DUBLIN AIRPORT
Response to Commission for Aviation Regulation
COVID-19 price-regulation response
18th August 2020

Redacted Submission

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Executive Summary

The onset of the COVID-19 pandemic has proved catastrophic for the aviation market and has led to the collapse of traffic at Dublin Airport. Passenger numbers fell by 99% in April and May and while there was a small improvement in June and July, the impact of recent months means that overall, 2020 passenger numbers have already declined by 70%. Consequently, Dublin Airport's aeronautical and commercial revenues have all but disappeared since the outbreak of COVID-19. Dublin Airport is now facing one of the most challenging times in its eighty-year history.

These current difficulties are likely to extend into the immediate future and our industry will now continue to face unprecedented challenges for an extended period. For 2020, latest projections indicate that passenger numbers at Dublin Airport are likely to be less than 10 million (>70% decline on 2019). For 2021, there is a considerable amount of uncertainty around passenger traffic. Given this uncertainty, our latest projection for 2021 is based on a range of 10mppa -20mppa.

Financial Impact of COVID-19

daa is extremely concerned that Dublin Airport is on a trajectory to incur very significant financial losses this year. In an immediate response to this crisis, daa took the decision to undertake a range of cost cutting actions in order to safeguard the financial viability of Dublin Airport. These measures have included the introduction of reduced pay for employees, and the first steps in the implementation of measures designed to significantly reduce employee numbers and rightsizing of our business.

Except for the Temporary Wage Subsidy Scheme (TWSS), Dublin Airport has received no financial support from government at a National or EU level and is unlikely to have any recourse to exchequer funding going forward.

From a financial perspective, Dublin Airport relies significantly on the revenue generated from the airport charges levied on its airline customers to fund the ongoing operation and development of the airport in line with our statutory duties. Our aeronautical charges are currently subject to the annual price cap for 2020 set by the Commission in its Determination on the Maximum Level of Airport Charges at Dublin Airport for 2020-2024, dated 24 October 2019 ("the 2019 Final Determination").

As previously outlined Dublin Airport believes that this 2019 Final Determination is based on a number of flawed assumptions and is an extremely challenging regulatory settlement given that it will require a 15% reduction in the average airport charge at Dublin Airport over the period 2020 - 2024.

Notwithstanding this, many aspects of the 2019 Final Determination have now become outdated given the drastic impact of the COVID-19 pandemic on the Dublin Airport business. We assume that the Commission will need to undertake a new cost of capital assessment for the period 2022 onwards. The fallout from the pandemic has clearly exposed the elevated risk profile of aviation and in particular, the volatility of Dublin Airport relative to Continental hubs such as Amsterdam or Zurich. Airport Asset Betas have dramatically increased since the start of the year and will obviously have a significant bearing on the overall cost of capital revision. The data currently points to a marked increase in the required cost of capital, which is likely to be the case for the foreseeable future. To mitigate against the higher levels of market volatility, the Commission will also need to consider a more comprehensive 'aiming-up' mechanism.

The financeability test was a key feature of the 2019 Determination process last year. At this point in time, we are still assuming that any review will take place under the Commission's current statutory objectives. Developing the airport in a financially viable manner is undoubtedly a far greater challenge today than it was under last year's prospects. Business Risk Profile will be a key consideration that requires a greater level of assessment compared to the prior review. The revised regulatory settlement must ensure a sustainable basis for funding the unprecedented levels of debt required to manage the day to day operations of the Dublin Airport in light of the pandemic, while also allowing us to deliver the necessary investment programme. Dublin Airport's mandate from the State reflects an 'imperative that Dublin Airport remain strong financially'.

The consensus of the industry points to an elongated recovery. We are not expecting to repeat 2019's passenger levels until 2024 at the earliest. Therefore, the traffic forecasts set in the 2019 Final Determination will clearly need to be significantly adjusted. Capacity constraints are also now unlikely to hamper demand pre 2024. Our longer-range forecasts are still guiding annual potential demand in the region of 40 million passengers by the end of the decade. At this point, we do not envisage a significant deviation in the overall composition of traffic, with the exception that travel for business purposes may reduce as a proportion of overall traffic (c.19% pre COVID).

The conventional GDP based forecasting models will struggle to accurately predict traffic under the current imposition of travel restrictions. Forecast inaccuracy and volatility will undoubtedly be a feature for the review period in question. The Commission may need to consider if its regulatory model could accommodate traffic ranges. The concept of traffic risk share (or volume risk) has been debated many times throughout previous regulatory reviews, with stakeholders generally recommending that Dublin Airport should be allocated the full spectrum of risk/reward. With the unique volatility that will underpin this review, the timing may be appropriate to consider a threshold for stakeholder risk sharing. A simplified mechanism could be that actual volumes within 10% of the target should be considered as normal business risk, with full ownership borne by the airport. Deviations in excess of 10% could be shared by all parties through an annual price cap adjustment, albeit with a one-year time lag. Finally, the Commission will need to guard against over-optimistic airline capacity/load factor projections, which are then downgraded significantly post the Interim Review. During consultations last year, it would appear that various airlines provided the Commission with growth projections that underpinned the Commission's ultimate traffic forecast, which subsequently did not materialise (unrelated to COVID).

Development of Dublin Airport Post COVID-19

Despite the current difficult circumstances, Dublin Airport will remain focused on delivering and evolving into an airport that meets the needs of Ireland now and into the future. Dublin Airport remains committed to our medium-term goal of developing the airport capacity and infrastructure to deal with 40 million passengers per annum as set out in our Capital Investment Programme (CIP2020+).

Dublin Airport believes that this capacity expansion is fundamental to fulfil our statutory duty of developing the airport while also meeting the requirements of our airport users, passengers and stakeholders. Delivery of the CIP and implementing the necessary innovations necessary to drive sustainable airport operations can only be achieved through a cost reflective price cap. Investing in economical, best in class, energy efficient infrastructure while being mindful of the community in which we operate, will ensure that Dublin Airport continues to serve as the catalyst for Irish economic growth and stability.

Price Regulation Response to COVID-19

Only twelve months ago, our collective focus was manifestly different; Dublin Airport was approaching a record level of annual passenger activity (33 million), airside infrastructure constraints were hampering further growth and negatively impacting service quality, a €2 billion infrastructure development programme was approved to support 40 million passengers per annum and the primary consideration was the required level of airport charges to fund this unprecedented level of capital investment.

Today, shockingly, the industry is fighting for survival. Aviation is one of the hardest hit sectors and Ireland is one of the hardest hit countries from a travel and tourism perspective. Passenger volumes at Dublin could be as low as 8 million in 2020, a 75% drop on 2019 and a level not experienced since 1995. We now know with certainty that the recovery will not be V shaped, it will take years to return to 2019 levels and for the foreseeable future, there is no stability on the horizon – volatility is the new norm.

Clearly no regulatory settlement across Europe was founded on the current reality nor has any regulatory control the appropriate flexible mechanisms to manage such volatile deviations from the forecasted norms. The 75% collapse in traffic, with no recovery in sight, is obviously substantial grounds for justifying a plethora of regulatory reviews. However, this is where the grounds of theory and practice must diverge. The situation in 2020 and 2021 is so stark that there is limited value in reopening the current Final Determination, building block by building block. Instead, we propose a two-part review:

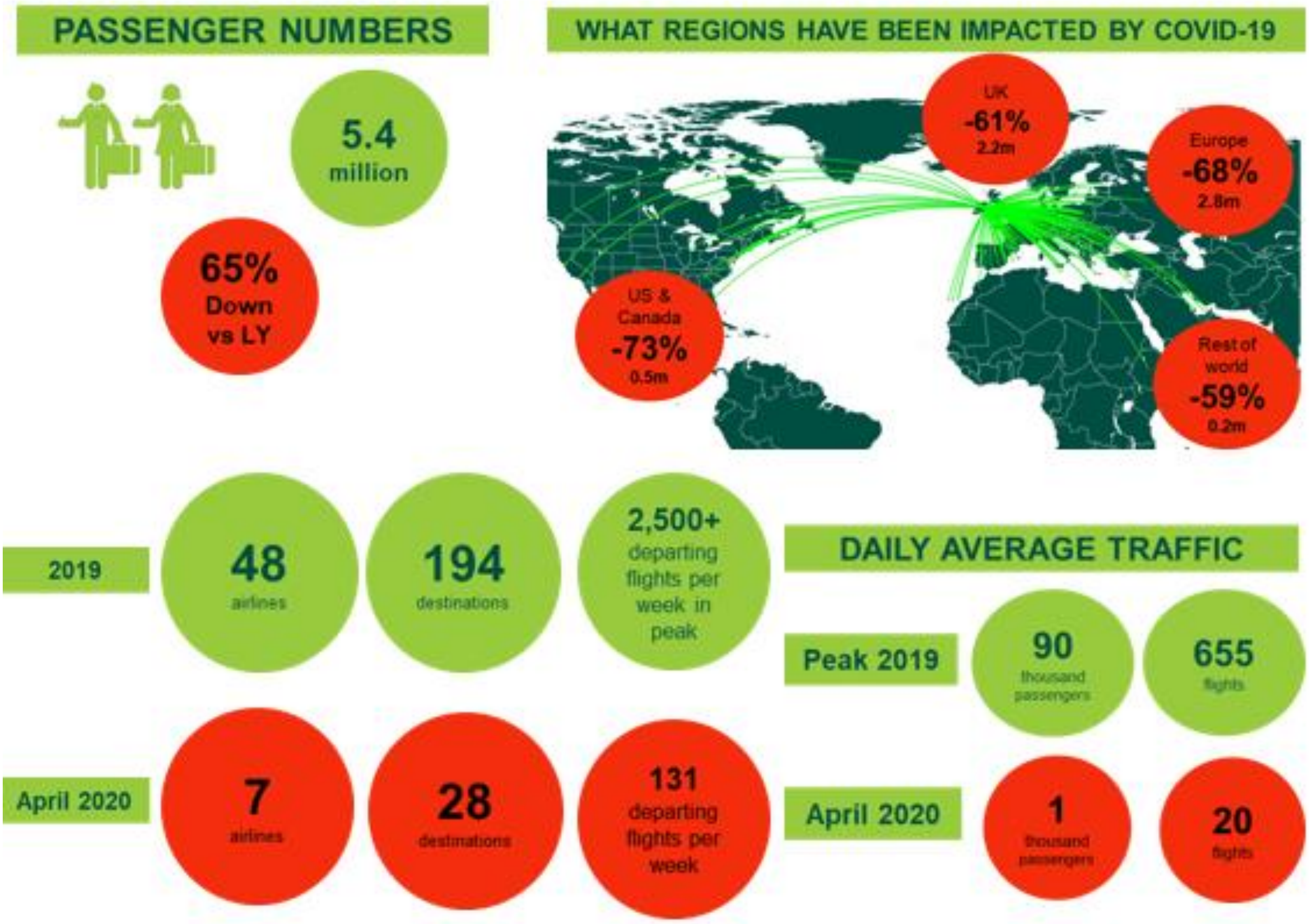
Stage 1 **2020 -21**	The overarching 2019 Final Determination (with associated price caps) remains in place for 2020 and 2021 and the initial review focuses on specific issues relating solely to the pandemic. We believe that the resolution of these discrete issues would keep airport charges flat at their current low levels out to Summer 2022, thereby providing the supports and certainty for rebuilding passenger traffic. It is important to remind stakeholders that Dublin Airport's 2020 charges have already reduced by 18.5% on 2019.
Stage 2 **2022 - 27**	A full regulatory review should take place for the period 2022 onwards. With consideration given to an extended control period; i.e. a new regulatory determination could cover the period 2022-2027.

We agree that many of the assumptions underpinning the 2019 Final Determination are not reflective of this current reality. The collapse in passenger traffic would constitute substantial grounds to carry out an Interim Review of the Final Determination. We support the Commission's suggested Option 4; i.e. initially conduct a discrete review of immediate issues pertaining to 2020/1 and subsequently in 2021, perform a full Interim Review for the period 2022 onwards.

We are obviously collectively facing exceptional challenges. Conventional regulatory mechanisms are too rigid to adequately manage the fast-changing dynamics and circumstances. We would ask that the Commission be as supportive as possible regarding the introduction of more creative interim remedies, and where necessary derogations, that offer maximum flexibility and support charging stability for at least the next 18 months.

During this forthcoming review process, Dublin Airport fully commits to the continuation of collaborative engagement with all stakeholders, so that we collectively achieve a balanced regulatory settlement that will primarily best serve passengers, but also the various stakeholder interests throughout the wider airport community. Dublin Airport believes that the Commission now has a critical role to play in aiding recovery in the aviation market and ensuring the longer-term financial viability of the airport.

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



1. Introduction

1.1 Introduction

1.1.1 Dublin Airport welcomes the publication of the Commission's paper CP3/2020 COVID-19 Price Regulation Response Airport Charges - Dublin Airport on the 30th June. We support the Commission's decision to consult on possible price regulation responses to the outbreak of COVID-19 and to consider if there are substantial grounds for an Interim Review in the aftermath of the COVID-19 pandemic.

1.1.2 In the short term we would like to focus on seeking resolution to a number of immediate issues which have arisen following the outbreak of COVID-19 which includes:

- Price Cap Compliance for 2020
- T2 Box 2 Allowance
- Capex Reprofiling Triggers
- Service Quality Metrics
- Operating Cost Passthrough Mechanism
- PRM Costs
- Maintaining efficient Airport Charges.

1.1.3 In section 3 of this document we set out the details of the immediate issues of concern and our requests regarding a solution in each case.

1.1.4 In the medium-term Dublin Airport would recommend a full Interim Review of the current 2019 Final Determination, to allow for a reappraisal of the regulatory building blocks in the wake of the COVID-19 pandemic. Our rationale for this request and our initial thoughts regarding a reassessment of the building blocks is set out in section 4 of this document.

1.1.5 In section 4 we also discuss how we believe the current determination process can be improved, to provide sufficient flexibility in the regulatory model to respond to the various positive and negative factors that impact growth trends and operations at Dublin Airport.

1.1.6 Our key objective for this Interim Review process will be to seek a price path that leads to an efficient level of airport charges while also sustaining Dublin airports operations and financial viability.

1.2 Overview of COVID-19 Impacts

1.2.1 The onset of the COVID-19 pandemic has resulted in the collapse of passenger traffic at Dublin Airport, where our latest forecasts would suggest achieving a maximum annual passenger throughput of circa 8m for 2020. This results in a circa 75% reduction in passenger volume for 2020 when compared to 2019. Consequently, Dublin Airport's aeronautical and commercial revenues have been drastically reduced since the outbreak of COVID-19. It is too early to give a view on 2021, except to note that the environment has deteriorated again in July and August, which does have a negative effect on sentiment towards 2021.

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

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

1.2.4 The current price cap model at Dublin Airport is based on an average price cap per departing passenger, which in turn is based on the total annual required revenues which Dublin Airport is permitted to earn. This is illustrated below in the table taken from the Commission's 2019 Final Determination.

1.2.5 The impact of the pandemic has proved particularly catastrophic for our aeronautical revenues where combining the annual price caps for 2020 and 2021 of €7.58 and €7.50 with our new forecast level of passenger volumes will result in total aeronautical revenues substantially below the required levels envisaged by the Commission under the 2019 Final Determination. This sharp decline in allowable aeronautical revenues is illustrated in the table below.

Table 1 Variance in aeronautical revenues 2020

	Pax Traffic Forecast	Total Revenue	Annual Price Cap
2020 CAR Final Determination	34m	€255.2m	€7.58
2020 DAP COVID position	8m	€60.6m	

	Pax Traffic Forecast	Total Revenue	Annual Price Cap
2020 Variance	*-26m*	*-€194.6m*	

Source: Dublin Airport

1.2.6 It should be noted that based on Dublin Airport's latest traffic assumptions for 2020, it is expected that the total revenue yield for aeronautical revenues will only be 24% of the required total revenues allowed by the Commission for 2020.

1.2.7 When this aeronautical revenue reduction is combined with the collapse in Dublin Airport's commercial revenues, it is clear that the company will not earn its allowed rate of return in 2020 and 2021 and this will result in substantial financial losses.

1.3 2019 Final Determination

1.3.1 The Commission published its Determination on the Maximum Level of Airport Charges at Dublin Airport for 2020-2024 on the 24 October 2019 ("the 2019 Final Determination").

1.3.2 The 2019 Final Determination is of critical importance for Dublin Airport given that this regulatory decision determines the underlying profitability of the airport and it influences the level of airport development that will be achievable over the course of the period 2020-2024.

1.3.3 As part of the review process leading to the 2019 Determination, Dublin Airport submitted to the Commission its regulatory proposition for the upcoming regulatory period 2020-2024.

1.3.4 Dublin Airport's regulatory proposition was based on a comprehensive review of the efficient operation of the airport to the required service quality and the necessary capital development to accommodate the expected traffic forecast and to grow commercial revenues. The regulatory proposition document contained Dublin Airport's forecasts and evidence on each of the key regulatory building blocks for the period 2020-2024.

1.3.5 Following on from the submission of our regulatory proposition, Dublin Airport provided extensive information and engaged extensively with the Commission and their appointed consultants in relation to each of the regulatory "building blocks" underpinning the Commission's 2019 Final Determination.

1.3.6 However, following review we considered that the 2019 Final Determination did contain a number of flawed assumptions and a result required a 15% reduction in the average airport charge at Dublin Airport over the period 2020 - 2024. This is based on the fact that the Commission set an average price of €7.87 for the period 2020-2024 which is c.18% below the average sought by Dublin Airport in its 2019 Regulatory Proposition.

1.3.7 As previously highlighted Dublin Airport was concerned that the 2019 Final Determination would negatively impact Dublin Airport's ability to fund and deliver its proposed airport development over the current regulatory determination period which would have consequences for service quality at Dublin Airport. This in turn would inhibit the airport in its efforts to respond and meet its requirements as the primary national and international transport hub.

1.3.8 However, we must acknowledge that the 2019 Final Determination also introduced innovative additions to the regulatory model in the form of the Capital Expenditure StageGate process and the Operating Cost Passthrough mechanism both of which have been welcomed and early indications would suggest that these will make a positive impact on our regulatory framework.

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

1.3.10 In the longer term we would intend to submit to the Commission a revised regulatory proposition for the remaining period of the regulatory determination period. This would contain revised business forecasts reflecting a reassessment of the building blocks in the aftermath of COVID-19.

1.3.11 Notwithstanding this, it should be stated that we intend to remain committed to our key strategic objectives set out in our 2019 regulatory proposition. We hope to honour our commitment to delivering our proposed capital investment programme while maintaining competitive airport charges. We believe that maintaining competitive charges and dedicated incentive schemes is essential for delivering further growth during this uncertain time in our industry.

1.3.12 In addition, a number of the features of the 2019 Final Determination are structured in such a way that they now have unforeseen negative impacts on the 2020 and 2021 price caps in the aftermath of the pandemic e.g. the T2 Box 2 allowance and the Capital Expenditure Reprofiling Triggers.

1.4 Policy Considerations

1.4.1 In considering our statutory requirements and strategic development, Dublin Airport remains committed to implementing the National Aviation Policy[1] (NAP), which was published by the Department for Transport, Tourism and Sport (DTTAS) in 2015. Among the goals outlined in the NAP are:

- creating conditions to encourage the development of new routes and services, particularly to new and emerging markets;
- ensuring a high level of competition among airlines operating in the Irish market; and
- optimising the operation of the Irish airport network to ensure maximum connectivity to the rest of the world.

1.4.2 In addition, Dublin Airport has recently successfully focused on the objective set out in the NAP of developing our airport as a vibrant secondary hub, in order to compete effectively with UK and other European airports.

1.4.3 In any forthcoming review of the 2019 Final Determination, Dublin Airport would welcome a more explicit commitment by the Commission to support growth and development in the aviation sector in keeping with the goals set out in the National Aviation Plan (NAP) but also in order to facilitate the redevelopment of the industry following the devastating impact of COVID-19.

1.4.4 More recently, the EU Green Deal[2] and forthcoming Directives, will require significant investment in sustainable transport, decarbonisation and a move to ensuring buildings are more energy efficient. In order to progress with the requirements of the Green Deal Dublin Airport will require a credible and reflective price cap.

1.4.5 In the light of the COVID-19 pandemic, Dublin Airport now has a number of new policy requirements relating to our public health obligations which must be taken into account.

1.4.6 The EU Commission and EASA have issued post COVID-19 guidelines regarding the restoration of transport services and connectivity and guidance for the management of Airline passengers which Dublin Airport must now adhere to.

1.4.7 These guidelines provide a framework to support the airport during the gradual reestablishment of connectivity. The guidelines consist of general principles applicable to all transport services and specific recommendations designed to address the

[1] DTTAS, National Aviation Policy, September 2015.
[2] European Commission, Green Deal, December 2019.

characteristics of the airport operation. They aim to provide guidance on how to progressively restore aviation services, connectivity and free movement as swiftly as the health situation allows it, while protecting the health of aviation workers and passengers.

1.4.8 Under these guidelines[3] Dublin Airport now has a new set of obligations in regard to managing its airport operations. A high-level overview of these new requirements is set out below. It is also worth noting that these requirements are ever changing based on government and HSE advise and protocols.

TABLE 2 DUBLIN AIRPORT COVID-19 OPERATING OBLIGATIONS

Policy Obligations	Dublin Airport Action
Access to airport premises should be limited to passengers, crew members and staff (airport and other service providers that are required to enter the premises in order to complete their tasks). Accompanying persons should only be provided access in special circumstances (e.g. accompanying or picking up a passenger requiring assistance – Persons with Reduced Mobility / unaccompanied minors).	• Currently reviewing terminal capacity vs 2 metre ruling from Government. Outcome may lead to additional costs for temporary structure outside terminals. • Additional resources have been placed at entrance to both terminals to ensure only passengers and staff enter the terminal.
Airport operators in cooperation with airlines are encouraged to take appropriate measures to avoid queuing in high passenger concentration areas as much as practicable, in order to reduce the risk of contamination posed by unnecessary human interaction. In such queues floor markings 1.5-2m apart can assist passengers in maintaining physical distancing. **Health safety promotion materials should be widely available at the airport premises (entrances, info screens, gates, lounges etc.). Particular attention should be given to the high-risk areas described above. Attention should be paid to the format: pictograms are strongly encouraged; materials should be available in the national language, English and, where needed, other languages based on the most common language profiles of the passengers using the airport.**	• Significant investment in signage through-out Terminals and Campus. This includes decals, public advice, washrooms, offices, lifts etc have been place in all relevant areas that require social distancing. • Resources are also being employed to ensure social distancing throughout the terminal (CIDs, departure, arrivals, boarding gates etc) is being adhered too. • Bussing (Airside and Landside) being reviewed as current busses will have reduced capacity and we may require additional buses. • PRMs estimated to be an increase of 40% in processing time due to COVID-19 restrictions.
The implementation of physical distancing, enhanced facility cleaning and hand hygiene,	• Revised increased cleaning regime throughout terminals, campus and remote buildings.

[3] Guidance for coordinated implementation of EASA/ECDC - “COVID-19 Aviation Health Safety Protocol - Operational Guidelines for the management of airline passengers in relation to the COVID-19 pandemic” (30 June, Issue 2)

Policy Obligations	Dublin Airport Action
personal protective equipment (PPE) and other measures at airport premises should be pursued. **The wearing of medical face masks is to be strongly considered for all passengers and persons within the airport from the moment they enter the terminal building at the departure airport until they exit the terminal building at the destination airport.**	• Increase in use of cleaning materials (cleaning fluid, wipes, sanitising refill etc). • Over 900 sanitiser units have been distributed throughout the airport which will require ongoing cost to maintain. • Disposable and reusable masks will be provided to all Dublin Airport staff on an ongoing basis. • Specialised PPE relevant to their work area e.g. visors also to be worn in security will also be provided by Dublin Airport. • Ongoing costs of face masks and PPE equipment as masks are now mandatory at the airport. • Disposing of PPE.
Protective screens should be installed in such a way as to allow the handover of the required documents but provide protection to the staff member. This includes check-in, ticketing, passport control and information counters etc.	• Dublin Airport has installed c. 2,000 screens throughout the airport (check-in-desks, boarding gates, security etc).

Where possible, contact and touching of surfaces should be minimised using electronic alternative processes (e.g. mobile check in, non-contact boarding).	• Dublin Airport is reviewing all the technology options to support the contactless passenger journey.
	• There will be some short-medium term and some longer term which will require significant investment, process changes and potentially regulatory support.
	• Some of the options being explored (not exhaustive) are:
	  ○ Touchless Self-Service kiosk for check-in/Bag tagging
	  ○ Touchless Bag Drop – extend to all airlines
	  ○ Check-in desk re-configuration –Bag Tag and Boarding Pass printers
	  ○ Extend the use of our T1 Autopass solution to T2.
	  ○ End to End Biometrics – This is a longer-term solution.
	  ○ Self-Boarding gates
	  ○ Contactless payments – Additional Self Service tills and Mobile payments
	  ○ Working with Airline customers to encourage adoption of Web and Mobile check-in with their passengers

Thermal Screening as an entry and/or exit measure is not currently mandated given the absence of medical evidence to support its use. However, guidance is provided as to how it should be implemented should national policy require it.	• Dublin Airport is constantly reviewing the requirements regarding thermal screening and continue to work with HIQA and the HSE to deliver best practice.

Policy Obligations	Dublin Airport Action
The reopening of non-essential airport services (shops / restaurants / prayer rooms / playgrounds) should be pursued in a phased approach, initially opening that can ensure physical distancing with respect of national provisions on similar services outside of the airport.	• Revenue at risk due to social distancing and reduced passengers. • Change in offering – "Grab and Go". • Car Park bussing – reduced capacity due to social distancing (less efficient).
Return to work protocol (Staff training, employee assistance, risk assessment and PPE).	• IT investment in training, back to work forms, risks assessments etc. • Review of all workspaces and work practices. • Increased cleaning regime.

1.4.9 Dublin Airport would expect that in any reassessment of the building blocks during an Interim Review the Commission would take account of the capital and operating expenditure impact of these additional policy requirements outlined above and as they evolve.

1.5 Price Competitiveness

1.5.1 Dublin Airport believes that the final price that the Commission set as part of the 2019 Final Determination did not reflect the reality of the aviation market. Dublin Airport is an efficient operator by European standards with extremely low airport charges, which in turn produces significant competition between airlines and offers increased passenger choice (see table below).

Table 3 Comparator Airport Operating Cost per Pax

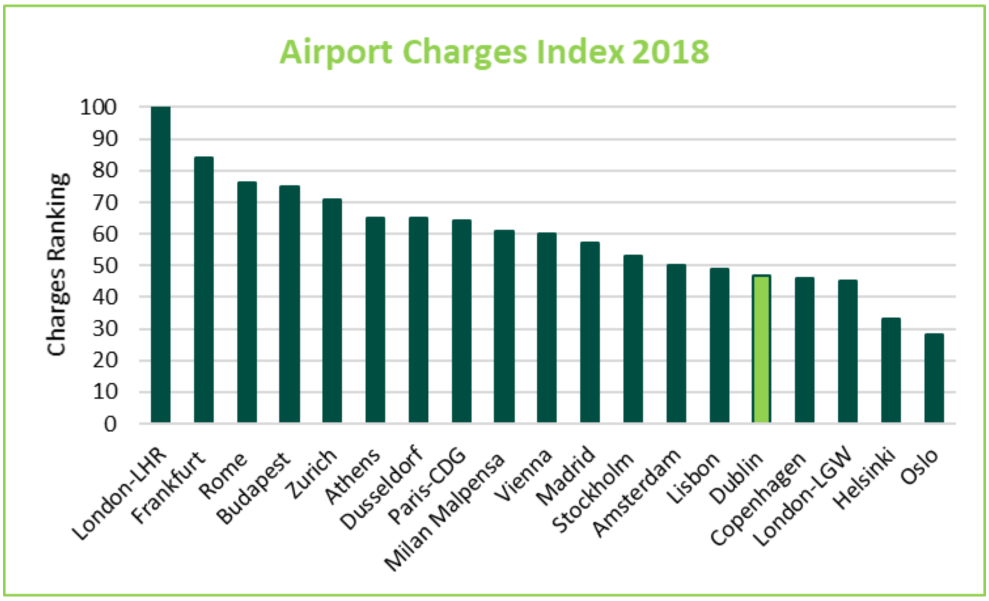
Airport	Annual Passenger Volumes	Operating Cost per Passenger *
Gatwick	45.7m	€10.84
Vienna	27.0m	€8.74
Manchester	27.9m	€8.68
Dublin	**31.5m**	**€8.51**
Copenhagen	30.3m	€8.40
Stansted	26.1m	€7.93

Source: Dublin Airport 2019

*Data from 2018 financial statements (excludes depreciation). Currency rates as of 30 April 2019

1.5.2 Figure 1 illustrates a recent Leigh Fisher Benchmark of airport charges in 2018 for a number of European comparator airports.

FIGURE 1 AIRPORT CHARGES INDEX 2018



Source: Leigh Fisher 2018 review of Airport Charges[4]

1.5.3 Dublin Airport's prices are already highly competitive compared to a number of European peer airports and the Commission's decision will mean that Dublin Airport's prices will now be substantially lower going forward.

1.5.4 While Dublin Airport understands and appreciate the problems being experienced by our airline customers during this exceptionally difficulty time for the aviation sector, we do not believe that artificially low airport charges will serve the broader interests of airlines and passengers in the medium to longer term.

1.5.5 We are conscious of the fact that the cost of using airport infrastructure for airlines is a small part of the total cost of travel (A study undertaken by ICF for ACI-Europe estimated that airport charges represent between 3% and 17% of airlines' total costs. The report suggests that for main full-service carriers and low-cost carriers' airport charges represent 3%-12% of total costs, while they represent a higher share for regional carriers[5]), therefore, airports have limited scope to stimulate the airline market.

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

[5] ICF, Identifying the Drivers of Air Fares, 2018, a report for ACI-Europe, https://www.acieurope.org/policy/position-papers.html?view=group&group=1&id=6
ACI Europe 2020

1.5.6 As part of any upcoming Interim Review, we would seek to focus on the provision of affordable airport charges for our airline customers while also ensuring the financial viability of Dublin Airport as an integral aspect of state infrastructure.

1.5.7 We refer to our 2019 regulatory proposition where we recommended a flat price cap fixed at the 2018 price cap level, we will need to review and potentially revise this in the light of the COVID-19 impact.

1.5.8 Dublin Airport is also conscious of Ireland's National Aviation Policy and the potential impact of changes in charges at Dublin on regional airports such as Cork Airport. As average charges at Dublin Airport fall, this puts further competitive pressure on charges at Cork Airport making it increasingly difficult for this airport to operate in a sustainable and viable manner.

1.5.9 The role of Dublin Airport as the price-maker in the Irish airports market is well-established and has been publicly acknowledged by DTTAS. In May 2019, at the Joint Committee on Transport Tourism and Sport, a senior DTTAS official stated that:

"The price set for Dublin Airport essentially becomes a market price or reference point for other airports …… There is no direct link between the price set for Dublin Airport and those set for other airports, but it represents a reference point."

1.5.10 Therefore, any pricing decisions made by the Commission in respect of Dublin Airport will have a direct and unavoidable impact on pricing at Cork Airport. There is a concern that any further price reduction imposed through the price cap at Dublin Airport will effectively force Cork Airport to reduce its prices in order to remain competitive relative to the market price-maker at Dublin.

1.5.11 There is a danger that the combination of a price reduction at Dublin and the severe impact of COVID-19 combined could fundamentally undermine and threaten the viability of Cork Airport. This could have significant implications for Cork Airport's commercial continuity and in turn for its traffic, financing and employment model, as well as for the future development of this region.

1.5.12 This would run contrary to National Aviation Policy which calls for the sustainable operation of Cork Airport in a manner which allows it to make a sustainable contribution to its region.

2. Review of Options to Respond to COVID-19

2.1 Introduction

2.1.1 Dublin Airport welcomes the Commission's decision to look at possible price regulation responses to the COVID-19 pandemic. We believe that a regulatory response is essential at this difficult time in order to aid recovery in our aviation market.

2.1.2 Dublin Airport believes that the catastrophic change in our circumstances since the outbreak of COVID-19, provides the substantial grounds necessary to support an Interim Review of the 2019 Final Determination.

2.2 The Commission's Option 1

2.2.1 Dublin Airport understands that in Option 1 the Commission is proposing to make no change to the existing 2019 Final Determination at this time.

2.2.2 While we accept that this may be a legitimate proposal, we believe that this would not be appropriate given that (i) there are a number of immediate issues concerning the 2020 and 2021 price caps that need to be addressed and (ii) a number of the regulatory building block assumptions contained in the 2019 Final Determination are now misaligned given the impact of the COVID-19 pandemic.

2.3 The Commission's Option 2

2.3.1 Dublin Airport understands that in Option 2 of its proposals the Commission is proposing to hold a review from August to October 2020 to address a limited number of immediate issues that have arisen as a result of the pandemic.

2.3.2 While Dublin Airport welcomes the Commission's proposal to address the immediate impacts of the COVID-19 outbreak which have already been identified, we do believe that given the high level of uncertainty facing the aviation industry there is a necessity for a broader review of the 2019 Final Determination to re-examine certain regulatory building block assumptions and to look at the structure of the current regulatory model and its risk allocation.

2.4 The Commission's Option 3

2.4.1 Dublin Airport understands that in Option 3 of its proposals the Commission is proposing to hold a full review of the 2019 Final Determination involving a reassessment of the regulatory building block assumptions. While we agree that a full review of the 2019 Final Determination is on balance likely to be necessary, we would be concerned that this is likely to be a lengthy exercise, which would necessitate the drafting and submission of a renewed regulatory proposition to align with the updated determination period.

2.4.2 It is also worth acknowledging the associated costs for all parties when progressing with option 3. This is at a time when revenues are suffering exponentially, with no immediate change forecast in the short-term.

2.4.3 Therefore, we would seek as an initial step a process for a resolution of the more immediate issues relating to the 2020 and 2021 price caps.

2.5 The Commission's Option 4

2.5.1 Dublin Airport understands that in Option 4 of its proposals the Commission is proposing to hold an initial review to address a limited number of immediate issues that have arisen as a result of the pandemic and then this would be followed by a more detailed reassessment of the 2019 Final Determination .

2.5.2 While we would welcome the initial resolution of the immediate issues of concern following the outbreak of the pandemic, we agree that it will be necessary to then re-examine a number of aspects of the 2019 Final Determination going forward. In particular we would request that the Commission looks at the structure of the current regulatory model and its risk allocation.

2.6 Dublin Airport Proposed Approach

2.6.1 We believe that it is now necessary to address in the short term a number of immediate impacts of COVID-19 on the annual price cap in 2020 and 2021 and in the longer term to implement a number of required adjustments to the 2022-2024 price cap model to ensure the financial viability of Dublin Airport for the remainder of the regulatory determination period.

2.6.2 Dublin Airport welcomes the different options for a potential interim review put forward by the Commission for consultation. Having considered carefully the four options, Dublin Airport would favour the implementation of option 4 which we understand to be a two phased approach where under phase one the Commission would in the coming months seek to address the immediate issues concerning the price cap in 2020 and 2021 and this would then be followed in phase two by a subsequent broader reassessment of the 2019 Final Determination which would necessitate the drafting and submission of a renewed regulatory proposition to align with the updated determination period.

2.6.3 We believe as illustrated in the table below that the following substantial grounds would support this interim review.

TABLE 4 DUBLIN AIRPORT GROUNDS FOR INTERIM REVIEW

	Grounds for Interim Review	Impact[6]	% change
1	Fall in Passenger Volumes at Dublin Airport for 2020.	**-26m**	**-77%**
2	Decline in Aeronautical Revenues in 2020.	**-€195m**	**-76%**
3	[redacted]	[redacted]	[redacted]
4	[redacted]	[redacted]	[redacted]

Source: Dublin Airport

2.7 Duration of the Regulatory Determination Period

2.7.1 If a decision is made to proceed with option four, Dublin Airport would like consideration to be given to potentially lengthening the current determination period.

2.7.2 Given the proposed scale of this review, the potential timeframe for this detailed exercise, the level of commitment required from all parties, and the costs involved, we believe that consideration should be given to extending the current regulatory determination period from the current five years, to potentially six years as part of the Stage 2 full review.

2.8 Response to Consultation Questions

2.8.1 In its Issues paper CP3/2020, the Commission set out a series of consultation questions. Dublin Airport's response to these questions is provided in the table below.

TABLE 5 DUBLIN AIRPORT RESPONSE TO COMMISSION QUESTIONS

	Commission Question	Dublin Airport Response
1.	Does the current situation resulting from COVID-19 represent substantial grounds to review the 2019 Determination?	Dublin Airport believes that the impact of COVID-19 on the airport is such that it requires an Interim Review of the 2019 Final Determination.
2.	Is a narrow, targeted review in 2020 required to address some immediate unintended consequences of the	Dublin Airport agrees that there is a requirement for a short-term immediate review to address certain price cap impacts arising from the current pandemic.

[6] Calculations versus CAR 2020 projections as per 2019 Final Determination

	Commission Question	Dublin Airport Response
	pandemic? What is an appropriate timeline for such a review? Our current thinking would be to complete it by the end of 2020. What elements should it address?	This review should commence as soon as possible, and we would like this process to be completed by the end of 2020. This review should look at issues such as • Price Cap Compliance for 2020 • T2 Box 2 Allowance • Capex Reprofiling Triggers • Service Quality Metrics • Operating Cost Passthrough Mechanism • PRM Costs • Maintaining efficient Airport Charges.
3.	Is a more wide-ranging interim review required which would redetermine the regulatory settlement for the later years of the determination?	Dublin Airport believes that a more wide-ranging interim review is now required given the impact of the COVID-19 outbreak on the regulatory building blocks. Dublin Airport agrees that this review should take place in 2021 with a view to its implementation in 2022. Dublin Airport would not be in favour of shortening the current regulatory determination period to end in 2023 as proposed by the Commission instead following a full review, we would suggest a lengthening of the current regulatory determination period extending it out potentially to 2026/27.
	If deemed required, what are the key reasons, for example: i. Are the risk allocations within the 2019 Determination insufficient to deal with the impact of the collapse of traffic due to COVID-19? ii. Should the passenger target be revisited? iii. Should the operating costs and commercial revenue targets be reassessed? iv. Should the cost of capital be reassessed? v. Is a reassessment of the capital investment plan for the current period required? vi. How should we assess financial viability?	Dublin Airport believes that the current risk allocations in the 2019 Final Determination need to be altered in the wake of COVID-19. Dublin Airport believes that the current passenger targets in the 2019 Final Determination need to be altered in the wake of COVID-19. Dublin Airport believes that the current operating and commercial revenue targets in the 2019 Final Determination need to be reassessed in the wake of COVID-19. Dublin Airport believes that the current cost of capital allowance in the 2019 Final Determination need to be reassessed in the wake of COVID-19. Dublin Airport believes that the current capital investment programme remains appropriate but the timelines in the 2019 Final Determination may need to be reviewed in the wake of COVID-19.

	Commission Question	Dublin Airport Response
		Each of the above positions and the Dublin Airport preferred approach are discussed in detail in the following chapters.
4.	Should the Commission examine new regulatory approaches or methodologies to deal with the exceptional levels of uncertainty resulting from the impact of COVID-19?	Dublin Airport agrees that given the current exceptional circumstances the time may be right to look at potential new regulatory approaches where examples may include volume risk mechanisms, a move to a hybrid till, RAB profile adjustments and a TOTEX approach. Further detail is outlined in chapter 4 of this submission.

3. Immediate Issues for Consideration

3.1 Immediate Impacts of COVID-19

3.1.1 This chapter sets out the details relating to a number of immediate issues concerning the 2020 and 2021 price caps that have arisen as a result of the COVID-19 pandemic and we believe now need to be addressed in the first phase of the Commission's Interim Review of the 2019 Final Determination as proposed under the Commission's option 2 (or evidently the first stage in the Commission's option 4).

3.1.2 Apart from the obvious financial implications, the immediate collapse in passenger volumes has created a number of unintended, specific regulatory issues. All stakeholders are currently severely impacted by the pandemic. A reasonable balance needs to be struck during these exceptional times. Transferring further financial damage from one stakeholder to another should be avoided. Hence, why we are suggesting that the current level of airport charges should be fixed until Summer 2022.

3.1.3 A reduction in the price cap at this time will further damage the airport's precarious cashflows, with no guarantees that the savings will be passed onto consumers or have any potential for stimulating additional demand. Conversely, it would be perverse to increase charges at a time when demand is so depressed. The current price cap for 2020 is €7.58 and the airport charges agreed for 2020 are designed to be fully price cap complaint with this level. To keep charges flat at current levels until Summer 2022, the following inadvertent issues need to be addressed by the Commission under the initial review.

3.2 Price Cap Compliance

Key Consideration for Interim Review: Stage 1

3.2.1 The impact of the outbreak of the COVID-19 pandemic has potentially serious implications for price cap compliance in 2020 and 2021.

3.2.2 Dublin Airport held its annual airport charges consultation process in the final quarter of 2019 and airport charges were set in agreement with airport users based on compliance with the 2020 annual price cap of €7.58.

3.2.3 However, events of recent months have distorted our aeronautical revenue projections. There has been a drastic reduction in traffic at Dublin Airport with passenger volumes falling to unprecedented low levels. This has had a substantial effect on the average revenue per passenger which Dublin Airport is likely to earn for 2020 and potentially also 2021.

3.2.4 While overall traffic has declined sharply a certain amount of cargo operations and aircraft movements have continued to operate since the outbreak of COVID-19. Aircraft movements where appropriate have continued to be levied with the current agreed airport charges. Given the extraordinary situation associated with COVID-19, discounted parking rates were provided to all airlines due to the grounding of fleets.

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

3.2.6 This higher yield per passenger would ordinarily represent a higher amount of aeronautical revenue being generated by the airport but this is not the case in this instance.

3.2.7 This is simply a volume effect where the sharp decline in passenger numbers divided into the revenue generated from non-passenger related airport charges such as aircraft movement and parking charges have distorted the average revenue per passenger yield.

3.2.8 Overall, the total revenue yield generated by Dublin Airport is likely to be substantially below that envisaged under the Commission's price cap calculation and this represents a substantial loss in aeronautical revenue for the company as illustrated in the table below.

TABLE 6 DUBLIN AIRPORT AERONAUTICAL REVENUE IMPACTS

	Pax Traffic Forecast	Total Revenue	Annual Price Cap
2020 CAR Final Determination	34m	€255.2m	€7.58
2020 DAP COVID position	8m	€60.6m	
2020 Variance	*-26m*	*-€194.6m*	

Source: Dublin Airport July 2020

Dublin Airport's Request

3.2.9 This unintended over-recovery against the 2020 price cap of €7.58 is an outcome which Dublin Airport could not have foreseen when setting airport charges for 2020.

3.2.10 In full consultation with users, Dublin Airport designed a menu of charges for 2020 to be fully compliant with the expected price cap of €7.58. The charges menu assumed passenger activity of 33 million. The crisis has produced a number of exceptional dynamics. Firstly, there has been a notable increase in the level of cargo activity, which delivers runway revenue, but with no corresponding passengers. Secondly, aircraft movement restoration has been stronger than expected, which again produces runway revenue. Unfortunately, the 'no show' level of passengers has been exceptionally high over the Summer, with load factor not even reaching 40% for peak Summer, as opposed to the usual 90% levels. The cumulative result of the above dynamics is causing an inadvertent higher 'average aeronautical revenue per passenger' than was planned for. This unintentional outcome will likely be 15% higher than the expected final 2020 price cap. At this late stage in the year and with the current schedule/traffic volatility, it would not be practical to accurately reset aeronautical changes to deliver any specific annual outturn.

3.2.11 In 2020, Dublin Airport's total aeronautical revenue is expected to be c.€200 million lower than the level allowed for in the Final Determination. Obviously the €7.58 price cap for 2020 was expected to govern a completely different set of operational and commercial dynamics. In light of this exceptional situation, we are requesting that the Commission accept the final actual 2020 outturn as a compliant equivalent under the 2019 Final Determination.

3.3 T2 Allowance

Key Consideration for Interim Review: Stage 1

3.3.1 In relation to the T2 facility at Dublin Airport, the Commission put in place a Box1/Box 2 approach to the remuneration of this investment where a certain proportion of this asset referred to as Box 2 would only become remunerated when passenger volumes at Dublin Airport reached 33 mppa.

3.3.2 Given that Dublin Airport reached 32.9m passengers in 2019, it was anticipated by the Commission in the 2019 Final Determination that passenger numbers at Dublin Airport would reach 33 mppa over the period 2020-2024.

3.3.3 On this basis an allowance for the Box 2 investment in T2 was included in the 2020-2024 price caps however with a provision in the regulatory formula for its removal should passenger volumes fall below 33 mppa in any given year. This is outlined in page 11 of the Final Determination of airport charges at Dublin Airport for 2020-2024. The price cap formula predicates that for 2021 the price cap will be reduced by €0.31c, should the T2 box 2 requirement not be met. This punitive step carries forward for each year of the Determination with a trigger of -€0.30 in 2022, -€ 0.29 in 2023 and -€0.28 in 2024.

3.3.4 It should be noted that in 2019 Dublin Airport achieved passenger traffic of 32.9m and finished just 88.7k pax short of the 33m threshold set for T2 Box 2 – this equates to only 15 hours of passenger activity during the summer season in the airport.

3.3.5 Pre-COVID-19, in 2020 passengers at Dublin Airport were tracking 71k pax ahead of same two months in 2019, so the 33m threshold was approaching achievement on a rolling 12-month basis.

Dublin Airport's Request

3.3.6 Given that passenger numbers are now anticipated to fall short of the 33 mppa threshold for both 2020 and 2021 and potentially for a number of years going forward, the T2 Box 2 allowance of €0.32 per passenger is due to be removed from the price cap for 2020 and 2021.

3.3.7 This application of this T2 Box 2 price cap trigger will result in an additional reduction in potential aeronautical revenues for Dublin Airport in the immediate future adding to the growing financial crisis facing the company.

3.3.8 The 2020 price cap assumed that Dublin Airport would exceed 33 million passengers in 2020. Last year, despite a softening in demand, all parties agreed that this forecast should be achieved under normal circumstances.

3.3.9 Terminal Two is approaching ten years in service later this year. A sizeable portion of the capital investment (c. €200 million) has still not entered the Regulated Asset Base. Hence, customers have enjoyed ten years of usage without paying the full cost related charges. This is an extreme example of post funding. The original issue with this project's capital allowance pertains to a challenge on the level of floor space being provided versus what was immediately required. Ironically, the new era of social distancing now requires expanded floor space to support extended queuing. We request the Commission to deem this specific trigger now achieved and therefore, there should be no requirement to alter the current level of charging.

3.3.10 On this basis Dublin Airport recommends the T2 Box 2 price cap trigger has been met for 2020-2024 and therefore a capital allowance for the full remuneration of T2 Box 1 and Box 2 should be included going forward.

3.4 Capital Expenditure Reprofiling Triggers

Key Consideration for Interim Review: Stage 1

3.4.1 In its 2019 Final Determination, the Commission included a number of capital expenditure reprofiling triggers which would allow for the removal of the capital expenditure allowance from the annual price cap for a specific capital investment project where the relevant asset was not operational by the date assigned by the Commission. A number of these capital expenditure reprofiling triggers are due to enter the annual price cap formula in 2021.

3.4.2 The outbreak of COVID-19 had a drastic effect on all aspects of Dublin Airport's operations and campus but the capital development in particular was adversely impacted by the period of 'lockdown' when work was forced to temporarily stop on all construction projects taking place at Dublin Airport.

3.4.3 There is a concern that this period of work stoppage combined with the huge upheaval impacting the aviation sector has created a possibility that Dublin Airport could fail to reach some of the capital investment targets set for 2021 with the result that some or all of the capital expenditure reprofiling triggers could come into effect.

3.4.4 If the capital expenditure reprofiling triggers were to come into effect in 2021 they could potentially reduce the 2021 annual price cap by up to 15 cent. This would represent a substantial reduction in the price cap, leading to additional losses in aeronautical revenues and adding to the growing financial crisis facing the company.

Dublin Airport's Request

3.4.5 As previously outlined, Dublin Airport believes that the capital expenditure reprofiling triggers currently included in the price cap formula are unnecessarily rigid and potentially penal for the company.

3.4.6 In relation to the current reprofiling triggers set for 2021, given the current adverse financial circumstances at Dublin Airport, there is a need for greater reflexibility regarding the timelines and associated penalties fixed for the relevant capital projects.

3.5 Service Quality Measures

Key Consideration for Interim Review: Stage 1

3.5.1 In the 2019 Final Determination the Commission reviewed its quality of service regime and it set out an extensive set of process (objective) and voice of customer (subjective) metrics for Dublin Airport based on achieving certain standards of service for our passengers.

3.5.2 However, it should be recognised that the outbreak of COVID-19 has had a very substantial impact on operations at Dublin Airport and we see that is has changed passenger mindset/expectations and anticipate that it will change the passenger experience at the airport for this year and into the near future.

3.5.3 In addition, the impact of COVID-19 has meant that the face to face passenger research which informs all voice of customer (subjective) metrics has had to be suspended temporarily based on the impracticalities of both the low passenger volumes and the operational restrictions imposed by social distancing at the airport. In light of these current extreme circumstances, the Commission granted a derogation on the price cap penalties associated service quality measures until further notice. (CN2/2020 and CN6/2020). Dublin Airport gratefully welcomed this derogation.

3.5.4 The voice of customer (subjective) passenger satisfaction measures set out in the 2019 Final Determination cannot return in their planned format in the current environment and we will need to consider appropriate process (objective) measures moving forward. We anticipate that the service quality environment will remain challenging into 2021. The two-meter social distancing guidelines will be in effect until a vaccine can be widely administered. Therefore, elongated queueing at constrained processors, such as Immigration and Security, will continue. Passengers needs and expectations regarding cleaning and sanitization are even more demanding and they will be more expectant of direct intervention and support on the ground.

Dublin Airport's Request

3.5.5 Dublin Airport work to best practice for understanding the passenger experience and this means basing measurement primarily on direct feedback, therefore we would wish to survey passengers directly if at all possible. In the current environment we suggest consultation with all parties to agree an interim 'standalone' research approach based on research 'dips' rather than the current '24/7' approach to allow us to achieve a robust, useable sample (reflective of the changing operating schedule) and applying simplified, yet robust measures. We will endeavour to ensure that these measures cover the key drivers of the end-to-end experience. We suggest it would be appropriate that the interim scores are monitored for the immediate future and that the derogation granted for service quality penalties be extended for the remainder of 2020 and into 2021.

3.5.6 Over the coming months, we would like to set up a trial of this focussed research approach to ascertain 1. The potential to capture sufficient passenger sample, and 2. The willingness of passengers to talk to researchers in person. It should be noted that due to government advice on travel Arrivals passengers cannot be interviewed due to the 14-day quarantine restrictions except for those on the 'Green list'. In addition, the volume of arriving passengers on the 'Green list' are currently too low to achieve a sample even on a quarterly basis. We will continue to constantly review this. We have a considered view as to which measures, we could use for this research trial and would welcome discussion on this.

3.5.7 PRM and transfer related metrics in the current suspended SQM reporting framework are reported on an annual basis in order to report based on a robust sample size. Currently and for the foreseeable future the almost total absence of transfer volumes does not point to a possible reinstatement of research, even in a much-simplified form, so we propose the suspension of these metrics. PRM volumes were challenging for research as they represent a very small percentage of airport volume, but we would be open to conducting some direct, face to face research with PRM passengers. This will likely be more indicative of the satisfaction with the passenger experience and therefore we would suggest that penalties would not be appropriate, but it would allow us to learn from any impacts of the COVID-19 environment on PRM passengers and move to rectify any issues if experienced.

3.6 Operating Cost Passthrough Mechanism

Key Consideration for Interim Review: Stage 1

3.6.1 The advent of the COVID-19 pandemic has seen a number of new unexpected additions to the Dublin Airport cost base. In particular our new legislative requirements under the EU commission (C(2020 3139) Directive and EASA Regulations have resulted in an increase in staffing and bussing requirements in response to the imposition of new additional cleaning and social distancing measures.

3.6.2 Overall, in the current environment there is an increased risk of new and unexpected mandatory costs being added to the Dublin Airport cost base with little advanced notice. This combined with the lack of contingency for unanticipated costs contained in the 2019 Final Determination has increased considerable the risk burden imposed on the airport.

3.6.3 Dublin Airport did however welcome the inclusion of the operating cost passthrough mechanism in the 2019 Final Determination. We were somewhat disappointed by the narrow scope of this mechanism which only applies to the following:

- Local Authority Rates applicable to the regulated entity and not rechargeable.
- Direct charges set out in new or amended primary or secondary legislation, which are outside the control of Dublin Airport, which exceed €0.5m and relate to activity undertaken by the regulated entity.

Dublin Airport's Request

3.6.4 While we do understand and agree with the Commission's view that ordinarily Dublin Airport is best placed to manage operating cost related risks, the current high level of uncertainty in the business environment brought about by the pandemic is unprecedented. We therefore request an extension of the current application of the opex cost passthrough mechanism, to allow for a broader category of unanticipated but legitimate costs imposed on the airport, through public policy and legislation to be remunerated through this price cap adjustment. In this case we use the example of the unavoidable increase in PRM costs levied on Dublin Airport by OCS outlined below, as well as broader COVID-19 costs which is at this early juncture is estimated at c. €1.5m.

3.7 PRM Costs at Dublin Airport

Key Consideration for Interim Review: Stage 1

3.7.1 As previously outlined the outbreak of COVID-19 has had a devasting impact on many aspects of business at Dublin Airport and included in this is the provision of Passengers with Reduced Mobility (PRM) services by the service operator OCS at the airport.

3.7.2 The key issue centres around the fact that the current charging structure set out in the PRM contact awarded to OCS in 2019 is no longer considered tenable by OCS to allow it to continue to meet the needs of airlines and passengers. There are two main reasons for this.

i. The very nature of the PRM operation requires close contact with the public and safety measures, including social distancing and PPE which were not envisaged under the contact are now significantly impacting cost and time efficiency within the OCS operation.

ii. The current per PRM charge which was tendered by OCS and which formed part of the contact awarded by Dublin Airport is based on the assumption that Dublin Airport would be processing approximately 30m passengers per year and the current per passenger charges are heavily dependent on achieving that volume in order to be viable for OCS in the longer term.

3.7.3 In terms of passenger numbers an annual passenger traffic number of c.30m will normally result in an average of c.1,000 PRM passengers daily at Dublin Airport using the OCS service while currently in July 2020 on average there are only c.100 PRM passengers using the OCS service. This substantial change in PRM passenger numbers has drastically reduced the revenues generated by OCS at Dublin Airport.

3.7.4 OCS is therefore being adversely affected by the fact that annual passenger numbers for 2020 are now only expected to be in the range of between 7.0m and 11.5m.

3.7.5 OCS have suggested to Dublin Airport that unless the cost per passenger paid by Dublin Airport increases the company will potentially be forced to withdraw resources and /or to provide the current PRM services at a substantially lower service level than that which was previously agreed with the airlines operating at Dublin.

3.7.6 In addition, OCS have stated to Dublin Airport that unless the airport is prepared to pay a higher per passenger cost to OCS for the supply of PRM services, OCS cannot guarantee the continued provision of PRM services at Dublin Airport going forward.

3.7.7 This is a matter of grave concern for Dublin Airport given that we have a legal responsibility under Regulation (EC) No 1107/2006 ensure that adequate and appropriate PRM services for our passengers are provided at the airport.

3.7.8 Furthermore, Dublin Airport does not wish to risk receiving service quality penalties going forward for failure to reach the service quality targets for PRM services set by the Commission in the 2019 Final Determination.

3.7.9 Finally, Dublin Airport is ever mindful of the fact that the PRM charges are an integral aspect of the overall price cap calculation, with any changes to the PRM having direct implications on all other charging elements. Hence the critical nature of resolving this issue in the short term.

Dublin Airport's Request

3.7.10 Dublin Airport believes that all efforts must be made by the company to ensure the continued provision of PRM facilities going forward while also safeguarding appropriate quality standards in regard to these services.

3.7.11 Dublin Airport has considered the limited options available to us to resolve this matter.

3.7.12 We do not wish to increase the current per passenger PRM charges levied on airlines at this difficult time instead Dublin Airport is proposing to pay the additional levy imposed by OCS directly in order to ensure the continuity of PRM services at Dublin Airport.

3.7.13 Given that this unexpected additional cost is not currently included in our operating cost allowance Dublin Airport will be required to seek an increase in the operating cost allowance in order to recoup this expenditure.

3.7.14 We suggest that the additional cost levied by OCS could then form part of the costs that Dublin Airport would seek remuneration from in the operating cost passthrough formula as part of the annual price cap if this mechanism was adjusted going forward as discussed earlier in this submission in paragraphs 3.6.3 and 3.6.4.

3.7.15 Dublin Airport believes that these costs will be appropriate for remuneration through the cost passthrough mechanism on the basis that these costs are unavoidable, they are outside the control of the airport and they are open to scrutiny by the Commission.

3.7.16 We are concerned that a failure by the Commission to allow remuneration for these additional costs would further weaken the already vulnerable financial position of the company.

3.8 Airport Charges at Dublin Airport

Key Consideration for Interim Review: Stage 1

3.8.1 Dublin Airport is concerned that all of the impacts outlined above have the capacity to reduce the price cap and/or aeronautical revenues. We believe that in the current business environment there is no justification for any further reductions in the 2020 and 2021 price caps given that this will exasperate the current substantial losses in aeronautical revenues and increased debt levels which Dublin Airport is experiencing due to the unprecedented fall in traffic volumes.

3.8.2 In addition, we understand that airlines are calling on the Government for to potentially remove or substantially reduce airport charges at Dublin Airport in the light of the COVID-19 crisis.

3.8.3 Dublin Airport would like to emphasise that any decision of this kind would prove disastrous for the company given our current difficult financial position.

3.8.4 Aeronautical charges are a key source of income for the company accounting for 48% of our total revenues in 2019. Dublin Airport relies significantly on the revenue generated from the airport charges levied on its airline customers to fund the ongoing operation and development of the airport in line with our statutory duties.

3.8.5 Any threat to the viability of Dublin Airport could has severe repercussions for Ireland's economy, given that as a small, open island economy, Ireland is critically dependent on its air links to facilitate economic activity and to drive business growth and development. A recent InterVistas report completed in 2019 showed that direct employment at Dublin Airport totalled 21,500 jobs, while the airport facilitated another 108,200 jobs nationwide, generating €9.8 billion in Gross Value Added (GVA). Furthermore, 75% of Ireland's tourism economy is based on international tourism.

Dublin Airport's Request

3.8.6 Dublin Airport is calling for the 2020 and 2021 price caps to be retained at the current level of c.€7.50[7] in order to allow the company an opportunity to regenerate Dublin Airport and protect our air connectivity during this crisis and ensure its recovery and restoration over time.

[7] 2019 Prices

4. Regulatory Model Considerations for Interim Review

4.1 Impact on 2019 Final Determination

4.1.1 This chapter sets out the details relating to a number of the underlying issues concerning the 2019 Final Determination that have arisen as a result of the COVID-19 pandemic and we believe will need to be addressed in the second phase of the Commission's Interim Review of the 2019 Final Determination as proposed under the Commission's option 3 (for the avoidance of doubt, this will serve as the second stage in the Commission's option 4).

4.1.2 This chapter will look at the Commission's regulatory model currently applied at Dublin Airport.

4.2 The Commission's Regulatory Model

4.2.1 The current 2019 Final Determination is based on the regulatory price cap model which has been used largely without much alteration since the initiation of economic regulatory oversight at Dublin Airport under the Aviation Regulation Act 2001. While this regulatory model has served Dublin Airport well in terms of consistency and predictability, it is a somewhat static model and therefore it is rather limited in its ability to react to changing market conditions in the regulated sector.

4.2.2 The unfortunate events of the last few months have highlighted how ill equipped the current regulatory model is to respond to market shocks. In particular the regulatory expectation for continuously achieving operating efficiency significantly reduced Dublin Airport's cost allowances in the current regulatory period (2020 – 2024) and left no contingency for unanticipated costs such as those related to the COVID-19 pandemic.

4.2.3 In view of the current seismic challenges which the industry is facing, we believe that this is now an opportune time to look at how the current determination process can be improved, to provide sufficient flexibility in the regulatory model to respond to the various positive and negative factors that impact growth trends and operations at Dublin Airport.

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

4.2.5 Dublin Airport is also concerned about how the risk allocation in the current regulatory model weighs heavily against the airport. In this regard we will be requesting that as part of any forthcoming review that the Commission considers a review of risk allocation within the regulatory model.

4.2.6 We believe that the key challenge is to ensure that the regulatory model in place at Dublin Airport is fit for purpose and adequately robust to withstand the current challenges faced by the aviation sector following the COVID-19 pandemic.

4.3 Broader Regulatory Concepts which should be Considered

4.3.1 Dublin Airport would like to put forward a number of potential changes and or adjustments to the current price cap model that would allow greater regulatory flexibility and/or a more appropriate allocation of risk. This is not an exhaustive list and we would be willing to consider other proposals put forward by the Commission or other interested parties as part of any forthcoming review process.

4.3.2 The following regulatory concepts are based on the need to improve the regulatory process, manage uncertainty, optimise efficiency, retain flexibility and ensure that Dublin Airport is subject to the appropriate level of regulatory scrutiny.

The Regulatory Till

4.3.3 The scope and definition of the regulatory till is one of the key regulatory decisions which underpins the regulatory determination. It is accepted that there are two alternative theoretical approaches adopted in formulating the regulatory till, the use of a single or dual till mechanism.

4.3.4 The single till approach allows for the subsidisation of aeronautical revenues with net revenues from selected non aeronautical activities in deriving airport charges. The underlying premise is that revenues from certain commercial airport activities are being used to subsidise aeronautical costs. The corresponding single till RAB is comprised of a combination of aeronautical and non-aeronautical assets. The single till approach is said to reflect the complementary relationship between aeronautical and non-aeronautical airport activities.

4.3.5 Under the dual till approach, airport charges are derived on a standalone basis where aeronautical revenues must cover all costs associated with aeronautical activities. In practice in recent years there is a spectrum within which the regulatory till is determined, therefore this allows for a hybrid till which can fall somewhere between the ‘pure’ single and ‘pure’ dual till models depending on its definition.

4.3.6 On several occasions in the past Dublin Airport has voiced its concerns regarding the continuous use of the single till within the regulatory model. We believe that the single till mechanism weakens price signalling in the market for aeronautical services as airport charges are artificially low given that aeronautical revenues are supplemented by non-aeronautical revenues. In addition, the single till approach gives rise to an aeronautical pricing structure, which introduces or accentuates allocative inefficiency.

4.3.7 We would have concerns that over time the single till mechanism can distort investment incentives in both aeronautical and non-aeronautical activities and it also extends the remit of regulation beyond the confines of aeronautical charges into commercial non-aeronautical activities, which are already subject to market competition.

4.3.8 In contrast we advocate the use of a dual till approach on the basis that this offers a superior level of allocative efficiency in the case of congested airport facilities as it allows prices to properly reflect the marginal cost of provision of aeronautical services. The dual till approach provides enhanced price signalling in the airport market. It allows for airport charges to cover costs incurred directly by aeronautical activities and therefore offers a more cost transparent approach.

4.3.9 We also believe that a dual till methodology would offer potential benefits in terms of dynamic efficiency as it would increase the incentive to invest in both the aeronautical and non-aeronautical sectors of the business.

4.3.10 We understand that the merits of a single versus a dual till were considered by the Commission as part of a consultation process held in 2011. Following consultation, the Commission opted to put in place a process allowing for a till exit for commercial investments where both users and the airport supported the exclusion of the investment and subsequent costs and revenues from the regulatory till.

4.3.11 While Dublin Airport acknowledges the merits of introducing such a mechanism, in practice we have found this process to be arduous and inflexible and to date it has a minimum impact on the constitution of the regulatory till at the airport.

4.3.12 While in principle we may advocate the theoretical merits of a dual till we understand that a shift from a single to a dual till at this time would not be advisable given the requirement for a potentially notable increase in airport charges. However, as a compromise, we would request that the Commission reconsiders the case for the introduction of a more extensive hybrid till at Dublin Airport where potentially an agreed percentage of all forecast commercial revenues e.g. as starting point it is suggested that 20% of total commercial revenues could remain outside the regulatory till for the purpose of calculating the annual price cap.

4.3.13 Dublin Airport would like to refer to other airports in Europe where a hybrid till has been introduced either as a transitional measure in the movement towards a dual till or a superior option to a single till:

- AdP - where in 2017 the French government put in place a modified till (only car parking remains in the regulated perimeter).
- Aena - where the airports are on a transition path to dual till, since 2014 and this is due to conclude in the coming years.
- Brussels - on a transition path to a dual till, this has now been reached.
- Amsterdam Schiphol - where a 'voluntary contribution' to the regulatory till is determined at the beginning of the year by the shareholder (the Dutch Finance Ministry).
- Copenhagen - movement from a pure dual till, to a 30% increasing to 50% cross-subsidy to the regulatory till.
- Swedavia - where in principle a movement to a hybrid till has been agreed.

4.3.14 The rationale for a move to a hybrid till at this current time would be that it could provide increased incentivisation for the airport to develop its commercial activities while also improving the company's difficult financial position through a greater retention of its commercial earnings going forward.

4.3.15 We see this as one of a number of potential solutions designed to protect and ensure the financial viability of the airport going forward and as such this would be in the long-term interest of all airport stakeholders and in accordance with the statutory objective of the Commission.

Volume Risk Mechanism

4.3.16 In the current regulatory model, Dublin Airport bears all the risk relating to the passenger volumes outturns differing from the traffic forecasts used by the Commission in its price determination.

4.3.17 Volume risk is a key factor in the current incentive based regulatory model. Volume forecasts are at the core of the price determination, through their relationship between operating costs, capital expenditure, commercial revenues and the price cap calculation. Over the course of a determination period, daa can be impacted positively or negatively by volume risk which results in volume outcomes diverging from the traffic forecast levels.

4.3.18 On this basis to date Dublin Airport opted to retain volume risk given that it was considered best placed to manage deviations in passenger traffic over the course of a regulatory determination period. This position was supported by the Commission.

4.3.19 However recent months have shown the devastating impact on the airport business of an unexpected and sustained fall in traffic volumes beyond the recognised norms. Dublin Airport is concerned that traffic volumes are likely to remain highly volatile over the remaining duration of the regulatory determination period and that forecasting traffic patterns with any degree of accuracy is going to become exceedingly difficult. This in turn will result in an unprecedented level of risk for the company.

4.3.20 On this basis, Dublin Airport would request that the Commission would consider looking at the introduction into the regulatory formula of a volume risk mechanism for the remainder of the current regulatory period that could mitigate certain aspects of this high-level risk.

4.3.21 Dublin Airport would recommend that the Commission considers the potential use of a volume risk adjustment mechanism where a dead band can be set allowing certain parameters of volume fluctuation to still be permitted (10%+/-) in order to preserve the incentivisation properties of the regulatory model. However, an adjustment mechanism could then be added to the price cap formula which would allow for changes to the annual price cap where volume fluctuations exceeded the dead band in either direction.

4.3.22 In terms of regulatory precedent, the UK CAA applies a similar volume risk mechanism in its regulation of NATS[8] where NATS (En Route) plc, known as NERL, is the monopoly provider of en route and certain approach air traffic services in the UK.

4.3.23 In the CAA's recent decision regulating NERL for 2020-2024 it introduced the following risk adjustment terms

- the ANSP (air navigation service provider) bears all traffic risk when traffic varies within ±2% of the forecast used for RP3. This represents a deadband;
- the ANSP bears 30% (the 'risk sharing rate') of the incremental risk when traffic varies between ±2% and ±10% (the 'cap/collar') of the forecast, with users bearing the remaining 70% of this incremental risk; and
- users bear all incremental risk when traffic is more than ±10% of the forecast.

[8] UK RP3 CAA Decision Document p.116

4.3.24 This provision was a replica of the risk mechanism successfully used by the CAA in the previous regulatory control period for NATS.

4.3.25 Dublin Airport requests that the Commission consider the introduction of a similar type mechanism at Dublin during this current period of market volatility.

RAB Profile Adjustment

4.3.26 As a result of the outbreak of COVID-19 Dublin Airport is excepted to substantially underperform against the 2020 and 2021 price caps with dramatic losses in financial earnings across the aeronautical and commercial sectors of the business.

4.3.27 Dublin Airport will likely fail to generate the allowed regulated rate of return of 4.2% on our regulated assets and the outlook going forward for the remainder of the current regulatory period is currently negative.

4.3.28 Dublin Airport forecasts a cumulative EBITDA shortfall of [redacted] in 2020/1 compared to what was allowed in the 2019 Final Determination. We fully support the concept of incentive regulation and appreciate that the regulated entity is currently assigned full risk under the regulatory framework. In the last control period, Dublin Airport significantly outperformed the regulatory targets and retained the benefits of the outperformance for the duration of that control period. However, the current quantum of underperformance (over such a short period) is rather exceptional and concerning in relation to the ongoing financial viability of the airport operator. We would argue that the current deviation is significantly outside the parameters of normal regulatory risk assignment.

4.3.29 We request that the Commission consider a mechanism for allowing the future recovery of the exceptional portion of the 2020/1 EBITDA shortfall. Utility regulation normally treats these exceptional deviations similar to the introduction of a new asset to the capital base and allows the recovery over a typical asset life (15 years for example). This type of mechanism avoids any immediate impact to price caps/airport charges and smooths the recovery over a longer period, thus flattening any charging spikes in a particular year.

4.3.30 Dublin Airport believes that there is regulatory precedent for such an approach in Northern Ireland where the Utility Regulator first designed and developed a retrospective mechanism as part of its 2014 price control for gas distribution GD14[9], and subsequently continued to apply this mechanism in its latest regulatory decision

9 Northern Ireland Utility Regulator GD14 Price Control for Northern Ireland's Gas Distribution Networks for 2014-2016, Final Determination December 2013

GD17[10]. This principle is referred to as the profile adjustment mechanism for the purposes of the regulatory formula and calculation.

4.3.31 The profile adjustment mechanism allows for a certain amount of revenue to be deferred and carried forward to future years for the purpose of maintaining an even price profile over time. The recovery of this deferred revenue is secured for the regulated company by way of an addition to the regulatory asset base, via a mechanism known as the 'profile adjustment'. The profile adjustment builds up over the course of each respective price control period, and then forms part of the asset base at the beginning of successive reviews.

4.3.32 This approach was adopted by the Utility Regulator when gas distribution network markets were first being developed and it was necessary to ensure regulated charges were not unduly high in order to encourage demand and growth of the network. Deferred revenues were capitalised and added to the regulatory asset base and thereafter recovered in later years when the customer base and market volumes were higher.

4.3.33 Dublin Airport believes that this principle could be a useful addition to the Commission's current regulatory model. It could potentially enable a smoothing of the price cap in the short to medium term while also allowing Dublin Airport full remuneration on its assets over the longer term including the recovery of financial losses arising from the impact of COVID-19.

4.3.34 Dublin Airport would be happy to engage with the Commission as to the suitability of this concept and how this mechanism could be applied in practice for the benefit of all airport users.

Broader Regulatory Mechanisms - A TOTEX Approach

4.3.35 Currently the Commission is using a traditional building block framework in setting the annual price cap where a separate allowance is set for capital and operating expenditure as part of the regulatory review.

4.3.36 However a trend has emerged in the last decade in the UK and elsewhere where regulators such as Ofgem[11] and Ofwat in Great Britain no longer set separate allowances for operating and capital expenditure in setting their price caps, instead

[10] Northern Ireland Utility Regulator GD17 Price Control for Northern Ireland's Gas Distribution Networks, Final Determination September 2016

[11] Ofgem RIIO-2 Draft Determinations - Core Document p.39 July 2020

they set a single allowance known as 'TOTEX' for a combined operating and capital allowance for the regulated business. This allows regulators to regulate based on the full economic consequences of decision making without differentiating whether expenditure is classified as operational or capital.

4.3.37 The rationale for the use of a TOTEX allowance is based on the following

- The previous building blocks approach provided businesses with incentives to favor capital expenditure solutions (e.g., asset replacement) over operating cost (e.g., maintenance work to extend the technical life of existing assets) even when an operating cost solution was more efficient. This was because capital expenditure facilitated growth in the businesses' regulated asset bases (RABs) and a steady return on that capital investment over the assumed regulatory life of those assets;
- The asymmetric regulatory treatment of over-(and under) spending as between operating cost and capital expenditure created a perception amongst regulated businesses that it was more profitable and/or less risky to pursue capital expenditure-focused business models than operating cost-focused business models; and
- A view that businesses should be given more freedom and flexibility to find the most efficient ways of delivering regulated services.

4.3.38 We believe that the time may now be right for the Commission to consider the use of a TOTEX approach at Dublin Airport. This alternative approach combined capital and operating allowances will give us a greater degree of flexibility to balance our capital expenditure and operating cost requirements during this period of high risk and uncertainty.

5. Regulatory Building Block Considerations for Interim Review

5.1 Review of Regulatory Building Blocks

5.1.1 Due to the devastating impact of the COVID-19 pandemic, Dublin Airport believes that a review of the current building block assumptions underpinning the 2019 Final Determination may be necessary during stage 2 of the Commission's proposed Interim Review.

5.1.2 A number of the key assumptions used to form the 2019 Final Determination have been rendered invalid by recent events impacting Dublin Airport's operations.

5.1.3 Dublin Airport is currently in the process of trying to manage the impact of COVID-19 as efficiently and effective as possible in order to maintain airport operations and financial viability while ensuring the continued safety of staff and passengers. However, the full impact of COVID-19 on our business remains uncertain.

5.1.4 In the coming months Dublin Airport will look to reassess its business forecasts for the remaining period of the current regulatory determination period. This is likely to prove a difficult exercise and currently we are looking at a range of varying scenarios for the different building blocks.

5.1.5 As part of any comprehensive Interim Review of the 2019 Final Determination Dublin Airport will seek to submit an updated regulatory proposition for the remainder of the regulatory determination period based on our revised business forecasts for the period of the determination.

5.1.6 In the following sections we set out initial issues for consideration and requests in regard to each of the regulatory building blocks.

5.2 Passenger Traffic Forecasts

5.2.1 Passenger traffic at Dublin Airport has been drastically impacted by the outbreak of COVID-19. As of July 2020:

- Passenger volumes down 70% versus 2019 with only 5.7m passengers YTD.
- Only 7 airlines operated in at Dublin Airport during April and May. This has subsequently increased to 25 in July but this is still just over half the 48 operators in 2019.
- In May, there were 28 routes served versus 192 in 2019. This has increased to 130 in July, but frequency is significantly down on nearly all these routes.

- The average daily throughput in July was 12,000 daily passengers and 211 daily aircraft movements, versus average of 90,000 daily passengers and 655 daily aircraft movements in 2019.
- The below shows the traffic by region in July 2020 v July 2019.

TABLE 7 TRAFFIC BY REGION JULY 2020 V JULY 2019

(000's)	Pax	Pax Var	Pax %
UK London	49	-427	-90%
UK Provincial	38	-425	-92%
Western Europe	80	-700	-90%
S Europe/Med	103	-771	-88%
Eastern Europe	82	-179	-69%
Transatlantic	20	-464	-96%
Other Long Haul	7	-100	-94%
Domestic	3	-8	-72%
Total	**381**	**-3,074**	**-89%**

Source: Dublin Airport

5.2.2 Following recent events, we have taken initial steps to try to update our forecast for passenger traffic numbers at the airport for 2020 and 2021.

5.2.3 There is now a reasonable amount of information available regarding 2020. While considerable uncertainty remains, most airlines have a plan for the rest of summer 2020 and have filed for their slots for winter 2020. On the other hand, there is still a significant quantity of capacity been removed circa 3 to 4 weeks prior to operation, which means that the possible throughput range for 2020 remains quite large.

5.2.4 The other uncertainty remains around load factors. The average load factor in July 2020 was c.38%. This is not a sustainable level therefore either this load factor must improve, or airlines will be forced to cut more capacity.

5.2.5 Based on the current available information Dublin Airport is projecting a range of between 7.0m and 11.5m annual passengers for 2020.

5.2.6 The outlook for 2021 remains volatile where:

- There has been an unprecedented contraction in economic activity with a sharp downturn in the aviation sector.
- Most airlines are reducing their aircraft fleet and staff. It is apparent that airlines will not offer close to the same capacity in 2021 as 2019.
- Demand to/from markets such as US have been hit heavily by COVID-19, this may take several years to recover.

- Countries like New Zealand and Australia have closed their borders until sometime in 2021, which will also hit air traffic demand significantly.

5.2.7 Given the ever changing economic and global position in relation to the pandemic, we still believe it is too early to give a precise indication for 2021.

5.2.8 Given the current market circumstances, it is now apparent that the Commission's annual passenger traffic target used to underpin its 2019 Final Determination will no longer be valid for the remainder of this regulatory determination period.

TABLE 8 COMMISSION'S PASSENGER TRAFFIC FORECAST (2019 FD)

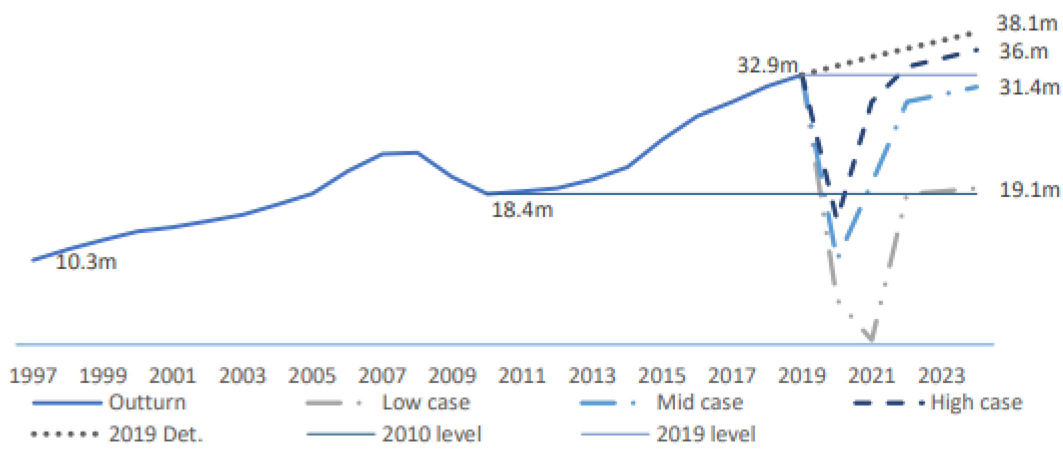
2020	2021	2022	2023	2024
34m	35.1m	36.1m	37.1m	38.1m

5.2.9 We would recommend as part of a full interim review a reappraisal of the passenger traffic target assumptions used in the 2019 Final Determination.

5.2.10 We do however acknowledge that targeting passenger volumes at the airport has become an extremely difficult task in the current market environment. We would agree with the Commission's proposition that a scenario-based forecast with a range of projections may be preferable to a point estimate at this time.

5.2.11 While Dublin Airport does not entirely support the traffic volume scenarios proposed by the Commission in CP3/2020 as illustrated below, we do agree that the outturns in 2020-2024 are very likely to be in the ranges suggested.

FIGURE 2 HIGH, BASE AND LOW SCENARIOS FOR 2020-2024 PASSENGERS



Source: Dublin Airport data, CAR analysis.

5.2.12 Given current market conditions we do not believe that a simplified GDP based model will be adequate to forecast traffic at Dublin Airport with any degree of accuracy.

5.2.13 Going forward Dublin Airport would like to propose two requests to the Commission for consideration as part of any interim review – a) a collaborative approach to traffic forecasting for the remainder of this regulatory determination period and b) the possible implementation of a temporary mechanism to mitigate the high level of volume risk which the airport is exposed to in these exceptional times.

5.2.14 We agree with the Commission that efforts must be made to ensure that a collaborative approach is taken by all parties to any forthcoming review. Therefore, we would recommend an industry wide collaborative approach to developing a revised passenger traffic forecast for Dublin Airport for the remainder of the regulatory determination period.

5.2.15 Dublin Airport would like to propose that a consultation group be established with the airport, the Commission and airlines coming together to examine and consider potential traffic scenarios and volume target ranges for Dublin Airport for the period 2022-2027 and beyond.

5.2.16 The timing of such a process will be critical. Given the current upheaval and turbulence in the market the value of such an exercise may be limited therefore this process would require a degree of market stabilisation to be re-established before it could be initiated On this basis we would not envisage this process commencing before Q4 2020 or Q1 2021 depending on future developments in relation to COVID-19.

5.2.17 Finally, in the light of recent events, as outlined in chapter 4, Dublin Airport would like to recommend the temporary introduction into the regulatory formula of a volume risk mechanism as part of Stage 2 of the Interim Review. This could mitigate certain aspects of this high-level risk currently imposed on the airport.

5.3 Operating Costs

5.3.1 In its 2019 Final Determination, the Commission made the following annual operating cost allowance for Dublin Airport.

TABLE 9 COMMISSION'S OPEX ALLOWANCE (2019 FD)

2020	2021	2022	2023	2024
€290.4m	€295.6m	€310.1m	€316.1m	€317.6m

5.3.2 As previously outlined Dublin Airport believes that the 2019 Final Determination is extremely challenging for the company in terms of operating costs. This decision resulted in a disallowance of over €100m[12] of Dublin Airport's forecast operating expenditure in this regulatory determination period on the basis of the Commission's consultants'[13] final report which we believe lacked justification for its decisions to continue to disallow significant levels of expenditure in the 2020-2024 period.

5.3.3 This disallowance of €100m over this current regulatory period is 10 times higher than operating cost disallowances from the Commission's previous determinations and unprecedented versus prior determinations.

5.3.4 While Dublin Airport does continue to have reservations about the Commission's operating cost targets for 2020-2024, we did broadly accept the Commission's approach to operating expenditure in the 2019 Final Determination given that it was proportionate and consistent with its statutory objectives taking account of the competing interests of the various stakeholders concerns.

5.3.5 However, in the light of the COVID-19 pandemic, the dramatic adjustment in the level of passenger volumes is driving significant changes to many lines of operating cost, especially the categories that are more elastic to fluctuations in passenger activity. Dublin Airport has initiated a widespread right-sizing programme, with material implications for staff numbers, payroll costs and work practices. Over recent months, Dublin Airport has also achieved savings across non-staff cost lines. The deviations are so significant across the vast majority of cost lines that in our view, the most sensible approach would be for the airport to reforecast the achievable outturns for each category and resubmit to the Commission for evaluation.

5.3.6 Dublin Airport would recommend as part of a full interim review a reappraisal of the operating expenditure allowance used in the 2019 Final Determination. In order to facilitate this Dublin Airport proposes to provide the Commission with an updated operating expenditure forecast for the remainder of the regulatory determination period.

5.3.7 Dublin Airport's preference would be for the Commission to carry out a bottom up assessment of operating costs when setting its revised targets as this will ensure a greater degree of accuracy as it will better capture the various changes that are currently taking place within the various different cost line items.

[12] Before glidepath adjustment.
[13] Cambridge Economic Policy Associates (CEPA) and Taylor Airey.

5.3.8 However, in addition we believe that top-down comparative analyses such as indirect and direct benchmarking can be useful for drawing high level comparisons regarding operational performance and in highlighting specific areas for further bottom-up consideration. We therefore suggest that the Commission should consider carrying out an analysis of Dublin Airport's current efficiency versus suitable comparator airports.

5.3.9 Dublin Airport would suggest however that caution needs to be taken in interpreting the results of such top down benchmark exercises and that it is essential to ensure that appropriate sample comparators are used, relevant adjustments are made to allow for different operational factors across airports and the data used in the analysis is normalised.

5.3.10 In this regard, we have previously recommended the use of a benchmarking measure such as the operating cost per passenger given that this will not be impacted by the level of outsourcing /insourcing in the comparator airports

5.3.11 Dublin Airport would like to make a number of requests for any reappraisal of operating expenditure, in particular we would like the Commission to be cognisant of the following

- The high proportion of fixed cost in the airport business
- The lack of public funding support
- The impact of the 2019 Final Determination
- Existing efforts to reduce the cost base and right size our airport operation
- Increase in cost related to COVID-19
- Higher level of cost related risk

5.3.12 Despite the collapse in passenger traffic and revenues at Dublin Airport over recent months the company has remained liable for the operating costs of running the airport. It is estimated that in recent months Dublin Airport has been running at a loss of [redacted] a day.

5.3.13 It should be noted that a key feature of the airport business is the high proportion of its cost base that remains fixed despite any fluctuations in passenger traffic. Despite our best efforts there will a sizable part of our cost base which will not be flexible downwards where "*the fixed costs of an airport are about 70-80 per cent of their overall cost base, whether there is one flight or 100 operating*"[14].

[14] International Airport Review, Coronavirus roundtable: How is the aviation industry responding to the COVID -19 pandemic? April 2020.

5.3.14 With the exception of the Temporary Wage Subsidy Scheme (TWSS), Dublin Airport has received no financial support from government at a national or EU level to subsidise these costs and we are unlikely to have any recourse to exchequer funding going forward.

5.3.15 Leaving aside the financial impact of COVID-19, Dublin Airport was already seeking to respond to the disallowance on average of 170 staff in the 2019 Final Determination.

5.3.16 In an immediate response to the COVID-19 crisis, Dublin Airport has taken swift action to reduce its cost base for 2020 which is expected to now reduce by [redacted].

5.3.17 The cost saving measures introduced have included the implementation of reduced pay for employees, where all daa employees have experienced a 20% cut in wages since the 26 April 2020 and this reduction is currently due to remain in place until at least the 29 August 2020.

5.3.18 Following the collapse in our passenger traffic, Dublin Airport has also taken the first steps in in the implementation of measures designed to significantly reduce employee numbers in order to right size our business going forward.

5.3.19 In particular, daa has presented to its staff a Voluntary Severance Scheme with the intention of achieving a 700 reduction in employee numbers. The implementation of this scheme will give rise to significant cost for the company in the short term and to date the Commission has made no allowance for the associated restructuring costs which would be required to bring about this sizable reduction in staff numbers.

5.3.20 As part of any reappraisal of the Commission's operating cost allowance we will be seek an additional allowance for restructuring costs and in particular the cost of our current Voluntary Severance Scheme.

5.3.21 As outlined above, the onset of the COVID-19 pandemic has seen a number of new unexpected additions to our cost base. We welcomed the inclusion of the operating cost passthrough mechanism in the 2019 Final Determination. However, given the current high level of uncertainty in the current business environment we would like to seek an extension of the current application of this passthrough mechanism so that a broader category of unanticipated but legitimate costs imposed on the airport could be remunerated through this price cap adjustment. For example, the unavoidable increase in PRM costs levied on Dublin Airport by OCS, as well as broader COVID-19 costs which is at this early juncture is estimated at c. €1.5m.

5.4 Commercial Revenues

5.4.1 In its 2019 Final Determination, the Commission set the following commercial revenue targets for Dublin Airport.

TABLE 10 COMMISSION'S COMMERCIAL REVENUE FORECAST (2019 FD)

2020	2021	2022	2023	2024
€217m	€258.2m	€284.8m	€300.1m	€312.6m

5.4.2 However, the outbreak of COVID-19 has had a devastating impact on Dublin Airport's commercial revenues in recent months due to the drastic drop in passenger volumes, where many long-term carparks and retail outlets have been closed for months US Preclearance activity is currently 95% down on 2019 levels. As of June 2020, YTD commercial revenues were down [redacted] versus 2019. The deviations are so significant across the vast majority of revenue lines that in our view, the most sensible approach would be for the airport to reforecast the achievable outturns for each category and resubmit to the Commission for evaluation.

5.4.3 Dublin Airport recommends a complete reappraisal of the Commission's commercial revenue targets for the remainder of the regulatory determination period. In order to facilitate this Dublin Airport proposes to provide the Commission with an updated commercial revenue forecast for the remainder of the regulatory determination period.

5.4.4 Dublin Airport's preference would be for the Commission to carry out a bottom up assessment of commercial revenues when setting its revised targets as this will ensure a greater degree of accuracy as it will better capture the various changes that are currently taking place within the various different cost line items.

5.4.5 Dublin Airport would also like to emphasise the need for the Commission to set the commercial revenue targets in conjunction with realistic passenger volume projections and to take account of the economic outlook for the economy which will be an important factor in determining the achievable level of commercial revenue per passenger.

5.4.6 We are also recommending that given the severity of the financial crisis faced by the company that the Commission considers the possibility of a hybrid regulatory till where a relatively small proportion of total revenues (20%) could be retained by Dublin Airport.

5.4.7 There are also a number of specific ongoing factors relating to a number of the different commercial revenue categories which must be considered when setting any revised commercial revenue targets.

5.4.8 As expected, car park revenues have drastically reduced as a result of the falling demand due to the substantial reduction in passenger numbers. In response to the reduced demand Dublin Airport shut its long-term carparks during the 'lockdown' period in order minimise costs related to bussing, staffing and security. In response to the recovery in the airport the daa Red carpark has been reopened with a limited bussing schedule but it has been decided to leave the daa Blue carpark closed until 2021.

5.4.9 Dublin Airport lounges are currently closed and are likely to remain closed until September 2020 at the earliest. Upon reopening their passenger capacity will be notably reduced due to the requirements of social distancing and it is expected that the existing operating contracts will no longer be profitable or sustainable going forward. This is likely to lead to an increase in the cost per passenger of running the lounges in the short to medium term and these lounges are likely to be loss making for the remainder of 2020.

5.4.10 Due to the current adverse market conditions our 2020 airport club memberships and our airport advertising contracts have been extended without any additional charge. Despite this offer we have received a number of cancellations and a decrease in renewals across our advertising contracts.

5.4.11 Across our F&B category [redacted]. In addition, there will now be additional capacity challenges given the requirement for a 2m separation and a maximum of 4 people per 10 sqm, this will lead to a reduced profitability for all units.

5.4.12 It should be noted that in its Issues Paper CP3/2020, the Commission has suggested that "*some aspect of commercial revenue are not immediately affected by passenger numbers such as rents, and* minimum *payments under concession contracts*". However, we do not believe this is reflected in our current business environment for the following reasons.

- Concessions licence agreements contain passenger adjustment clauses that are common in airport arrangements, reducing minimum rental commitments where there is a decline in passenger volumes. In total 70% of our property commercial concessions, 60% of F&B and 20% of retail agreements are subject to passenger adjustment clauses.

- 25% property is volume related and not fixed for example items such as fuel farm, check-in desks and CUPPS. In addition to this a number of tenants are handing back property in order to minimise cost and reduce their property footprint in line with expected future demand.
- [redacted].
- [redacted]

5.4.13 In regard to the rolling incentive mechanism for commercial revenues while we are unlikely to be able to available of this scheme in the current market environment, we remain support of this scheme in principle and we would like it to be retained as part of the regulatory model.

5.4.14 We would however suggest a reassessment of the current scheme as part of any reappraisal of the Commission's commercial revenue targets during an interim review of the 2019 Determination.

5.5 Cost of Capital

5.5.1 In its Final 2019 Final Determination, the Commission allowed for a real pre-tax cost weighted average cost of capital (WACC) of 4.22% as the appropriate rate of return for Dublin Airport over the regulatory period 2020-2024. As previously outlined, this was significantly lower than the equivalent WACC range of 4.8% to 6.0% estimated by Dublin Airport's expert economic consultancy, NERA Economic Consulting which was submitted to the Commission in January 2019.

Table 11 Commission's Cost of Capital Allowance (2019 FD)

	Range	Estimate
Gearing	45% - 55%	50%

	Range	Estimate
Risk Free Rate	-1.1% --0.1%	-0.6%
Total Market Return	6.0% - 6.8%	6.4%
Equity Risk Premium	6.6% - 7.4%	7%
Asset beta	0.48 - 0.51	0.5
Equity beta	0.91- 0.95	0.94
Cost of Equity (after tax)	5.3%- 6.5%	6%
Cost of Debt	0.3%- 0.9%	0.6%
Pre-Tax WACC (before aiming up)	3% - 4.3%	3.72%
Aiming up		0.50%
Pre-Tax WACC		4.22%

5.5.2 Dublin Airport believes that as a result of recent events this cost of capital will need to be reassessed as part of any interim review of the 2019 Final Determination.

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

5.5.4 In setting its revised weighted average cost of capital for the remainder of the 2019 Final Determination period, Dublin Airport believes that all reassessed WACC parameters should be objectively justified.

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

5.5.6 The Commission currently has statutory objectives '*to enable Dublin Airport Authority to operate and* develop *Dublin Airport in a sustainable and financially viable manner*' and '*to protect the interests of current and prospective airport users'*. In this context, it is critical that the Commission sets an appropriate cost of capital for Dublin Airport for the remainder of this regulatory determination period taking account of the high level of risk which the airport faces in the midst of the COVID-19 pandemic.

5.5.7 Given that it is widely accepted by regulators that there is an asymmetry in consequences in estimating the cost of capital on the low side (i.e. where future capital investment is jeopardised) and setting a cost of capital on the higher side (i.e.

where a marginally higher return would follow), we believe that it is important that the Commission continues to add an 'aiming up' allowance to its estimated WACC allowance to safeguard against underestimating the current Dublin Airport cost of capital. This is particularly important in the light of the difficult market conditions at present and the challenges now faced by the company regarding financial viability.

5.5.8 As part of our revised regulatory proposition, Dublin Airport proposes to provide the Commission with an updated independent assessment of the cost of capital for Dublin Airport for the remainder of the regulatory determination period.

5.5.9 Prior to this however we would like to provide the Commission with a number of observations on what we see as important considerations for any reassessment of the current WACC.

Beta

5.5.10 We believe that a re-evaluation of the asset beta will be a critical factor in any reassessment of the current cost of capital. The determination of the relevant set of airport comparators is the key issue in the estimation of the asset beta: We believe that the correct set of comparators are those that operate under a similar 5-year incentive regulatory framework and that the current approach which places practically equal weighting on all listed comparators is flawed.

5.5.11 It will be important for the Commission to look at impact of the COVID-19 crisis on beta risk. We suggest that the Commission should look at updated market evidence on betas since the COVID-19 crisis, which we expect will demonstrate the comparability of those regimes identified by NERA in 2019 as being the closest comparators for Dublin Airport (AdP, AENA).

5.5.12 We anticipate that those airports that operate under incentive-based scheme like Dublin Airport (e.g. LHR, AdP, AENA) have fared worse during the present crisis than airport operator under cost-of-service. We expect that empirical beta estimates for our preferred set of comparators following the COVID-19 pandemic are likely to be higher/more divergent than asset betas for those lower risk airports included by the Commission's consultants Swiss Economics.

5.5.13 Dublin Airport would like to reference recent regulatory precedent where the in the CMA provisional findings for NATS the focus was on a narrow set of airport comparators thereby discarding smaller and geographically distant listed airports[15].

[15] CMA (2020) NATS En Route Limited, Provisional Findings, p. 144.

5.5.14 We believe that it is necessary and appropriate to make an allowance for operational leverage in the beta estimate. The recent decision of the CMA regarding the provisional findings for NATS[16] supported this provision.

5.5.15 We also continue to believe that the use of the Miller formula is the correct basis, rather than Hamada formula in calculating the asset beta.

Risk Free Rate

5.5.16 In the calculation of a revised risk-free rate for Dublin Airport, we would call for the inclusion of a country risk premium which is a recognised and accepted regulatory principle.

Total Market Return

5.5.17 We do not support the use of the DDM in estimating the Total Market Return (TMR) for the airport. The recent CMA decision for NATS criticised the use of DDM in estimating the TMR. We also believe that in estimating the TMR the use of World indices is superior to that of European indices. While the World TMR includes only a small number of additional countries, these countries could be considered important in determining the TMR (e.g. deep equity markets such as US).

Cost of Debt

5.5.18 We continue to believe that the Commission erred in its current derivation of the cost of debt by using an average of 10 year + and 7year tenor in selecting benchmark iBoxx as the basis for determining the new cost of debt. Recent studies for UK networks suggest that the tenor is around 20 years.

5.6 Capital Expenditure

5.6.1 The 2019 Final Determination allowed for over €2bn in capex for the determination period. This programme of works was developed in line with the principles of efficient capital expenditure, facilitating forecast demands and extensive stakeholder engagement.

[16] : CMA (2020) NATS En Route Limited, Provisional Findings, p. 146

5.6.2 COVID-19 has impacted all aspect of our capital programme for the period 2020-2024. The exact impact is still being worked through at present and will be an evolving situation over the coming months.

Capital Investment Programme (CIP)

5.6.3 Despite the immediate reduction in passenger demand, Dublin Airport still forecasts a capacity requirement for 40 million passengers by the year 2030. We believe that the composition of the approved projects is still appropriate for delivering the required growth into the next decade. Going forward two issues will play a role on the level of capital expenditure required by Dublin airport for the current Determination period.

a. Firstly, will be the financeability of any future capital programme based on airport revenues driven by passenger demand.
b. Secondly, led by demand will be a revised delivery schedule of capital projects to better meet predicted passenger forecasts.

5.6.4 We acknowledge that the urgency has abated on the delivery timelines, especially for the capacity enhancing infrastructure. We therefore propose retaining the approved CIP projects and allowances in full. However, as we are in the process of reprogramming the delivery timelines, we now anticipate full completion pushing out to 2027.

5.6.5 We propose reprofiling the capital spend by year out to 2027 and CAR could consider a revised regulatory period of six years to capture the full delivery of all the largescale projects. This would minimise stakeholder concerns with regards to prefunding and more appropriately match airport charging to infrastructure delivery. The now established StageGate process should continue to oversee any cost evolution on the significant projects.

5.6.6 Furthermore, there are a number of project specific conditions associated with delivering individual CIP projects (e.g. CIP 20.01.004 Apron Road Rehabilitation and CIP 20.02.004 Passenger Boarding Bridges Maintenance & Enhancement & FEGP). These conditions will need to be reviewed giving due consideration to any CIP reprioritisation, which acknowledges the impacts of COVID-19 on said conditions as part of the broader Interim Review.

StageGate

5.6.7 Dublin Airport acknowledges the merits of the StageGate process and is committed to working with the Commission and all airport users through this established and transparent forum. Originally 17 projects were listed to proceed through the StageGate framework during the current Determination period.

5.6.8 With a revised capital programme, we may see fewer projects undertaken in this Determination period, with this causing direct impacts as to which projects will proceed through StageGate. As the Interim Review progresses, Dublin Airport is committed to working with the Commission and all Airport users to establish which projects should proceed and their associated timelines for progression.

Capital Projects – Reprofiling Triggers 2021

5.6.9 We acknowledge that the urgency has abated on the delivery timelines for capacity enhancing infrastructure and we are presently resetting the delivery timelines on all major infrastructure projects. We anticipate full completion of the capital programme now pushing out to 2027 and we propose reprofiling the capital spend by year out to 2027.

5.6.10 The 2019 Final Determination currently expects three key projects to be ready for onsite construction at the end of 2021. If these progress conditions are not achieved, the price cap for 2021 will be reduced by 15 cents. As we reprofile the CIP for re-consultation in 2021, we are requesting that the Commission postpones the 2021 Reprofiling Triggers to a later date in the control period, which more accurately reflects the revised delivery timelines. It would be a perverse incentive for daa to prematurely commit c€300 million of capital investment next year on these projects (that are not immediately required) primarily to prevent negative pricing triggers from activating.

5.7 Quality of Service

5.7.1 The Quality of Service or Service Quality Metrics (SQM's) are broadly grouped by the Commission into:

- Subjective metrics which are based on quantitative data. Under Dublin Airports Passenger Experience Measurement function these are referred to as the Voice of Process.
- Objective metrics which are based on passenger survey results in relation to satisfaction measures. Under Dublin Airports Passenger Experience Measurement function this is referred to as the Voice of the Customer.

5.7.2 As the impacts of COVID-19 became evident Dublin Airport requested the suspension of all financial penalties on all service quality measures until further notice. This was gratefully granted under CN2/2020 and CN6/2020.

5.7.3 Following the grant of SQM financial penalties derogation we have continued to report to the Commission on the prescribed monthly basis for all subjective metrics. Given that the face-to-face customer service surveys were suspended in March under social distancing guidelines, it has not been possible to report on the objective metrics.

5.7.4 In these challenging times Dublin Airport remains resolute in our commitment to providing the optimum passenger experience, through consistent, safe and responsive measures.

5.7.5 All the Quality of Service Metrics are predicated on the key principle of passenger use and the associated experience for passengers throughout their airport journey.
The issuance and necessary observation of the EASA COVID-19 Aviation Health Safety Protocol - Operational Guidelines for the management of airline passengers in relation to the COVID-19 pandemic, has transformed the established requirements for processing passengers through airports.

5.7.6 The changes arising from adhering to the EASA, WHO, HSE and government requirements pertaining to social distancing as well as cleanliness and sanitisation has had inevitable significant impact on: Security queue times metrics, availability of airport assets metrics and overall passenger satisfaction metrics.

5.7.7 Furthermore, passenger behaviour has changed, whereby people are slower and more hesitant particularly when faced with crowded spaces. In security the volume of trays processed per minute has drastically reduced, as well as overall capacity transforming down, due to the social distancing requirements and there is a concern that the new measures have changed the passenger perspective given that all staff are now wearing masks and visors.

5.7.8 We anticipate that the two-meter social distancing guidelines will be in effect until a vaccine can be widely administered. Therefore, elongated queueing at constrained processors, such as Immigration and Security, will continue well into 2021.

5.7.9 Economic indicators point to the current situation extending well into the short to medium term, with lower passenger volumes. The traditionally quiet Winter period was usually sustained in large by business travel and those visiting family, friends and relatives. However, business travel is not an area that is forecast to return in the next 6 months, and older age groups will likely stay home.

5.7.10 All these factors leave most of the existing Quality of Service metrics unviable in their current form.

5.7.11 We request that the Commission continues to grant a derogation on the service quality financial penalties for the remainder of 2020/21. With new measures and metrics to be consulted as part of the broader Interim Review in Stage 2.

5.7.12 Given that public health policy and legislation is ever changing to manage the pandemic, any move to change this position prematurely may result in adverse impacts to passengers, whereby Dublin Airport feel compelled to mitigate punitive breaches instead of following evolving relevant health authority and international best practice.

5.7.13 We will continue to report on all objective metrics and as outlined in Chapter 3, we will seek to develop safe and innovative means of collecting the subjective data once passenger volumes met the prerequisite criteria. We will fully engage with the Commission on this going forward.

6. Financial Viability

6.1 Financial Viability Overview

6.1.1 Dublin Airport believes that ensuring the financial viability of Dublin Airport remains one of key statutory obligations for the Commission. We suggest that this needs to be a priority in any interim review given the company's increased debt levels, reduced passenger levels and increased uncertainty and variability of revenues arising from the COVID-19 pandemic.

6.1.2 The Commission's Interim Review will need to reflect the infrastructure requirements of our airport customers and the likely fluctuations in demand over the remainder of the regulatory determination period. We believe that key to this is recognising that the building blocks targets are simply projections and in order for the price cap to deliver financial viability, there needs to be an allowance for variability and downside scenarios relating to these regulatory building blocks.

6.2 Impacts of COVID-19 on Financial Viability

6.2.1 The Dublin Airport regulated entity carried a net debt position of [redacted] at 31 December 2019. This was anticipated to increase during 2020 as the capital investment programme gets underway and the budget position for closing net debt at 31 December 2020 was [redacted] whereas the Commission's financial model anticipated a higher capex spend in 2020 and saw closing net debt of [redacted].

6.2.2 However, the impact of COVID-19 is anticipated to result in a [redacted] reduction in gross margin for the company this year compared to the Commission's forecast in the 2019 Final Determination. Dublin Airport has taken swift action to reduce its cost base for 2020 which is expected to now reduce by [redacted] thereby mitigating the overall loss for the company at EBITDA level to [redacted].

6.2.3 While this is the current expected position for 2020, projecting passenger levels for the rest of the year is particularly difficult at this point and with the existing level of uncertainty in the market it is possible that our revenues may decline further if passenger levels do not improve above the current (August) levels.

6.2.4 Net debt for the company is now expected to be closer to [redacted] at 31 December 2020. This is [redacted] higher than Dublin Airport's budget for 2020 at [redacted] higher than the Commission's expectation and this is also combined with some [redacted] less of our planned capital investment undertaken.

6.2.5 In order to maintain company liquidity through to the end of 2020, daa plc has been required to [redacted].

6.2.6 Dublin Airport highlighted the importance of financial viability during discussions relating to the 2019 Final Determination. We outlined how the significant capital programme that was due to be implemented would place increased pressure on the company's financial ratios. Dublin Airport is now unfortunately in a much weaker financial position due to the current crisis in the aviation market.

6.3 Key Considerations for an Interim Review

S&P action at daa Group level

6.3.1 Our credit rating company S&P has reacted to the pandemic with a one-notch downward revision of daa's stand-alone credit profile to 'bbb+' from 'a-'. S&P also left the outlook for daa as "negative" which reflects "*the risk of a one-in-three chance of a further downgrade of at least one notch if the consequences of the pandemic for passenger traffic and retail revenues are worse than we expect, resulting in weighted-average FFO to debt below 13%*".

6.3.2 S&P has also called out the risk to daa's position if its competitive position weakens, "*for instance due to higher volatility of cash flows or profit margins below 30% in normal times*"

Importance of Financial Viability in the Interim Review

6.3.3 As previously stated, Dublin Airport highlighted the importance of financial viability in consultation regarding the 2019 Final Determination, we stated that this was necessitated by the significant capital programme that was agreed with our airline customers. Dublin Airport is now in a much weaker financial position as a result of COVID-19, with [redacted] of liquidity lost in 2020 alone and an outlook that does not anticipate a recovery in passenger traffic before 2024.

6.3.4 The Commission's obligation to ensure the financial viability of Dublin Airport will need to be adequately robust to both enable Dublin Airport to deliver the infrastructure needs of its customers and withstand the likely fluctuations in demand over the remainder of the current regulatory determination period.

6.3.5 We believe that the Commission's assessment of Financial Viability will need to:

- Continue to recognise the importance of holding a standalone BBB+ credit rating. This will be achieved by adhering to S&P's guidance of:

- Achieving FFO: Net Debt above 13%
- Hold Net Debt / EBITDA below 5x
- Holding EBTIDA margin above 30%

- Recognise the existing unencumbered, uncovenanted capital structure at Dublin Airport.
- Assess the level of liquidity available to airport assets and whether market expectations are changing (i.e. whether BBB+ remains appropriate or whether the market will demand higher ratios in order to lend to Dublin Airport without covenants and security).
- Prepare meaningful sensitivity analysis on the “base case” building blocks and determine a final price cap that will accommodate a “likely” range of outcomes for each building block. This will be particularly important in the current context where the passenger numbers, average passenger spend and opex levels may all move unfavourably as passengers and the operation reacts to COVID-19.

COVID-19 as an illustration of the limitations of 2019 Final Determination

6.3.6 As outlined above, COVID-19 has reduced Dublin Airport’s liquidity by some [redacted] in 2020. The timing of the pandemic occurred when Dublin Airport’s net debt was relatively low and before any of the proposed capital investment programme was fully committed to, this in turn ensured a healthier financial position at the start of the current crisis.

6.3.7 The outlook for the period 2021 onwards however is weak and Dublin Airport is now not in a position to finance the agreed capital investment programme in line with the original timelines based on our current financial metrics.

6.3.8 In order to illustrate the seriousness of the current financial situation we have taken the Commission’s latest financial model and applied the impact of COVID-19 to 2023 to illustrate what could have easily occurred where debt levels were higher, and the CIP was fully committed to. The table below sets out the Commission’s 2019 Final Determination for 2023 and 2024 and how this would have been impacted by a COVID-19 pandemic in 2023.

TABLE 12 COVID-19 IMPACTS ON FINANCEABILITY

	Final Determination		Impact of COVID on	
	2023	2024	2023	2024
EBITDA (€m)	[redacted]	[redacted]	[redacted]	[redacted]
Closing net debt (€m)	[redacted]	[redacted]	[redacted]	[redacted]
FFO/ net debt (%)	[redacted]	[redacted]	[redacted]	[redacted]
Debt/ EBITDA	[redacted]	[redacted]	[redacted]	[redacted]

Source: Dublin Airport

6.3.9 The Commission's 2019 Final Determination allowed for no headroom on the "base case" building blocks. A pandemic in 2023 (replicating the 2020 impact on revenues and opex) would reduce EBITDA by [redacted] and result in a [redacted] increase in net debt by end 2024 i.e. before any meaningful change in the price cap. A [redacted] increase in debt at the peak of Dublin Airport's debt in 2023/24 would cause significant liquidity issues and at this level (i.e. being higher than the existing Revolving Credit Facility) would have required sourcing new debt during a period of crisis and at a point where leverage is increased to 12x.

6.3.10 This illustrates the risk of pushing debt metrics to their limit (i.e. bringing leverage to 4.9x) within the "base case" model and not reflecting any sensitivity analysis in the price cap. Allowing for a downside range may result in early remuneration of RAB, but over the life of the airport assets this will balance out for users. However, this provides a benefit to users of allowing Dublin Airport to deliver the capacity required by users through most market conditions, ensuring that required capacity is in place when demand recovers.

7. Conclusion

7.1.1 The onset of the COVID-19 pandemic has resulted in the collapse of passenger traffic at Dublin Airport and it is causing a dramatic downturn on the company's financial performance.

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

7.1.3 As a result, Dublin Airport supports the Commission's decision to consult on possible price regulation responses to the outbreak of COVID-19. We believe that based on the impact of the COVID-19 pandemic there are substantial grounds for an interim review of the 2019 Final Determination.

7.1.4 In the short term we would like to focus on seeking resolution to a number of immediate issues which have arisen following the outbreak of COVID-19 which includes

- Price Cap Compliance for 2020
- T2 Box 2 Allowance
- Capex Reprofiling Triggers
- Service Quality Metrics
- Operating Cost Passthrough Mechanism
- PRM Costs
- Maintaining efficient Airport Charges.

7.1.5 In the medium-term Dublin Airport would recommend a full interim review of the current 2019 Final Determination to allow for a reappraisal of the regulatory building blocks in the wake of the COVID-19 pandemic.

7.1.6 We also believe that there may now be an opportunity to implement some structural changes so that the current determination process can be improved in order to provide sufficient flexibility in the regulatory model going forward to respond to the various market changes at Dublin Airport.

7.1.7 Our key objective for this interim review process will be to seek a price path that leads to an affordable level of airport charges while also allowing for a financially viable airport and delivering on our statutory commercial mandate.