2.02% as set out in Section 2. This provides **a range of 0.87% to 1.03%**.

¹⁴ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p16

¹⁵ CEPA (2026), Dublin Airport: Cost of capital for the 2026 determination, p30

¹⁶ [Inflation-linked Federal Securities - Deutsche Finanzagentur](#)

Table 8 **Frontier estimate of the RFR**

	Low	High
Nominal government bond yield	2.91%	3.07%
Inflation assumption	2.02%	2.02%
RFR (real terms)	0.87%	1.03%

Source: LSEG, ECB

Note: Inflation assumption applied using the Fisher equation

As noted in Section 3.2, we have not applied forward rate adjustments in this updated report. The main reason is that there is not clear evidence that forward rates improve accuracy. However, again, we do note the IAA has made a change from past precedent in this area.

5 Total market return

5.1 Draft determination and other submissions

The IAA and Europe Economics estimate the ERP using a Total Market Return (TMR) approach. Under this approach, Europe Economics estimates the expected return investors require from the equity market as a whole. The ERP is then calculated by deducting the risk-free rate from that market return.

In line with our business plan submission report, Europe Economics relies on the historic ex-post arithmetic mean of Irish and Eurozone returns from the DMS dataset.

For its TMR range, Europe Economics uses a market-capitalisation weighted Eurozone average of 6.72 per cent as the lower bound. This reflects the broader Eurozone opportunity set available to diversified investors and avoids placing excessive weight on the Irish equity market alone. It then uses the Ireland-specific estimate of 7.10 per cent as the upper bound, recognising that Irish market evidence remains relevant for an Irish regulated asset.

CEPA in its report for Aer Lingus also place weight on Fama French historic ex-ante TMR estimates which attempts to adjust historical returns to reflect an “unexpected” component. Further, it suggests a TMR range of 6.4 to 6.9% which is below the historic level of Irish returns (both ex-post and ex-ante), noting that placing too much weight on Irish evidence would detract from their European focussed approach.

5.2 Frontier view

We agree with Europe Economics’ use of the historic ex-post arithmetic mean of Irish and Eurozone returns from the DMS dataset to set the TMR.

We disagree with CEPA’s use of historic ex-ante to inform the TMR range. Despite placing weight on these estimates, CEPA themselves note:

“The ex-ante evidence is, however, likely to be less robust overall compared to historical ex-post data, due to the additional subjectivity needed to judge not just whether the future will differ from the past but also how”.¹⁷

Given the additional subjectivity involved in this approach, we do not consider this evidence to provide additional informative information for setting the TMR for the upcoming price control.

For the lower bound of its range, we note that Europe Economics’ uses a market-capitalisation weighted Eurozone average, 6.72%, produces an estimate that is marginally below the median

¹⁷ CEPA (2026), Dublin Airport: Cost of capital for the 2026 determination, p28

returns of these countries, 6.75%, which is the approach we used in our business plan submission report.

Although the impact is small, we do not agree with using a market-capitalisation weighted average. The long-run historical average approach uses over 120 years of data, over which time the relative market capitalisation for each country would have changed. Using a more recent measure of market capitalisation will therefore not reflect the relative size of each market over the 126-year period. To suggest that this weighted average provides a more accurate estimate of the historical return achieved by eurozone investors is therefore spurious and does not provide useful information beyond simple averages. We therefore continue to use the Eurozone median returns as our lower bound.

We disagree with CEPA that the upper bound should sit below the historical level of Irish returns. As noted in Section 4, Irish specific evidence is important to capture any country-specific risks that are directly relevant to Dublin Airport. We therefore use the historic ex-post Irish average returns for our upper bound which provides an **updated TMR range of 6.75% to 7.10%** using the latest DMS data.

6 Equity beta

The IAA and Europe Economics have used a range of 0.35 to 0.59 and a point estimate for the asset beta of 0.50. There are several methodological choices and considerations when setting an asset beta estimate. In this section we discuss each of the following technical points in turn:

- Estimation window for the comparator estimates;
- Data frequency for the comparator estimates;
- Comparator set used to inform the asset beta range;
- Re-levering formula used to estimate the asset beta and the equity beta.

Having considered the technical methodological choices, we then consider how the IAA and Europe Economics' asset beta range compares to other regulatory decisions, and provide an updated view of the asset beta range.

6.1.1 Estimation window

Draft determination and other submissions

The IAA and Europe Economics rely on comparator estimates which use short term 2- and 3-year estimation windows to set the asset beta range, and disregard evidence from longer-term estimates.

Despite this, Europe Economics identify that there is a trade-off between shorter and longer estimation periods. It says that a:

*“very short estimation window, such as six months, may place higher weight upon the most recent market movements, but may be too noisy to provide a sufficiently stable basis for selecting a regulatory beta”.*¹⁸

In contrast, it is argued that longer windows provide more observations but may include historic periods that are less relevant. Europe Economics considers that 2 and 3 year windows provide a sufficient compromise between these two impacts. It references Smithers & Co. (2003) which:

*“considered this issue in detail and recommended placing most weight on beta estimates based on daily data over one- to two-year periods.”*¹⁹

¹⁸ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p29

¹⁹ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p29

Following a workshop with Europe Economics, daa submitted our position on the use of different estimation windows as an appendix to its letter.²⁰ We disagree that evidence from longer-term estimation windows should be disregarded when forming the asset beta range. This is for two main reasons:

- Short-term estimation windows produce volatile estimates which, alone, are not suitable to set the asset beta for a 5-year control period.
- We disagree with the argument that the market has priced in all available information. This relies on the assumption that markets are perfectly efficient (known as the efficient market hypothesis). There is significant evidence that shows markets are not perfectly efficient.

In its Draft report, Europe Economics set out several reasons why it disagrees with our arguments:

- It does not agree that 2- and 3-year estimates are too volatile. It says that it has considered the impact of volatility and therefore does not use 1-year estimates but, *“do not consider that longer-window estimates, such as five or ten years, should automatically be preferred.”*²¹
- It does not agree that markets not being perfectly efficient is a reason to place weight on longer term estimates: *“If observed market data were treated as too unreliable because of possible anomalies or mispricing, it would be difficult to justify using comparator beta evidence at all.”*²²

Additionally, Europe Economics note that longer term estimates are not automatically more reliable for estimating a forward-looking beta, particularly as they still place weight on the pandemic and immediate post-pandemic period.

CEPA in its report for Aer Lingus use a variety of estimation windows and note that the 5-year estimation window provides the longest estimate from a non-covid impacted period. CEPA use “robust regression techniques” rather than standard OLS estimates which primarily impacts its estimation of the 10-year beta. Despite the lower 10-year estimate due to this approach, CEPA’s 10-year estimates are still used in its assessment of the top of its range.

Frontier view

We continue to consider that a range of estimation windows should be used to inform the asset beta estimate. Our estimate from our business plan submission report considered both short term windows (2-year) as well as longer term windows. Considering a range of evidence

²⁰ Frontier Economics (2026), Appendix: Dublin Airport letter to the IAA Re: Cost of Capital Assessment dated 8th May 2026

²¹ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p30

²² Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p30

helps balance the trade-off between short and long run estimates that Europe Economics have identified.

Importantly, we do not consider the Europe Economics position to represent recent regulatory best practice. We note that the Smithers & co. paper that Europe Economics reference, authored by Wright, Mason and Miles, is now over 20 years old.

Moreover, it is a source no longer relied upon by regulators because **the authors of this paper have since provided a comprehensive update** in 2018. This update was a paper written for the UK Regulators Network (UKRN), titled, “Estimating the cost of capital for implementation of price controls by UK Regulators: An update on Mason, Miles and Wright (2003)”.

In this update they used a range of beta estimation windows.²³ The previous view on beta frequency was no longer relied upon. Europe Economics failed to reference this update on the original work – and therefore were referring to outdated views of the authors.

Another publication from the UKRN in 2023 built on this 2018 work. This latest UKRN guidance from 2023 suggests:

*“Considering a range of lengths of estimation window (for example, 2 year, 5 year and 10 year) should be sufficient to balance the dual objectives of minimising unrepresentative noise from small samples of data and recent data relevant to a forecast”.*²⁴

This position has been maintained in the draft 2026 consultation guidance which states that:

*“regulators agree there is a benefit in terms of transparency and consistency in using as a starting point data from 2-, 5-, and 10-year windows that are familiar from recent regulatory decisions. This is a simple and transparent approach which maintains consistency over time”*²⁵

In addition, there is no regulatory precedent in the UK, Irish or European aviation regulation that we are aware of to support relying exclusively on short-term estimation windows. If the IAA continues to rely solely on these short run estimates, then it will be an outlier relative to other aviation regulatory decisions.

We also disagree with Europe Economics’ criticisms of our arguments:

- For the purposes of setting an asset beta for a 5-year regulatory period, relying on highly volatile estimates makes it unlikely that the estimate will reflect market perception of systematic risk for the entire period. As we noted in our Appendix to daa’s letter, the min-max range in 2-year estimates since 2019 has been ~0.4 for each of the comparators. This represents big changes in the implied allowed return that, if used to set allowances,

²³ UKRN (2018), Estimating the cost of capital for implementation of price controls by UK Regulators

²⁴ UKRN (2023), UKRN guidance for regulators on the methodology for setting the cost of capital, p23

²⁵ UKRN (2026), UKRN Cost of capital – review of guidance on methodology for setting cost of capital Consultation, p34

would represent significant regulatory instability. If the asset beta applied in the price control is highly uncertain, then the cost of equity will be too. For an airport with long asset lives and long-term financing – introducing instability to this degree could be harmful for investability. Europe Economics considers that ex-post betas drawn from narrower timeframes (2-year and 3-year) are the best estimator for ex-ante beta. We disagree. A shorter window introduces the risk that a particular period is influenced by a specific set of circumstances e.g. reflecting a period of good or bad luck that is not representative of forward-looking risk. We consider that a balanced approach is to consider multiple windows. This is in line with the approach taken by other regulators set out above.

- Where markets are less efficient, longer windows minimise estimation error and are less volatile than shorter term estimates. As Europe Economics note, “*The relevant question is whether the movement reflects genuine changes in forward-looking airport risk, or instead statistical noise, temporary disruption*”.²⁶ Imperfect markets are a key reason that the volatility we observe in shorter term estimates does not capture genuine forward-looking risk. We also disagree that imperfectly efficient markets make it difficult to justify using comparator beta evidence. Instead, we consider it important to acknowledge that beta estimation, and by extension the CAPM framework, is not a perfect predictor of forward-looking required returns. However, when faced with imperfect information, a pragmatic approach is required which utilises all evidence available. In this case, this means using evidence from a range of estimation windows.

Finally, we do not agree with CEPA’s use of “robust regression techniques” for estimating the beta. These techniques involve deleting observations based on statistical rules and placing less weight on certain observations that are considered outliers. We consider that it is important to not completely discount data from the pandemic period. Shocks like this may occur sometime in the future again and therefore discounting or deleting this data completely from these periods risks underestimating the equity beta. We therefore consider that taking a range of estimation windows is a more robust and transparent approach.

6.1.2 Data frequency

Draft determination and other submissions

The IAA and Europe Economics primarily rely on estimates using daily data.

In our business plan submission report we also used weekly estimates in addition to daily estimates. As noted in our Appendix to daa’s letter, we consider this prudent given the lower levels of liquidity exhibited by airport comparators relative to the comparators available in other sectors such as utilities.²⁷

²⁶ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p30

²⁷ Frontier Economics (2026), Appendix: Dublin Airport letter to the IAA Re: Cost of Capital Assessment dated 8th May 2026

However, instead of relying on weekly estimates, Europe Economics instead use Dimson-adjusted estimates as its primary sensitivity.

Frontier view

We continue to place weight on weekly estimates and do not consider Dimson-adjusted estimates in our assessment of the asset beta.

It is common to see usage of different data frequencies when estimating betas. It is most common to see daily, weekly or monthly in some combination. Introducing a different frequency is a straightforward step for mitigating a potential liquidity issue.

The approach used by Europe Economics (a Dimson beta) is an econometric solution that is more complicated. We disagree that a rarely used and complex approach should be used in place of a commonly used and simple approach.

We find that in the rare cases a Dimson beta has been applied it is in the context of a stock with very poor liquidity and of much smaller size than the airports considered here. For example, Ofwat considered Dimson beta in 2014 for a water company where there was evidence of zero trading on a daily basis (Dee Valley Water). In other words, they were attempting to mitigate an extremely poor level of liquidity – which justified a more complex econometric technique to attempt to mitigate that issue.

6.1.3 Comparator set

Draft determination and other submissions

The IAA uses the same four comparators as we used in our business plan submission report: ADP, AENA, Zurich and Fraport. However, a key difference in approach is the treatment of Fraport when placing weight on different comparator estimates.

Europe Economics use the upper end of the Irish utility asset beta range, 0.35 as determined by CRU, as a lower plausibility bound for the asset beta. The asset beta estimates for Fraport fall below this lower bound and therefore Europe Economics impute the value of 0.35 for the Fraport asset beta and still include this evidence in its assessment of the range despite other comparators suggesting a materially higher asset beta. Excluding Fraport increases the average of Europe Economics' estimates significantly, from 0.50 to 0.55.

CEPA in its report for Aer Lingus apply a negative relative risk adjustment of 0.05 to the top end of its asset beta range to reflect its view that Dublin is less risky than the comparator airports. This was based on the following factors:

- Traffic volatility: CEPA claim that Dublin's position as a hub airport reduces traffic volatility relative to the group activities of the comparator set which include non-hub airports.
- Till structure: CEPA claim that Dublin Airports single till structure reduces relative risk.

- A cross check on smaller national airports: such as Athens, Sydney and Bologna which suggests a lower asset beta

Frontier view

We disagree with Europe Economics' use of Fraport to arrive at its asset beta range.

We agree that utility betas are appropriate as a rationality check. We would expect airports, which are subject to volume risk, to have greater systematic risk relative to utilities which operate under revenue-cap regulation. However, the fact that the Fraport short run estimate is materially below this level suggests that the estimate is unreliable and irrational. We consider that this provides a strong reason to disregard shorter term evidence from Fraport and instead rely on the other three comparators which provide more consistent estimates.

We continue to include Fraport in our assessment for longer term windows. As noted above, longer term windows smooth short-term impacts, and therefore the Fraport asset beta, while lower than other comparators, is clearly above the utility beta lower bound identified by Europe Economics.

Our approach therefore uses evidence from Fraport, while not placing undue weight on evidence that is clearly irrational from a relative risk perspective. Europe Economics' approach of replacing the asset beta values at the 0.35 figure is arbitrary and assumes that the utility and airport risk ranges intersect. We disagree that the two should intersect. The level of revenue risk that airports are exposed to through the economic cycle is substantially greater than that of utilities. The logic of Europe Economics is that their relative risk can be the same – this fails our rationality test – the underlying asset risk of airports should be greater. As Europe Economics note, the impact of including Fraport in its short-term average moves the average asset beta from 0.55 to 0.50 which is a significant reduction in returns.

We disagree with CEPA's negative relative risk adjustment. The adjustment made is arbitrary and not grounded in reliable evidence. We discuss our reasons below.

- **Traffic volatility** – we do not agree that traffic volatility is likely to be materially lower for Dublin Airport relative to the comparators. Dublin Airport is significantly increasing capacity over the upcoming period which CEPA acknowledge suggests that there is a weaker case for there being excess demand. We disagree with CEPA that this should not materially change its conclusion. While CEPA supports its claim with limited years of historical evidence, this increase in capacity reduces the relevance of this evidence for the forward-looking risks. We also disagree that Dublin's position as a hub airport reduces risk. There is significant competition for transfer passengers with other hub airports since passengers have the option to fly to their destination via alternative routes. Regardless, transfer passengers have accounted for just 5% of passenger volume since 2022 and therefore have a limited impact on overall revenues.²⁸

²⁸ Passenger data provided to us by daa.

- **Single till** – we disagree that single-till regulation is necessarily lower risk than dual-till. In particular dual-till provides opportunities for upsides relative to single-till – which can be one way to mitigate the asymmetric risks present for airports. CEPA’s discussion appears to only focus on points of variance. We cover asymmetric risk in Section 9.2.2 in more detail. We also note that Heathrow operates on a single till model and in its H8 initial proposals the CAA noted that, *“It is not clear that the use of a single till or dual till framework materially influences systematic risk exposure”*.²⁹
- **Other comparators** – We do not agree with the use of CEPA’s alternative sample of Athens, Sydney and Bologna to justify any adjustments. These comparators are less relevant to Dublin Airport than the core comparator set, and Sydney airport has been delisted since 2022, and therefore cannot be used to provide up to date evidence.

6.1.4 Re-levering and debt beta

Draft determination and other submissions

Europe Economics, for the purposes of the DD, use the Harris-Pringle formula with a zero debt beta when de-levering and re-levering comparator betas. However, it stated that it will consider stakeholder representation before deciding on a debt beta assumption for its final report.

Further, it notes estimates a debt beta of 0.17 on the basis of a Modigliani-Miller-consistent debt beta, and therefore suggests that using a zero debt beta is a factor that lends more downside risk to the overall point estimate which should be considered when setting any aiming up adjustment.

Frontier view

As we discuss in our Appendix to daa’s letter,³⁰ we consider that there should be a zero debt beta in the re-levering calculation. This is for three main reasons:

- The use of a positive debt beta implies that the value of daa’s tax shield is subject to the possibility of its debt defaulting and therefore daa’s debt holders share some operational cashflow risks normally borne by the equity holder. Given the reality of daa’s funding model, we are not convinced that the Harris-Pringle formula is the most appropriate for daa.
- To our knowledge, many non-UK economic regulators assume zero debt beta assumption in their CoE estimations, including the energy and transport regulators in France (CRE and ART), Spain (CNMC) and Germany (BNetzA). There is also no recent precedent for

²⁹ CAA (2026), H8 Initial Proposals Section 3: financial issues and calculating the price cap, para 9.111

³⁰ Frontier Economics (2026), Appendix: Dublin Airport letter to the IAA Re: Cost of Capital Assessment dated 8th May 2026

using the Harris Pringle formula with a positive debt beta in Irish regulation, with CRU assuming zero debt beta in its recent decisions.

- We also note the empirical challenges in estimating a reliable debt beta value. Direct estimation of debt betas – in a fashion consistent with equity beta estimation – often leads to a very wide-range of values and frequently results in negative debt beta values. Indirect methods, such as the one applied in Europe Economics' calculation, are subject to all the uncertainties involved in the intermediate steps such as the accuracy of the risk-free rate, default premium and ERP. In particular, the default premium is hard to estimate accurately independent of the cost of debt – with many regulators suggesting that there is a wide range of plausible estimates for the default premium.

6.1.5 Comparison to other regulatory decisions

Draft determination and other submissions

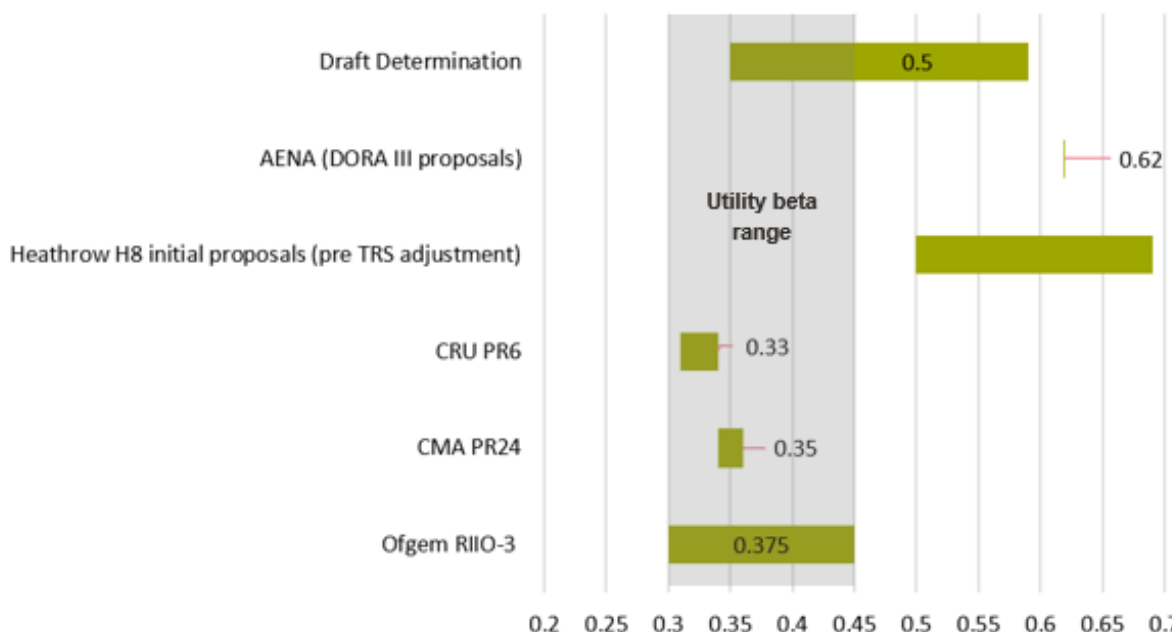
The IAA and Europe Economics have used a range of 0.35 to 0.59 and a point estimate for the asset beta of 0.50. While it acknowledges that the asset beta decisions for Heathrow can be a useful cross check and that there are factors that point towards Dublin Airport having greater systematic risk than Heathrow, Europe Economics does not consider it to be a lower bound as cost risk, commercial revenue risk, ownership, regulatory protections and the scope of the regulatory till may also affect systematic risk, but are difficult to quantify.

Europe Economics' asset beta point estimate of 0.50 is at the bottom of Heathrow's asset beta range of 0.50 to 0.69 before applying the Traffic Risk Sharing (TRS) adjustment.

Frontier view

We consider Europe Economics' asset beta range to be inconsistent with other regulatory decisions, including the recent Heathrow H8 initial proposals from the CAA. In other words, where Dublin Airport has been positioned is illogical from a relative risk perspective.

Figure 1 below compares the DD asset beta range to recent regulatory decisions in aviation as well as utility regulation.

Figure 1 Recent regulatory precedent on asset beta

Source: IAA, CNMC, CAA, CRU, CMA, Ofgem

Note: Labels provide the point estimate where applicable

The figure shows that **the DD range sits clearly below other aviation regulatory decisions for Heathrow and AENA**. The CNMC DORA III proposal asset beta of 0.62 sits above the top end of Europe Economics range, while the DD point estimate sits at the very bottom of the wide H8 initial proposals range. This is a concerning combination, as it implies Dublin Airport faces significantly less systematic risk than both of these comparator airports.

Europe Economics note that there are factors that point towards Dublin Airport having greater systematic risk than Heathrow in some respects but do not treat Heathrow's asset beta as a lower bound, but as a cross check. Given the significant difference in asset beta range, we do not consider that the DD asset beta passes this cross check. The H8 proposals were published in March 2026 and therefore represent a recent regulatory view of Heathrow's asset beta.

We do not agree that movements in the comparator set can be used as justification for this mismatch. The CAA use a variety of estimation windows and therefore its estimation is significantly less volatile than Europe Economics' approach. The Europe Economics comparison to the CAA figure is simply not like-for-like.

In contrast, there is significant overlap between the DD range and the recent utility asset beta decisions. In particular, Ofgem's RIIO-3 asset beta range, which it has maintained very recently, has a top end of 0.45 which is in the middle of the DD range. We consider that this

strongly suggests that the DD asset beta range and point estimate are misplaced relative to other regulatory decisions. As Europe Economics note, “*Dublin Airport’s asset beta should generally be expected to sit above that of core Irish utilities*”.³¹

In addition to the asset beta in the DD being below recent aviation precedent, we note that the DD figure is also at the bottom-end of historical regulatory precedent in aviation.

Table 9 Historical precedent for asset beta decisions in aviation

	Dublin	AENA	Heathrow
2014	0.60, 2014 determination		0.50, Q6
2015			
2016		0.59, Dora I	
2017			
2018			
2019	0.50, 2019 determination		
2020			
2021		0.79, Dora II	
2022	0.60, 2022 interim determination		
2023			0.62, H7 pre -TRS (midpoint)
2024			
2025			
2026	0.50, 2026 Draft Determination	0.62, Dora III proposals	0.59, H8 initial proposals pre-TRS (midpoint)

Source: CAA, CNMC, IAA

The table above shows the historical asset beta decisions for Dublin Airport, AENA and Heathrow. This shows that the asset beta is the joint lowest it has ever been set, equal to the 2019 determination which was set before the pandemic. In contrast, the recent Dora III and H8 proposals provide an asset beta that is above the determinations before the pandemic. This is more intuitive, as the pandemic highlighted the existence of high magnitude downside risks that were not previously priced in. Placed against these historical figures, the IAA’s DD suggests that the pandemic impact on beta is now negligible, but it does not provide any

³¹ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p34

evidence to support this view – relying solely on volatile and potentially unrepresentative betas values drawn from the past 2 to 3 years of data.

6.1.6 Conclusion on asset beta

We summarise in the following table the asset betas which we have estimated for the comparators described in this section.

Table 10 2-year, 5-year and 10-year average asset betas

Comparator	2-year	5-year	10-year
AENA	0.66	0.70	0.78
ADP	0.53	0.57	0.75
Fraport	0.21	0.35	0.50
Zurich	0.59	0.64	0.78
Average	0.50	0.57	0.70
Average excl. Fraport	0.59	0.64	0.77

Source: LSEG

Note: Zero debt beta

In line with our business plan submission report, the figures presented above are the average of daily and weekly betas for each of the timeframes set out. For example, the figures 5-year column reflects the average of the 5-year daily unlevered beta and the 5-year weekly unlevered beta using data until the end of June 2026.

We use a similar approach to our business plan submission report to select a lower and upper bound from this data. We use an asset beta range of **0.59 - 0.70** for the purposes of calculating the cost of equity range. This is based on:

- A lower bound based on the average of the 2-year estimates, excluding Fraport. We exclude Fraport due to concerns around Fraport's 2-year estimates, to set the lower bound.
- An upper bound based on the average of the longer term 10-year estimates, 0.70. These capture periods where there were larger demand shocks, including COVID-19. We consider it more reasonable to draw on all four comparators in this case since concerns about Fraport being anomalous are reduced over those horizons.

Relative to our business plan submission report range of 0.61-0.67, our range is wider but the midpoint has not moved significantly. We consider that this range provides a more technically robust estimate of Dublin Airport's asset beta, and crucially it is more consistent with other regulatory decisions than the DD range.

7 Pre-tax cost of equity

Combining the individual CAPM parameters estimated in Sections 4 to 6 we estimate a post tax cost of equity range of 7.82% to 9.54%, this is shown in the table below.³²

In line with previous Dublin Airport WACC estimation exercises we also set out a pre-tax cost of equity figure. Consistent with precedent we estimate this by applying a tax rate to the real post-tax cost of equity range.

In our business plan submission report we applied a tax rate of 16.1% based on the previous two years of daa's audited regulated entity accounts. Europe Economics, advised by the IAA, used a tax rate of 15.5% based on the average of regulated entity accounts for 2023, 2024 and 2025. For our updated estimate we use 15.5% in line with the IAA's assumption which is based on one additional year of regulated accounts data.

To estimate the real pre-tax cost of equity we apply the following formula:

$$\text{real, pre tax cost of equity} = \frac{\text{real, post tax cost of equity}}{(1 - t)}$$

The tax rate (t) is set equal to the 15.5% as outlined above. As set out in the table below, this produces a real pre-tax cost of equity of 9.25 to 11.29%.

Table 11 Updated cost of equity estimate

Component	Frontier Low	Frontier High	Frontier midpoint
Notional Gearing	50%	50%	50%
Risk-free rate	0.87%	1.03%	0.95%
Total Market Return	6.75%	7.10%	6.93%
Equity Risk Premium	5.88%	6.07%	5.97%
Asset beta	0.59	0.70	0.65
Debt beta	-	-	-
Equity beta	1.18	1.40	1.29
Allowed return on equity	7.82%	9.54%	8.67%
Corporation tax	15.50%	15.50%	15.50%
Pre-tax cost of equity	9.25%	11.29%	10.26%

Source: Frontier calculations

³² The equity risk premium is calculated as the total market return net of the risk-free rate. Equity beta is calculated using our asset beta range, zero debt beta and the Harris-Pringle formula.

8 Gearing

8.1 Draft determination and other submissions

The IAA and Europe Economics have used a 50% notional gearing assumption in the DD. This is in line with the 2019 and 2022 determinations as well as the assumption we adopted in our business plan submission report.

CEPA, in its report for Aer Lingus propose a lower notional gearing assumption of 40%, noting that Dublin Airport's recent actual gearing is in the 34 to 41% range and that comparator airport gearing is generally below 50%.

8.2 Frontier view

We maintain a notional gearing assumption of 50% for our updated allowed return estimate. We agree with Europe Economics that there is no compelling evidence to deviate from the existing precedent, given that regulatory precedent does not provide a clear basis for moving away from 50%.

9 WACC estimate

9.1 Draft determination and other submissions

The IAA have used a split WACC approach in the DD, with additions to the RAB from triggered projects earning a higher allowed return than the rest of the RAB. The higher triggered project WACC was estimated by using a different proportion of new debt assumption, which we address in Section 3.3.

The IAA has also decided not to apply any aiming up adjustment on the WACC (a value of 0bps). This is primarily for the following reasons:

- It considers its higher triggered project WACC to include an element of aiming up.
- It agrees with CEPA's view that Dublin Airport's relative risk might be slightly lower than the comparator sample, meaning that a central asset beta estimate may already tend slightly to the upside.
- It suggests that the aiming up adjustment over the current interim regulatory period has contributed to financial outperformance of the regulatory settlement but has been coincident with a very significant under-delivery of Capex.
- Investment incentives and financing is already addressed through Capex incentives and triggers.

The IAA, Europe Economics and CEPA have suggested that the 50bps WACC uplift included in our report accounted for 40bps inflation adjustment and 10bps aiming up. This is an incorrect reading of the report.

While a 40bps inflation adjustment can be supported by both the historical evidence and regulatory precedent, this decomposition of our adjustment is not correct. We considered this evidence alongside the strong reasons to aim up. The 50bps adjustment that we applied considered all of this evidence, including existing precedent for Dublin Airport, in the round.

9.2 Frontier view

9.2.1 Response to the IAA's reasoning

We disagree with the IAA's proposal for using separate WACCs for different parts of the RAB and its reasoning for not including an aiming up adjustment. We respond to each of the areas covered by the IAA.

IAA's use of a split WACC

We have in-principle concerns regarding IAA's proposal to use a split WACC approach in remunerating a higher WACC on only a specific type of capex that passes a trigger, while leaving the rest of the capital base potentially under remunerated. Even though the regulatory

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objective of incentivising new investment with a higher allowed return is understandable, rewarding new investment with a higher rate than the old investment is fundamentally at odds with finance and economic principles.

The cost of capital is a forward-looking concept, and it represents the rate of return investors expect to earn for investing a marginal unit of new capital into a company. This forward looking WACC is relevant both for attracting new investment and retaining the current capital base (i.e. past investment). This is because a current investor is an investor who chooses to hold the stake instead of selling it, and – absent significant transaction costs – broadly equivalent to a new investor who chooses to buy a new stake. It is a fallacy to think that if the cost of capital of a company has increased, the required rate of return only needs to increase to cover new investment, because it assumes that the current owner is trapped and cannot withdraw the capital and invest elsewhere that offers better returns. Among finance practitioners, it is standard to apply a forward looking WACC to the whole capital base of a company instead of only new capital.

Thinking about the longer-term dynamics, a well-informed new investor will anticipate the regulator's strategy to set an inadequate level of allowed return on their investment as soon as it can be considered (sunk), and therefore any higher WACC meant only for new investment will not have the desired effect of attracting new investors as intended. For the higher allowed return to be credible to attract new investment it needs to be awarded also to existing investment.

There have been debates in the UK regulated industries on split WACC in the past for similar reasons facing IAA. But recognising the conceptual flaw in the split WACC idea, no regulator in the UK allows a rate of return based on the idea that new investment requires a different rate of return than sunk investment. We therefore consider IAA's proposal of using the trigger mechanism to award a higher rate of return on certain new capex to be at odds with economic and financial principles as well as best regulatory practice.

Parameter-level aiming-up

First, as noted in Section 3.3 above, we do not agree with the IAA's assessment that its treatment of the proportion of new debt for triggered projects amounts to any aiming up. This can be demonstrated using the financial information set out by the IAA at DD. Any arguments linking aiming-up to the treatment of debt should therefore be disregarded.

Further, we note that Europe Economics in its report consider that, *“any adjustment should be applied transparently as a separate final uplift to the central WACC estimate, rather than being embedded across individual parameters.”*³³

The IAA should be clear, using specific numerical examples, if they propose to use different WACC figures – reconciling back to scenarios where a single WACC were to be applied to

³³ Europe Economics (2026), Dublin Airport Cost of Capital for 2026 Determination, p65

show they are equivalent (or, if there is a degree of aiming-up, to quantify it explicitly and clearly). Otherwise, unqualified statements that a parameter, such as the proportion of new debt, is ‘relatively high’ is meaningless; ‘relatively high’ compared to what? A lack of transparency is detrimental to regulatory stability and predictability – which, in the long-run, raises costs to customers through investors applying higher risk premiums to an asset.

Financial outperformance, CAPEX delivery and incentives

We disagree that the aiming up from the previous determination contributed to financial outperformance, or is necessarily relevant to the under-delivery of Capex.

The aiming up adjustment is included to adequately compensate for the risks Dublin Airport faces. The extent to which a risk crystallises over a given period does not mean that compensation for the risk is not required. If we were to consider a period where risks did crystallise, and the airport experienced a large shock to the downside, we consider it unlikely that the IAA would not argue that previous aiming-up allowances were insufficient for the next period. The IAA is conflating a premium for risk, with a specific outcome in a short time frame.

Compensation for the risks that CAPEX entails is a necessary, but not sufficient condition for the delivery of CAPEX. In any given period, CAPEX can be lower due to a wide range of factors, many of which were outside daa’s control. As above, observing a specific outcome over a short time frame does not indicate a lack of incentive.

Relative risk

We do not consider Dublin to have lower risk than the comparator airports for beta estimation. We address this point in section 6.1.5.

9.2.2 Reasons for aiming up

There are multiple long-run benefits from aiming-up on the WACC. While these need to be weighed against the upward pressure on the price-cap that results, we believe that the reasons for applying aiming-up in this next regulatory period are particularly strong. Key factors we consider relevant, many of which were covered in the IAA Issues Paper, are:

- Asymmetric risks;
- Enabling investment and growth;
- Measurement error;
- Regulatory stability;
- Competition for infrastructure financing; and
- Differences in inflation measures.

We discuss each of these in turn below.

Dublin Airport is exposed to asymmetric risks

Aiming-up provides compensation for asymmetric risks which are not adequately captured in the CAPM framework. Including this compensation in the WACC is key where these risks are not otherwise reflected in the regulatory package.

In terms of what drives asymmetric risk, the main factor is that Dublin Airport faces passenger volume risks that have a direct impact on revenues. This risk is widely recognised as being skewed to the downside, with negative passenger shocks such as those observed during the pandemic being much larger than the potential upside which is constrained by internal airport capacity and external passenger caps.

There is strong academic evidence that returns calculated using the CAPM framework do not capture the required returns to compensate for asymmetric risks. For example, Harvey and Siddique (2023) show that there can be a significant skewness premium above the CAPM estimated returns.³⁴

The fact that investors care about asymmetric risk has been acknowledged in other regulatory jurisdictions such as by the CAA in its regulation of Heathrow. In this context, Europe Economics themselves estimated a significant skewness premium for Heathrow where it concluded, *“as a consequence of skewness, the required equity returns of Heathrow are 1.3 percentage points higher than those of an asset skewed at the market average”*.³⁵

As a result of the asymmetric risks that Heathrow faces, there are two features included in the H7 price control by the CAA:

- A passenger shock factor – this is an adjustment to the passenger forecast used by the CAA to represent the downward impact of typically occurring, but unforecastable events that it is reasonable for the CAA to anticipate. The CAA states that this is to take account of asymmetric non-economic downside risks (due to events such as adverse weather, volcanic eruptions, terrorism or strike action).
- An asymmetric risk allowance in revenues – this was designed to deal with these high magnitude downside risks in a targeted way and prevent what otherwise would be upward pressure on HAL’s cost of capital and airport charges, which would not be in the interests of consumers.

In its initial proposals, the CAA has indicated its intention to maintain both of these features for the H8 price control stating that the asymmetric risk allowance is, *“appropriate, and is consistent with the interests of consumers.”*³⁶

³⁴ Harvey and Siddique (2023), Conditional Skewness in Asset Pricing: 25 Years of Out-of-Sample Evidence

³⁵ Europe Economics (2013), Heathrow Airport’s Cost of Capital, p74

³⁶ CAA (2026), H8 Initial Proposals Section 3: financial issues and calculating the price cap, para 10.102

When we compare this to Dublin Airport, the IAA rejected any adjustment for asymmetric risk in the passenger forecast, and the IAA rejected the inclusion of an asymmetric risk allowance too.³⁷ This means, relative to Heathrow Airport, there is no compensation for asymmetric risk in the price control building blocks.

In summary, there is a major source of risk that investors care about, and that is recognised by prominent corporate finance academics, which is **currently completely uncompensated for in the 2026 determination**.

This is despite other regulatory examples of compensation being provided, and previous acknowledgements of the IAA on the benefits of aiming-up on the WACC. The IAA's advisors, Europe Economics have also recognised the important role of asymmetry and the large impact it can have on large, regulated airports – and this work was undertaken prior to the pandemic, which has forcefully illustrated just how large asymmetry can be.

Enabling investment and growth

Aiming-up helps support investment, which in turn drives growth in the economy. The asymmetry between under-investment and over-investment is something that the IAA noted in the Issues Paper published in July 2025.

In past periods we note that the IAA referred to the North Runway scheme as one key contributor to the need to aim-up. Looking ahead to investment plans proposed for the next price control period we find that high CAPEX levels are expected to be sustained, leading to significant RAB growth.

The IAA has not applied any aiming up despite the material financing required to achieve the high levels of CAPEX.

Therefore, there is an inconsistency with the regulatory precedent for previous price controls. CAPEX is greater than that associated with the North Runway scheme, yet aiming-up has been set to zero.

Measurement error in parameter estimation

Measurement error was a further point acknowledged by the IAA in the July 2025 issues paper. We noted in our business plan submission report that this risk is greatest with respect to asset beta for Dublin Airport since the aviation sector has recently undergone an extremely large shock to passenger volumes and revenues. Perceptions of a similar event in future are therefore important, and are likely to be enduring for a prolonged period.

The difficulty in assessing the correct asset beta is shown by the large width of the DD asset beta range of 0.35-0.59. The difference of 0.24 translates to a range of ~2.9% on the return

³⁷ The IAA also adopted a higher passenger forecast assumption relative to Dublin Airport.

on equity which is a significant range of returns.³⁸ The IAA noted in the July 2025 issues paper that there are asymmetric economic effects of underinvestment relative to overinvestment, since underinvestment is likely to have asymmetric dynamic effects on welfare. Given the uncertainty here, and that the DD's asset beta is materially lower than comparable regulated airports³⁹, we consider that there is a large risk that required allowed returns have been underestimated.

Other regulators tend to use a wider timeframe when assessing beta. As we highlighted in Section 6.1.1, a key motivation for that is to minimise unrepresentative noise from small samples of data. The reliance by the IAA and Europe Economics on narrow timeframes heightens the risk that the beta is capturing unique conditions that are unrepresentative of a forward-looking five-year period.

We do not consider that Europe Economics' Monte Carlo analysis provides strong evidence for the level of uncertainty. Monte Carlo analysis is strongly impacted by the input assumptions around the distributions of various parameters. Europe Economics have not provided, nor justified, these input distributions.

Given the asset beta in the DD is at a historically low value for Dublin Airport, we consider there to be a strong case that this parameter is more likely to be underestimated than overestimated.

Regulatory predictability and stability

A stable and predictable regulatory framework helps support a given credit rating for regulated companies such as Dublin Airport. As aiming-up was applied in the cost of capital decisions in 2019, and in the interim decisions since then, we consider there are stability benefits in retaining this aspect of the framework going forward – particularly at a time when cashflows at the airport may be under higher pressure from expenditure levels. We also note that many other regulators apply aiming-up, particularly during periods where investment needs are significant, this is true of recent regulatory decisions in Ireland and other jurisdictions too.

Continuing to apply aiming-up is therefore consistent with Dublin Airport's own price controls, and with other price controls.

Competition for infrastructure financing

Looking beyond CAPM, we also find that there are reasons to assume competition for scarce infrastructure financing will remain robust for an extended period of time. For example, across major economies there is a drive to upgrade energy infrastructure to deliver on net zero commitments and meet rapidly expanding demand for data centres, and there are also

³⁸ Using the DD ERP of 6.0% and gearing of 50%.

³⁹ See section 6.1.5 for a comparison of the DD asset beta to other regulatory decisions.

significant opportunities to invest in alternative aviation assets too e.g. with large sums of financing being required for Heathrow Airport expansion and Gatwick Airport expansion.

This strong demand for infrastructure financing is a market reality that needs to be considered when setting an appropriate allowed rate of return. As set out in the market context section, there has also been rapid growth in the capital required for data centres globally – with multi-billion debt and equity market investments being made to provide computing power for AI. As a result, airports face intense competition globally for capital. It is important that the WACC is estimated with a clear consideration of the need to have ongoing access to capital markets over the next five years.

Differences in inflation measures

The regulatory asset base (RAB) of Dublin Airport is linked to inflation. Therefore, the WACC is expressed in real terms to avoid double counting of inflation.

However, it is important to consider how inflation is being applied when deflating parameters used in the WACC calculation, and how that corresponds the inflation indexation applied to the RAB. Inconsistencies could lead to a mismatch between the WACC and RAB when calculating the allowed return on capital used in the price-cap.

In Section 2 we drew upon breakeven inflation from German government bonds as a primary source when setting an inflation assumption. This inflation assumption is applied when calculating both the risk-free rate in the cost of equity, and in calculating the cost of debt. The reason we placed weight on breakeven inflation evidence from German government bonds is that it provides a measure of long-term inflation expectations, matching to the long tenor of bonds being considered. Specifically, breakeven inflation from German government bonds captures market expectations in relation to Euro area inflation (HICP), as this is the inflation index applied to inflation-linked German bonds. The other source we place weight on is 'longer-term' forecasts provided by the ECB through its Survey of Professional Forecasters (SPF), this is also a long-term Euro area inflation (HICP) figure.

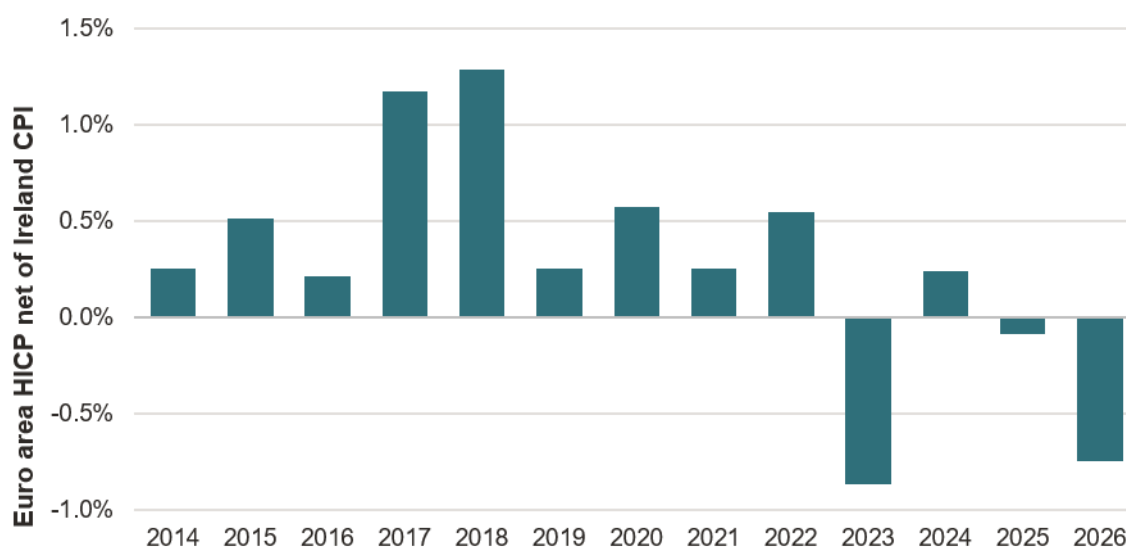
Turning to the inflation applied to the RAB, the specific index used is the Consumer Price Index (CPI) published by the Central Statistics Office (CSO). This inflation index is specific to Ireland.

Were these two inflation indices to have the same rate of change, then the inflation assumption used in deflating the WACC and the inflation index applied to the RAB would match. However, in practice we observe that the Euro Area HICP inflation rate and the CSO CPI inflation rate are materially different historically. Due to these differences, we consider that there is material risk that the WACC is underestimated, since the measures used to deflate parameters have been higher than the inflation measure used to index the RAB.

In line with our business plan submission report, we assess the magnitude of an inflation adjustment by considering the historical differences between CSO CPI and Euro Area HICP.

In the chart below we set out figures for the annual inflation rate on the Euro area HICP index net of the annual inflation rate on the CSO CPI index. The data show that the Euro area inflation rate has exceeded the annual inflation rate for Irish CPI – as the net figure is positive – 10 out of the 13 years shown. We focus on data from 2014 onwards as this corresponds to the period following the Euro area sovereign debt crisis.

Figure 2 Historical difference between Euro area HICP inflation and Irish CPI inflation



Source: CSO, ECB, Frontier Economics

Note: Annual average inflation rates

While we note that the recent data from the first half of 2026 suggests a negative wedge, since 2014 overall, the average wedge is 0.3%. As noted above, we do not consider that our 50bps aiming up adjustment can be disaggregated into this adjustment and a separate aiming up allowance. Instead, we consider that this evidence highlights **another risk that suggests the overall WACC could be underestimated** and therefore supports the overall adjustment alongside the other reasons above.

CEPA in its report for Aer Lingus show the differences for different measures of Irish and German inflation as well as some forecast evidence. As noted in section 2, it is clear that the inflation measures used to estimate the WACC are reflective of Euro HICP inflation expectations. We therefore do not consider evidence focussing on the German inflation, or Irish HICP inflation which is not used to inflate the RAB, to be relevant.

We also do not consider forecast evidence. As CEPA note, *“Forecasts are also wide-ranging, with more than a percentage point of recent forecast uncertainty reflected in the Irish*

*estimates.*⁴⁰ Given the large uncertainty around these forecasts, and the lack of specific CPI forecast available, we do not place weight on this evidence.

9.2.3 Uplifts to the WACC conclusion

Given all of the points highlighted in this section we continue to apply the 50bps aiming up adjustment as per our business plan submission report. We summarise our overall WACC range, including this adjustment below. Our pre-tax WACC ranges from 5.81% to 6.84% with a point estimate of 6.32% based on the midpoint of each estimated parameter.

Table 12 Overall WACC range

Component	EE DD low	EE DD High	EE DD Point estimate	Frontier Low	Frontier High	Frontier midpoint
Notional Gearing	50%	50%	50%	50%	50%	50%
Risk-free rate	0.93%	1.04%	0.98%	0.87%	1.03%	0.95%
Total Market Return	6.72%	7.10%	6.98%	6.75%	7.10%	6.93%
Equity Risk Premium	5.79%	6.06%	6.00%	5.88%	6.07%	5.97%
Asset beta	0.35	0.59	0.50	0.59	0.70	0.65
Debt beta	-	-	-	-	-	-
Equity beta	0.70	1.18	1.00	1.18	1.40	1.29
Allowed return on equity	4.98%	8.19%	6.98%	7.82%	9.54%	8.67%
Cost of embedded debt (pre issuance costs)	-0.52%	-0.49%	-0.50%	0.38%	0.38%	0.38%
Cost of new debt (pre issuance costs)	2.13%	2.15%	2.14%	2.12%	2.16%	2.14%
Additional borrowing costs embedded debt	0.10%	0.10%	0.10%	0.30%	0.30%	0.30%
Additional borrowing costs new debt	0.05%	0.05%	0.05%	0.30%	0.30%	0.30%
Proportion of new debt	48%	48%	48%	39%	39%	39%
Allowed return on debt	0.83%	0.85%	0.84%	1.37%	1.38%	1.37%
Vanilla WACC	2.91%	4.52%	3.91%	4.59%	5.46%	5.02%
Corporation tax	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%
Pre-tax cost of equity	5.90%	9.69%	8.26%	9.25%	11.29%	10.26%
Aiming up	0.00%	0.00%	0.00%	0.50%	0.50%	0.50%
Pre-tax WACC	3.36%	5.27%	4.56%	5.81%	6.84%	6.32%

Source: IAA, Europe Economics, Frontier Economics

Note: Real terms

⁴⁰ CEPA (2026), Dublin Airport: Cost of capital for the 2026 determination, p37

The increase in our estimate since the business plan submission report is primarily driven by changes in the market-based evidence and the latest debt requirements provided by daa, rather than changes in methodology.

Overall positioning of the DD

In contrast to our updated estimates set out above, we consider it important to take a step back and consider where the DD allowed return sits relative to other Irish regulatory decisions.

As discussed in section 6.1.5, we would expect the allowed return for Dublin Airport to be significantly higher than Irish utilities given that utilities do not face any volume risk. However, the DD cost of equity range (the most comparable components of the WACC between sectors⁴¹) **significantly overlaps with the range for utilities in Ireland.**

For the PR6 final determination in December 2025, CRU used a post-tax CoE range of 4.64% to 5.46% for ESB electricity networks. The lower end of the IAA's DD range of 4.98% sits in the middle of this PR6 range.

This is a result of a WACC that has pushed several parameters to extremely low levels simultaneously, while not including any offsets for risk such as an asymmetric risk allowance.

The WACC estimate we have set out is more balanced, provides adequate compensation for relevant risks, and is more consistent with regulatory precedent.

⁴¹ Cost of debt figures can reflect company/sector specific financing decisions of the past.



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