ÚDARÁS EITLÍOCHTA NA hÉIREANN
IRISH AVIATION AUTHORITY

2026 Determination on Airport Charges at Dublin Airport: Issues Paper Consultation

29 July 2025

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1. Executive Summary

1.1 In 2026, we will make a new determination on the maximum level of Airport Charges at Dublin Airport (the **'2026 Determination'**). It will set price caps for a period of at least 4 years, beginning on the 1 January 2027, on expiry of the current determination.[1] This paper begins our substantive process of engaging with stakeholders in preparation for the upcoming determination. We provide an overview of Dublin Airport's recent performance against the forecasts and allowances we set in 2022, and seek views on key issues and on our proposed methodologies. Alongside this paper, we publish a benchmarking study in which we seek to put the level of Airport Charges at Dublin Airport, and recent financial performance, into context across a broad sample of other European airports.

1.2 The 2026 Determination will be made against a backdrop of strong recovery in the aviation industry since the Covid-19 pandemic. This year, daa expects more than 36m passengers to travel through Dublin Airport, up from 34.5m in 2024, and significantly higher than the pre-pandemic peak of 32.9m in 2019.

1.3 Dublin Airport is a major international airport, handling 84% of Ireland's passenger traffic in 2024.[2] The national policy statement on Airport Charges regulation confirms that Dublin Airport holds significant market power, and that the necessary remedy to this is for the IAA to apply price cap regulation. It states that the objective of the regulatory model is to protect the interests of current and future passengers at Dublin Airport. Changes to the legislation recommended on foot of the policy review, described as *'building on a position of strength'*, were enacted into law with the passing of the Air Navigation and Transport Act, 2022. As a result, our statutory objectives have been amended. The 2026 Determination will be the first new determination under the amended statutory objectives.

1.4 We are required to set the maximum levels of revenue that Dublin Airport can collect from Airport Charges. In making this decision, we are required to balance a number of statutory objectives, and various factors to which we must have due regard. Our primary objective is to protect and promote the reasonable interests of current and future users of Dublin Airport. In essence, Airport Charges should be set at a level sufficient to allow daa to fund the efficient costs of operating and developing Dublin Airport in a manner which meets the requirements of current and future users, but not higher than that. Unnecessarily high Airport Charges would allow daa to earn excessive profits at the expense of Dublin Airport users, with a further negatively spiralling detriment to users in the form of higher airfares and reduced capacity and choice for passengers.

1.5 We use the 'building blocks' approach to determine the maximum level of Airport Charges per passenger. We forecast the optimal level of Airport Charges by forecasting efficient operating and capital costs, commercial revenues, and passenger traffic. We then assess the financeability of the resulting regulatory settlement, adjusting as appropriate if necessary. We do not propose to make any major methodological changes in this regard as part of the 2026 Determination.

1.6 The last time we undertook this exercise was in 2022. Relative to the assumptions underlying that decision, overall, Dublin Airport has outperformed our building block targets and assumptions in 2023 and 2024, meaning that its financial performance has been better than expected. This outperformance has been driven by increased commercial revenues, and increased passenger traffic. It has also performed strongly on service quality, largely meeting

[1] The length of the upcoming determination is a subject of discussion in this consultation.
[2] Aviation Statistics Quarter 4 and Year 2024 - Central Statistics Office

our targets in areas such as asset availability and security queue times, and meeting bonus targets in relation to some passenger satisfaction results.

1.7 Passenger traffic has grown somewhat more strongly than forecast in both 2023 and 2024. We had forecast that passenger traffic would reach 31.7m in 2023 and 33.6m in 2024. The 2023 outturn was 33.5m, and the 2024 outturn was 34.6m. For the 2026 Determination, we need to consider what methodologies and data sources to use to forecast passenger traffic from 2027. We also need to consider the potential impact of operating restrictions relating to the terminals and runways.

1.8 Notwithstanding passenger traffic exceeding forecast in both 2023 and 2024, outturn operating expenditure has followed our forecast closely. Our current thinking is to maintain the methodology we have used in forecasting operating expenditure in recent determinations, i.e. a 'bottom-up' efficiency assessment, which aims to balance challenge with achievability. We will consider how operating expenditure should be expected to evolve over the determination period and whether there is scope for Dublin Airport, if managed effectively, to become more efficient/productive over the period, or whether, to the contrary, cost pressures or service requirements might be expected to lead to a productivity degradation.

1.9 On commercial revenues, Dublin Airport has markedly outperformed our forecast in both 2023 and 2024. While some of this variance can be explained by higher than forecast passenger traffic, we assess that the majority stems from increased revenue per passenger, where retail and carparking revenues per passenger remain significantly above pre-pandemic levels. We will need to further consider the reasons for the recent outperformance, and aim to set a centreline forecast with appropriate challenge, balanced with achievability. We will consider whether there is merit to refining the forecasting approach adopted previously. We may also complement this approach, as in previous determinations, with benchmarking analysis, however, the availability of comparable data may determine the extent to which we can glean insights from benchmarking Dublin Airport's performance against other airports.

1.10 The cost of capital is the estimated efficient rate of return for the regulated entity on its assets. It should balance supporting the development of efficient infrastructure, without allowing for excessive profits to be extracted from airport users. For the 2026 Determination, we are considering the extent to which we should rely on 'rolling forward' the current methodology for estimating the cost of capital, as against making changes to the methodology.

1.11 In estimating the required level of capital expenditure, we will seek to provide allowances for projects which meet the needs of users, or otherwise align with our statutory objectives. Providing appropriate allowances for capital investment is a significant component of the price control determination as, unlike other building blocks, the projects delivered by Dublin Airport (such as runways, taxiways, and improvements to terminal buildings) continue to directly drive outcomes for users across multiple regulatory periods.

1.12 Capital expenditure has been well below the forecast/allowance we made in 2022. The major capacity enhancing and passenger experience-related projects are currently held up in the planning permission process as part of Dublin Airport's Infrastructure Application, and thus are not progressing to the planned timeline. Overall, we do not propose any major methodological changes relative to our existing approach to capital expenditure.

1.13 Our previous statutory objective to enable daa to operate and develop Dublin Airport in a sustainable and financially viable manner has been removed by the Air Navigation and

Transport Act, 2022. This will be the first full determination under our amended statutory objectives. Although no longer an express objective, we believe that a financeable regulatory settlement is necessarily implicit in promoting the reasonable interests of current and prospective users of the airport. Accordingly, we propose to still assess the financeability of the regulatory settlement as part of making the 2026 Determination.

1.14 The Quality-of-Service system in place at Dublin Airport adjusts the price caps based on the level of service provided. With this system, we aim to incentivise the delivery of high-quality airport services, and to ensure that any cost efficiencies are not made at the expense of the service standards expected by passengers and airlines. For the 2026 Determination, we intend to assess what changes, if any, are warranted relative to the current system. To this end, we will engage with the Passenger Advisory Group to assist us in understanding the extent to which passenger priorities may, or may not, have changed, and to identify any potential new metrics which are of importance to passengers.

1.15 The rest of this paper is structured as follows:

- Section 2 sets out the background and introduction to the 2026 Determination.
- Section 3 sets out our statutory objectives, due regard factors, and relevant policies for consideration.
- Section 4 addresses the overall approach to regulation.
- Sections 5 to 9 address the building blocks of the price control in turn: Passenger Forecasts, Operating Expenditure, Commercial Revenues, Cost of Capital, and Capital Expenditure.
- Section 10 addresses financial viability and financeability.
- Section 11 addresses Quality of Service, and the appendix lists all of the service quality metrics (SQMs) which are currently being measured by Dublin Airport.
- Section 12 addresses miscellaneous 'Other Issues' of relevance for the 2026 Determination.
- The benchmarking study is published as an annex alongside this paper.

1.16 We welcome responses on all aspects of this consultation by 5pm on **Friday 3rd October 2025**. Further details on responding to this consultation are in Section 2.

2. Background and Introduction

2.1 The IAA is the fully independent civil aviation regulator for Ireland, responsible for the regulation of aviation safety, aviation security, and consumer interests. It is now responsible for the economic regulation of Dublin Airport under national legislation, under which our primary statutory objective is to protect the interests of current and future airport users, given the extent to which Dublin Airport holds Significant Market Power (SMP) in respect of the provision of airport services. We are also the Independent Supervisory Authority ('ISA') for the purposes of the Airport Charges Directive.[2]

2.2 Under national legislation, we are required to make a determination on the maximum level of Airport Charges at Dublin Airport, on a prospective basis, for a period of not less than four years. Up to and including 30 April 2023, the Commission for Aviation Regulation ('CAR') was responsible for the regulation of Airport Charges. The Air Navigation and Transport Act 2022 (the 'ANTA') provided for the dissolution of CAR and the transfer of its responsibilities, functions, and staff to the IAA. For ease of reference, in this document, all references to IAA decisions or documents which pre-date 1 May 2023 should be understood to refer to those of CAR. The 2026 Determination will be the first determination to be made by the IAA rather than CAR. It will be the sixth determination made under Section 32(2) of the Aviation Regulation Act, 2001, the first one having been made by CAR in 2001.

2.3 The current determination in respect of Dublin Airport was made in 2019 and varied slightly in 2020, following an appeal panel referral of an appeal point brought by Ryanair (the 'Original 2019 Determination'). It set the maximum level of Airport Charges at Dublin Airport for 2020-2024, but was then amended three times.

2.4 Following the outbreak of the pandemic, we carried out the First Interim Review of the Original 2019 Determination which sought to address the impact of the pandemic on the regulatory settlements for 2020 and 2021 in a targeted and proportionate manner. The scope of this review did not include reopening all the underlying assumptions and forecasts to derive new base price caps. In 2021, we carried out the Second Interim Review which broadly continued the methodology of the first Interim Review for the year 2022. In that decision, we also committed to carrying out a full review during 2022 to cover the period 2023-2026, thus also extending the determination period to 2026.

2.5 In 2022, we carried out the Third Interim Review of the Original 2019 Determination (the '2022 Review Decision'). While it was also an amendment to an existing determination, it involved reopening of all assumptions and forecasts underpinning the Original 2019 Determination, with a new regulatory settlement and base price caps determined. The determination period was extended by two years. Consequently, in substance, the 2022 Review Decision was similar to making a new determination for the period 2023-2026.

How to respond

2.6 The deadline for submissions in response to this consultation is 5pm on **Friday 3rd October 2025**.

2.7 We invite submissions on all aspects of our proposals and on the issues we have identified, including in relation to the benchmarking annex, and on any other points which respondents might like to raise. At the end of each section, we have sought to distil what we consider to be some of the key questions arising, which we hope will be helpful in responding. However, respondents are not required to respond to all or any of these questions or to structure their responses accordingly.

2.8 Responses should be sent by email to consultation@iaa.ie.[3]

2.9 While this will not be the final opportunity for stakeholders to comment before the Final Determination, we strongly encourage parties to respond to this paper. This is because we may be less likely to adopt significant methodological changes if we have not had the opportunity to understand their implications fully and afforded all interested parties an opportunity to comment.

[3] We may correspond with those who make submissions, seeking clarification or explanation of their submissions. Ordinarily, we place all submissions received on our website. If a submission contains confidential material, it should be clearly marked as confidential and a redacted version suitable for publication should also be provided. We do not ordinarily edit submissions. Any party making a submission has sole responsibility for its contents and indemnifies us in relation to any loss or damage of whatever nature and howsoever arising suffered by us as a result of publishing or disseminating the information contained within the submission.

3. Legislation and Statutory Objectives

3.1 The statutory remit of the IAA is to specify the maximum levels of Airport Charges that may be levied by daa in respect of Dublin Airport, based on a range of statutory objectives and 'due regard' factors. The determined maximum level can be an overall limit on Airport Charges, or limits on particular categories of charges, or both. In recent determinations, we have decided to specify, for each year, a single overall limit on the maximum level of average Airport Charges per passenger (termed the 'price cap'), with the exception of 2020 when, to address certain unintended impacts arising from the pandemic, we replaced the original *ex ante* price cap with limits on particular categories of charges.

3.2 Our Statutory Objectives changed in 2022 with the enactment of the ANTA[4] and commencement of sections which amended the Aviation Regulation Act, 2001[5] (the '2001 Act').

Statutory Objectives, Obligations, and Factors to which we must have 'Due Regard'

3.3 Under Section 32(2) of the 2001 Act, as amended, the [IAA] shall:

> *'(a) As soon as is practicable, but not later than 12 months after the Dublin appointed day, make a determination, and*
>
> *(b) Upon the expiration of that determination and each subsequent determination, make a determination*
>
> *Specifying the maximum levels of airport charges that may be levied by daa in respect of Dublin Airport under the Regulations of 2011.'*

3.4 The current determination expires at the end of 2026, and consequently we must make a new determination, in 2026, to take effect from 2027. Section 32(6) of the 2001 Act, as amended, states that a determination may:

> *'(a) Provide –*
>
> *(i) for an overall limit on the level of airport charges,*
>
> *(ii) for limits to apply to particular categories of such charges, or*
>
> *(iii) for a combination of any such limits,*
>
> *(b) Operate to restrict increases in any such charges, or to require reductions in them, whether by reference to any formula or otherwise, or*
>
> *(c) Provide for different limits to apply in relation to different periods of time falling within the period to which the determination relates.'*

3.5 Section 33 of the 2001 Act, as amended most recently by the ANTA, sets out our statutory objectives (the 'Statutory Objectives') and factors to which we must have due regard. Our Statutory Objectives under Section 33 of the 2001 Act are as follows:

> *'In making a determination, the principal objectives of the [IAA] shall be to protect and promote the reasonable interests of current and prospective users of Dublin Airport and the [IAA] shall seek to –*

[4] Air Navigation and Transport Act, 2022 - Revised Acts
[5] Aviation Regulation Act, 2001 - Revised Acts

(a) Promote safety and security at Dublin Airport,

(b) Facilitate the efficient and economic development and operation of Dublin Airport,

(c) Promote high-quality and cost-effective airport services at Dublin Airport, and

(d) Take account of the policies of the Government on aviation, climate change and sustainable development.'

3.6 There are also a range of factors to which we must have due regard under Section 33(2) (the 'Due Regard Factors'):

(a) 'The restructuring including the modified functions of daa,

(b) The level of investment in airport facilities at Dublin Airport, in line with safety requirements and commercial operations in order to meet the needs of current and prospective users of Dublin Airport,

(c) The level of operational income of daa from Dublin Airport, and the level of income of daa from any arrangements entered into by it for the purposes of the restructuring under the State Airports Act 2004,

(d) Costs or liabilities for which daa is responsible,

(e) Policy statements, published by or on behalf of the Government or a Minister of the Government and notified to the [IAA] by the Minister, in relation to the economic and social development of the State,

(f) The cost competitiveness of airport services at Dublin Airport,

(g) Imposing the minimum restrictions on daa consistent with the functions of the [IAA],

(h) Such national and international obligations as are relevant to the functions of the [IAA] and daa, and,

(i) The need to encourage competition at Dublin Airport to –

(a) improve capacity,

(b) provide choice on routes,

(c) provide choice between airlines, and

(d) improve international connectivity.'

3.7 '*Airport Charge*' is defined by Directive 2009/12/EC (the 'ACD')[6], and consequently for the purposes of the 2001 Act, as:

'a levy collected for the benefit of the airport managing body and paid by the airport users for the use of facilities and services, which are exclusively provided by the airport managing body and which are related to landing, take-off, lighting and parking of aircraft, and processing of passengers and freight.'

3.8 '*User*' is defined by the 2001 Act as any person:

(a) 'For whom any services or facilities the subject of airport charges are provided at Dublin Airport,

(b) Using any of the services for the carriage by air of passengers or cargo provided at Dublin Airport, or

[6] Directive 2009/12/EC - CL2009L0012EN0010010.0001.3bi_cp 1..1

(c) Otherwise providing goods or services at Dublin Airport'

Fulfilling our Statutory Mandate

Protecting and promoting the reasonable interests of current and prospective Users

3.9 Our primary goal of protecting the interests of Users is best served by making a pricing decision which seeks to promote economic efficiency by Dublin Airport, and to maximise the value provided to Users. This involves promoting airport services which match the quality expected by Users, and being cognisant of the long-term needs of the airport in terms of capacity enhancements and passenger facilitation. We propose to consult with stakeholders, including Users, throughout this process to ensure we understand their requirements and priorities. Insofar as different Users have different requirements and priorities, it will be necessary to consider the weight to be attached to divergent views on an issue-by-issue basis.

3.10 To date, we have generally addressed our statutory mandate by setting an annual price cap for each year of the relevant regulatory period. The annual price cap is the regulator's estimate of the hypothetical competitive price which would be charged by the regulated entity if it were operating efficiently in a competitive market. In effect, rather than competing against other companies, the regulated entity competes against the price cap set by the regulator. Thus, we protect the interests of current and prospective Users by seeking to replicate the outcome of a competitive market in terms of the value being provided to them.

3.11 There is no single objectively 'correct' answer to estimating the hypothetical competitive price level multiple years into the future. Instead, there is a range of reasonable pricing levels within which a competent regulator would set the price cap, balancing, on the one hand, sufficient revenues to operate and develop the airport in an efficient manner with, on the other hand, ensuring that pricing is not excessive relative to the likely efficient costs of operating and developing the airport. We consider that the primary way to protect and promote the reasonable interests of current and prospective Users is by aiming to set pricing levels at the optimal point within that range, based on the evidence and submissions before us; the methodologies underlying the 2026 Determination should be directed towards collectively identifying an optimal pricing level. Further, as outlined in Section 4, the regulatory settlement should generate incentives for Dublin Airport to continue to improve the value it provides over time.

3.12 Although it is no longer a primary objective for us to enable daa to operate Dublin Airport in a financially viable manner, we consider it to be implicit in promoting the reasonable interests of Users. This point has also been made in the Policy Statement, as defined and addressed below. For example, it would not be in the interests of current and prospective Users if we were to include remuneration for projects which were unlikely to be delivered because Dublin Airport is unlikely to be in a position to finance them within the determination period. Therefore, the financeability of the regulatory settlement is complementary to the goal of protecting the reasonable interest of Users, and we propose to continue to assess financeability as a result.

Promote safety and security at Dublin Airport

3.13 In the 2022 Review Decision, we met the objective of promoting safety and security at Dublin Airport, which is itself in the interests of Users, in particular by facilitating Dublin Airport in incurring efficient safety and security related costs, including for example:

- The introduction of Explosive Detection Systems for Cabin Baggage Standard 3 (EDSCB C3).

- Hold Baggage Screening Standard 3 (HBS3).
- The West Apron Underpass.
- Dual Taxiway Foxtrot and Taxiway Romeo, which we assessed would enhance safety by reducing complexity in allowing unrestricted north/south taxiing of Code E aircraft.

3.14 We also included operating expenditure for the security business unit, including costs associated with enhancements to the unit, and the airport police and fire service. In the 2026 Determination, we intend to continue to promote safety and security when making decisions on the remuneration of associated costs. Where required for compliance purposes, efficient cost estimates will be included in the regulatory settlement.

Facilitate the efficient and economic development and operation of Dublin Airport

3.15 As in previous determinations, we propose to meet this statutory objective by setting price caps which reflects forecasts of efficient operating and capital costs. In the 2022 Review Decision, we allowed for investment in projects to increase capacity at Dublin Airport in a manner required to meet anticipated requirements of future airport Users. We propose to maintain this approach in the upcoming determination.

3.16 Although enabling daa to operate Dublin Airport in a financially viable manner is no longer an express objective, it is important to assess and enable the financeability of Dublin Airport to encourage and facilitate efficient and economic development. This can take many forms, such as enabling Dublin Airport to meet debt obligations and enabling it to remain attractive to lenders to finance development plans.

Promote high-quality and cost-effective airport services at Dublin Airport

3.17 As set out in Section 11, a comprehensive Quality of Service (QoS) system is in place to promote a balance between providing cost-effective airport services, and meeting a suitable service quality. Where targets are not met, the price cap reduces by a pre-defined amount. In 2022, we introduced a bonus scheme whereby if Dublin Airport achieves significantly improved performance across passenger satisfaction metrics, bonuses could be accrued as well. The QoS system therefore provides an incentive for Dublin Airport to achieve and maintain minimum service standards, while also incentivising continued proportionate overall improvement in relation to the quality of airport services.

3.18 In both 2019 and 2022, the key metrics and targets were arrived at in consultation with the Passenger Advisory Group (PAG), as well as other stakeholders through the public consultations. We will engage once again with the PAG as part of the 2026 Determination.

3.19 As noted above, we seek to replicate the outcome of a competitive market in terms of the value being provided to Users. Through the regulatory model, we incentivise Dublin Airport to provide high quality and cost-effective services, and ensure charges are reflective of the costs of operating and developing the airport efficiently.

Take account of the policies of the Government on aviation, climate change and sustainable development

3.20 In previous determinations, we have had due regard to relevant policies notified to us pursuant to Section 33(2)(e). We remain notified of these policies, but we note that the ANTA has now introduced a broader objective to seek to take account of those policies (and others) in any case, without requiring specific notification. The policies which we have thus far identified as being of potential relevance are outlined below.

3.21 We note here that we are required to '*take account of*' these policies. In *Glencar Exploration plc v. Mayo County Council*,[7] the Supreme Court noted that where the legislator intends for something to be implemented or followed in a binding or strict way with no choice, it will say so. By contrast, where it is stated that a person is to *'have regard to'* something, this means that they must consider it, but have a choice as to whether and to what extent they should implement or follow it, having so considered it.

3.22 Further, we note that in a more recent High Court decision in *Cork County Council v Minister for Local Government, Planning and others*,[8] Humphreys J. set out the relevant principles when considering the meaning of *'have regard to'*, providing clarity that expressions such as *'consider'*, *'take into account'*, and *'have regard to'* all have the same meaning. The term *'have regard'* implies looking at the matter concerned, and factoring in its relevance and/or weight, if any, as those matters appear to the decision-maker. Once there is evidence that the factor has been considered, then regard will have been had to it, even if it is wrongly rejected, or given inappropriate weight (these being potentially separate errors in themselves, but not a failure to have regard). However, if the provision concerned uses an intensifier such as to have 'due' regard to something, as is the case with the Due Regard Factors, then '*that generally connotes an additional degree of weight to be given to the matter to which regard is to be had, with a general enhancement of the level of reasons that have to be given for not affording such weight.*'

3.23 In the context of the 2026 Determination, therefore, we are to *'take account'* of the Government policies on aviation, sustainable development, and climate change. We are also to have '*due regard*' (with an intensifier) to certain of those policies which have been notified to us. Nonetheless, we consider that properly taking account of any such policies for present purposes implies that we afford them due weight in any case, based on their relevance to the decision at hand as part of the overall balancing exercise. As usual, we expect in any case to give detailed reasons for whatever decisions we make, and in particular if we were to not afford weight to a policy despite its relevance.

3.24 Below, we have therefore considered those policies as they stand currently, and sought to identify the extent to which they are likely to be relevant to the specific decisions which will be made as part of the 2026 Determination, and in what way. We will also consider stakeholder submissions in respect of what aspects of such policies are relevant, and what weight we should afford to those aspects when making decisions within the Draft Determination and then ultimately the Final Determination.

Relevant Policies following enactment of the ANTA, and National and International Obligations of daa and the IAA

3.25 In 2018, we were notified by the Department of Transport, Tourism and Sport (now the Department of Transport), to have due regard to the 2017 Policy Statement (defined below) and the 2015 National Aviation Policy (the 'NAP'). Those are now also relevant policies to take account of for the purposes of the Statutory Objectives, as outlined above.

The National Policy Statement on Airport Charges Regulation 2017 (the 'Policy Statement')

3.26 Prior to the enactment of the ANTA, in making a determination, our statutory objectives were:

[7] [2001] IESC 64
[8] [2021] IEHC 683

- to facilitate the efficient and economic development of Dublin Airport which meets the requirements of current and prospective users of Dublin Airport,
- to protect the reasonable interests of current and prospective users of Dublin Airport in relation to Dublin Airport, and
- to enable daa to operate and develop Dublin Airport in a sustainable and financially viable manner.

3.27 Our Statutory Objectives were amended by the ANTA based on a 2017 review of the regulatory regime, including an independent assessment of its effectiveness (undertaken by Indecon) and consultation with industry and the public. The findings of this assessment are contained in the National Policy Statement on Airport Charges Regulation 2017 (the 'Policy Statement').[9]

3.28 The primary objective of the Policy Statement was to provide clarity on the Government's position regarding the regulation of airport charges in Ireland, and in doing so, to refresh certain elements of the existing regulatory framework. This was subsequently implemented by the ANTA.

Table 3.1: Goals of Regulation as per Policy Statement

Consumer Interests	Sector Interests	Economy Interests
Choice	Profitability	Competitiveness
Value	Growth	Connectivity
Quality of Service	Competition/Access	Capacity
Safety & Security	Regulatory Stability	

Source: National Policy Statement on Airport Charges Regulation

3.29 Consistent with our analysis above, the Policy Statement outlines that the purpose of economic regulation is *'… to recreate the benefits to the consumer of a competitive market in circumstances where there is not sufficient competition because of the market dominance of one or more service providers'*.

3.30 Where an entity possesses Significant Market Power ('SMP'), in the absence of regulation it may misuse SMP by charging excessive prices relative to its costs, thereby earning excessive profits at the expense of its customers. That is particularly so where there is a very high degree of market power, close to monopolistic level. An entity with SMP also faces little financial incentive to provide a high standard of service quality, or to continually to seek to improve the value it can provide to its customers. An independent expert review process carried out by Indecon, which informed the Policy Statement, found by means of a Market Power Assessment that Dublin Airport continues to hold SMP, justifying the continued need for price cap economic regulation.

3.31 Accordingly, the Policy Statement makes clear that the objective of economic regulation *'… is to ensure that current and future airport customers are presented with choice, value and quality services which also meet the highest international safety and security standards*.' The importance of *'… the timely provision of capacity, enhanced connectivity, strong competition and the financial sustainability of the aviation sector more generally …'* is also recognised.

3.32 The Policy Statement outlined a number of amendments to the regulatory framework:

[9] National Policy Statement on Airport Charges Regulation - Report

- The removal of the explicit objective to enable daa to operate and develop Dublin Airport in a sustainable and financially viable manner.
- Including an explicit reference to airline competition, which is now a Due Regard Factor.
- The IAA would take account of Government policy on climate change and sustainability. This is also now one of our statutory objectives under the 2001 Act, as noted above.
- Replace the existing appeals process (before an appeals panel) with a single stage statutory appeal before the High Court. The ANTA amended the 2001 Act to this effect.

2015 National Aviation Policy

3.33 The 2015 National Aviation Policy[10] (NAP) outlines that it:

'… plots a pathway to enable the Irish aviation industry to build on its existing strong reputation to compete effectively in this growing global market place. They also [the policies and actions] aim to create the conditions to encourage increased services to and from Ireland to support Irish tourism and business.'

3.34 Specifically, the principal goals of the NAP are:

- To enhance Ireland's connectivity by ensuring safe, secure and competitive access responsive to the needs of business, tourism and consumers;
- To foster the growth of aviation enterprise in Ireland to support job creation and position Ireland as a recognised global leader in aviation; and
- To maximise the contribution of the aviation sector to Ireland's economic growth and development.

3.35 We believe that the goals of the NAP are fully consistent with our key statutory objective to protect and promote the reasonable interests of current and future Users. By protecting and promoting these interests, this in turn will maximise the contribution of Dublin Airport to the aviation sector, and consequently, maximise the contribution of the aviation sector to Ireland's economic growth and development. Enhancing Ireland's connectivity by securing safe, secure, and competitive access to Dublin Airport is also fully aligned with protecting the interests of Users and our associated objectives outlined above.

3.36 The NAP commits to:

- Maintaining safety as the number one priority in Irish aviation and ensuring that safety regulation is robust, effective and efficient;
- 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;
- Optimising the operation of the Irish airport network to ensure maximum connectivity to the rest of the world;
- Ensuring that the regulatory framework for aviation reflects best international practice and that economic regulation facilitates continued investment in aviation infrastructure at Irish airports to support traffic growth;
- Maintaining a safe and innovative general aviation sector to support Ireland's broader aviation industry.

[10] national-aviation-policy.pdf

3.37 We will continue to have regard to the goals and commitments of the NAP when making the 2026 Determination.

The Climate Action and Low Carbon Development (Amendment) Act, 2021

3.38 The Climate Action and Low Carbon Development (Amendment) Act, 2021[11] (the '2021 Climate Action Act') significantly amended the Climate Action and Low Carbon Development Act, 2015, and establishes a national climate objective for Ireland:

'The State shall, so as to reduce the extent of further global warming, pursue and achieve, by no later than the end of the year 2050, the transition to a climate resilient, biodiversity rich, environmentally sustainable and climate neutral economy (in this Act referred to as the 'national climate objective).'

3.39 Under the 2021 Climate Action Act, the Government commits to achieving a total reduction of emissions of 51% by 2030. The Government is required to adopt a series of economy-wide five-year carbon budgets, including sectoral targets for each relevant sector, on a rolling 15-year basis, commencing in 2021, with the actions for each sector detailed in the Climate Action Plan and updated annually.

3.40 We note that the IAA is neither a *'prescribed body'* nor a *'public body'* as defined under the Freedom of Information Act of 2014, and nor are we, therefore, a Public Body nor a Relevant Body for the purposes of the 2021 Climate Action Act.[12] Dublin Airport, however, has several key obligations and responsibilities. Where identified, such obligations of Dublin Airport should be taken into account in making the 2026 Determination, for example when considering proposed capital projects and forecast operational expenditure.

3.41 The Climate Action Framework for the Commercial Semi-State Sector[13] (the 'Framework') was approved by the Government in 2022 and supports compliance with the 2021 Climate Action Act. The Framework, prepared by NewERA and the Department of the Environment, Climate and Communications with input from the Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, applies to every commercial semi-State company and comprises of a series of five commitments:

- Governance of climate action objectives
- Emissions measurement and reduction target
- Emissions valuation in investment appraisal
- Circular economy and green procurement
- Climate-related disclosures

3.42 Dublin Airport is required to follow these commitments, as outlined in the Climate Action Plan 2024.[14] In 2022, we enabled Dublin Airport to meet its Climate Action Plan targets by, in particular, allowing for the airport's proposed Sustainability Capex projects, including a project to increase electric vehicle charging facilities (airside and landside), facilitating the electrification of Dublin Airport's own fleet, a proposed photovoltaic solar farm phase 2 investment, drainage projects, and a sustainability upgrade to Terminal 2 to replace the fossil fuel heating system with a renewable energy alternative. We will again assess Dublin Airport's Capex proposals and, where appropriate, provide allowances for projects intended to meet

[11] Climate Action and Low Carbon Development (Amendment) Act 2021
[12] Revised Acts
[13] Framework for the Commercial Semi-State Sector to address climate action objectives - Slide 1
[14] climate-action-plan-2024-8ccbde73-e288-4241-8b26-6b4922389f25.pdf

climate targets, having regard to these commitments. Where applicable, we will also assess proposed Capex projects with reference to Dublin Airport's climate change mitigation and adaptation obligations, and where appropriate provide allowances for projects in this respect.

2018 EU Directive on Renewable Energy

3.43 The Renewable Energy Directive, Directive (EU) 2018/2001[15], (REDII), transposed into Irish law through the European Union (Renewable Energy Regulations 2020 (S.I. 365 of 2020)[16], established a common framework for the promotion of energy from renewable sources in the EU. It set a binding target of 32% for the promotion of energy from renewable sources in the EU's gross final consumption of energy in 2030. It also established sustainability and greenhouse gas emissions saving criteria for biofuels, bioliquids and biomass fuels and laid down rules on financial support to enhance the use of renewable energy sources. Member States were also obliged to impose an obligation on fuel suppliers to ensure that the share of renewable energy within the final consumption of energy to the transport sector would be at least 14% by 2030.

3.44 As part of the EU's European Green Deal (Regulation (EU) 2021/1119)[17] and Fit for 55 package, Directive (EU) 2023/2413 (REDIII) of the European Parliament and of the Council, adopted on 18 October 2023[18], amended Directive (EU) 2018/2001 to increase the EU-wide binding energy target from 32% to 42.5% by 2030 with an aspirational goal of 45%. The obligation on fuel suppliers with respect to the share of renewable energy within the final consumption of energy to the transport sector was also strengthened, with Member States now required to either impose an obligation that the 14% limit is increased to 29%, or that there must be a greenhouse gas intensity reduction of at least 14.5% compared to a baseline figure.

3.45 Although the amendments in RED III have yet to be transposed into Irish Law, there is an obligation on EU Member States to do so. As discussed, in the 2022 Review Decision, we took account of this Directive in allowing for investment in sustainability related projects.

Alternative Fuels Infrastructure Regulation (AFIR) and ReFuel

3.46 The AFIR, Regulation (EU) 2023/1804,[19] is part of the EU's Fit for 55 package and sets mandatory targets for the deployment of infrastructure to support the use of alternative fuels. The specific objectives of the AFIR are:

- To ensure minimum infrastructure to support the required uptake of alternative fuel vehicles across all transport modes and in all EU Member States to meet the EU's climate objectives;
- To ensure full interoperability of the infrastructure; and
- To ensure comprehensive user information and adequate payment options at alternative fuels infrastructure.

3.47 The AFIR is complementary to the ReFuelEU aviation initiative and is supportive of the expansion of fixed electrical group power (FEGP) at Trans-European Transport Network (TEN-T) and comprehensive network airports. Under AFIR, airports must ensure that stationary aircraft can access FEGP instead of relying on their onboard auxiliary power units (APUs), with the intention of reducing local air pollution and noise, reducing greenhouse gas emissions

[15] Directive - 2018/2001 - EN - EUR-Lex
[16] S.I. No. 365/2020 - European Union (Renewable Energy) Regulations 2020
[17] Regulation - 2021/1119 - EN - EUR-Lex
[18] Directive - EU - 2023/2413 - EN - Renewable Energy Directive - EUR-Lex
[19] Regulation - 2023/1804 - EN - EUR-Lex

from ground operations, and enhancing energy efficiency. The AFIR provides that Member States were to ensure the provision of electricity supply to stationary aircraft by 31 December 2024:

- At all contact stands used for commercial air transport operations to embark or disembark passengers or to load or unload goods;
- At all remote stands used for commercial air transport operations to embark or disembark passengers or to load or unload goods.

3.48 Furthermore, Member States are required to take the necessary measures to ensure that the electricity supplied originates from the electricity grid or is generated on site without fossil fuels by 1 January 2030 at the latest.

3.49 Regulation (EU) 2023/2405[20] ('ReFuelEU Aviation') promotes the increased use of sustainable aviation fuel (SAF) as the most powerful tool to decrease aviation emissions and is part of the Fit for 55 package. The targets apply to fuel suppliers at EU airports and provide that there will be a 2% minimum SAF share by 2025, increasing gradually to 70% by 2050, and a minimum synthetic fuel share of 1.2% by 2030, increasing gradually to 35% by 2050. Under ReFuelEU Aviation, Dublin Airport is required to take all necessary measures to facilitate the access of aircraft operators to aviation fuels containing minimum shares of SAF in accordance with the regulation.

3.50 In this context, in 2022 we allowed for the Alternative Fuels project proposed by Dublin Airport which intended to create a transition and development plan for infrastructure to provide for SAF at Dublin Airport. We will continue to take account of both the AFIR and ReFuelEU Aviation Regulations in making the 2026 Determination. The IAA is also the Competent Authority in Ireland for ReFuelEU, responsible for enforcing its application for aircraft operators and airport managing bodies.

Renewable Fuels for Transport Policy Statement 2025-2027

3.51 The Renewable Fuels for Transport Policy Statement 2025-2027[21] sets out the pathway for achievement of Climate Action Plan biofuel targets as well as delivery of the targets and requirements for renewable energy share in transport under the European Union Renewable Energy Directive.

3.52 This policy explores the potential for further deployment of renewable fuels for all transport modes, incentivises increased supply of advanced biofuels and renewable fuels of non-biological origin, and seeks to strengthen sustainability assurance mechanisms within EU frameworks and continue to ensure policy is grounded on latest research and market developments.

Clean Vehicles Directive

3.53 Directive (EU) 2019/1161[22], transposed into Irish Law by S.I. No. 381/2021[23], also known as the Clean Vehicles Directive, was adopted by the EU on 20 June 2019. It aims to promote the uptake of clean and energy-efficient road transport vehicles. The Clean Vehicles Directive obliges EU Member States to ensure that, as of August 2022, all public contracting authorities who are procuring road transport vehicles consider the operational lifetime energy and certain environmental impacts, including energy consumption, emissions of CO2, and

[20] EUR-Lex - 02023R2405-20231031 - EN - EUR-Lex
[21] Renewable Transport Fuel Policy 2025-2027
[22] Directive - 2019/1161 - EN - EUR-Lex
[23] S.I. No. 381/2021 - European Communities (Clean and Energy Efficient Road Transport Vehicles) (Amendment) Regulations 2021

emission of nitrous oxide (Nox), non-methane hydrocarbons (NMHC) and Particulate Matter.

3.54 In 2022, we enabled Dublin Airport to meet its clean vehicles objectives by allowing for the Sustainable Fleet project which aimed to introduce new LEV sustainable light and heavy fleet vehicles. We will assess any proposals by Dublin Airport to address the requirements of the Clean Vehicles Directive for the 2026 Determination.

National Development Plan

3.55 The National Development Plan[24] includes plans to prioritise surface connectivity to ports and airports, with a particular focus on rail freight connectivity to Ports of National Significance and improved sustainable mobility connections to the State Airports.

3.56 The plan recognises the importance of ports and airports in the context of regional connectivity and as strategic gateways which will play a central role in helping to restore international connectivity and economic activity post-pandemic. It states that significant investment in Ireland's airports and ports will play a major role in safeguarding and enhancing Ireland's connectivity which is fundamental to Ireland's international competitiveness, trading performance in both goods and services, and enhancing its attractiveness to foreign direct investment. We understand that 'significant investment' relates to the investment required to enhance and facilitate connectivity. This aligns with our Statutory Objectives generally, and in particular to facilitate the efficient and economic development of the Airport.

3.57 Under the plan, airports will be encouraged to move away from using fossil fuels where possible, including a move from diesel to electric ground power units in line with the AFIR. As we have discussed under the AFIR sub-section, in 2022 we allowed for capital projects to enable Dublin Airport to meet these objectives.

3.58 We understand the Government will shortly publish a review of the National Development Plan. We will assess and take account of this review for the upcoming determination.

National Strategy for Women and Girls

3.59 The National Strategy for Women and Girls is cited by the National Sustainable Development Goals Policy update 2022-2024.[25] It proposes that public bodies should assess the human rights of women and girls and any gender equality issues when complying with the public sector duty under section 42 of the Irish Human Rights and Equality Act 2014 which requires public bodies to have due regard to equality and human rights.

3.60 The strategy has now concluded. The Department of Children, Disability and Equality has begun the development of the successor strategy.

3.61 In 2022, we assessed that the goals of the Strategy were primarily for Dublin Airport in its role as the airport operator and employer, rather than coming within the scope of making or amending a determination. However, we also noted that we did not see any aspect of the determination which was inconsistent with the Strategy goals.If a successor strategy is published prior to the conclusion of carrying out the 2026 determination, we will take account of the same.

Towards Responsible Business: Ireland's Second National Plan on Corporate Social

[24] national-development-plan-2021-2030.pdf
[25] National Implementation Plan for the Sustainable Development Goals 2022-2024

Responsibility (CSR) 2017-2020

3.62 This policy is cited by the sustainable development goals. It is designed to encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. A relevant action for Dublin Airport would be to increase the recognition of the impact of business operations on the environment and to encourage businesses to mitigate their negative impacts. This would involve supporting and promoting environmental policy and encouraging businesses it deals with to strive for resource efficiencies.

3.63 In this context, in 2022 we included allowances for various sustainability projects intended to enable Dublin Airport to mitigate its impact on the environment.

3.64 We note that this policy has now lapsed. In any event, it appears likely to us that any potential relevance to the 2026 Determination is already covered by the more specific policy objectives outlined above.

The Sustainable Development Goals

3.65 The 2030 Agenda for Sustainable Development (the '2030 Agenda') was adopted by all United Nation Member States in 2015. It resolves *'between now and 2030, to end poverty and hunger everywhere; to combat inequalities within and among countries; to build peaceful, just and inclusive societies; to protect human rights and promote gender equality and the empowerment of women and girls; and to ensure the lasting protection of the planet and its natural resources'*.[26]

3.66 The 17 Sustainable Development Goals[27] (the 'SDGs') are central to the 2030 Agenda and reflect *'an urgent call for action by all countries – developed and developing – in a global partnership'*. In Ireland, a whole-of-government approach has been adopted for implementation of the SDGs, with each Minister having specific responsibility for implementing individual SDG targets related to their Ministerial functions, with the Department of Climate, Energy and the Environment having overall responsibility for promoting the SDGs and overseeing their coherent implementation across government.

3.67 The SDG Policy Map[28] was last updated in October 2022. It supports and enhances cross-Government engagement in implementing each of the Goals and Targets. The SDG National Implementation Plans set out the overarching national governance, coordination and monitoring framework for the SDGs. The Second National Implementation Plan for the Sustainable Development Goals 2022-2024 was published on 5 October 2022.[29]

3.68 We have reviewed these goals. Below, we outline certain goals and targets which we think may be of relevance, along with the relevant national policies under the SDG Policy Map. We will continue to take account of these for the upcoming determination and afford them due weight insofar as they are relevant to the decision at hand.

SDG 3: Ensure healthy lives and promote well-being for all ages

3.69 SDG 3 recognises the importance of health and well-being for sustainable development and focuses on a wide range of health priorities. Of potential relevance is Target 3.9:

[26] Transforming our world: the 2030 Agenda for Sustainable Development | Department of Economic and Social Affairs
[27] THE 17 GOALS | Sustainable Development
[28] 2022-sdg-policy-map.pdf
[29] National Implementation Plan for the Sustainable Development Goals 2022-2024

'By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.'

3.70 Under the SDG Policy Map, the relevant national policies for the achievement of this target are the National Implementation Plan on Persistent Organic Pollutants[30], the Waste Action Plan for a Circular Economy,[31] the National Waste Prevention Programme (EPA),[32] the National Clean Air Strategy,[33] and the Chemicals Act 2008 & 2010.[34]

SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

3.71 SDG 4 recognises the importance of education for development through its ability to empower people, reduce inequality, and contribute to economic growth. Target 4.7 of SDG 4 is:

'By 2030, ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development.'

3.72 Under the SDG Policy Map, relevant national policies for the achievement of this target are the National Strategy on Education for Sustainable Development in Ireland,[35] and Food Vision 2030.[36]

SDG 5: Achieve gender equality and empower all women and girls

3.73 SDG 5 recognises that gender equality is a human right, and that empowering women and girls boosts economic growth, improves health and educational outcomes, and strengthens societies. Target 5.5 of SDG 5 is:

'Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.'

3.74 Under the SDG Policy Map, the National Strategy for Women and Girls 2017-2020 (discussed above) is the relevant national policy with respect to this target.

SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all

3.75 SDG 7 recognises that energy is central to nearly every major challenge and opportunity the world currently faces, including employment, climate change, and food security. Target 7a of SDG 7 is:

'By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.'

[30] Ireland's update of National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants
[31] Waste Action Plan for a Circular Economy
[32] Circular_Economy_8PP_digital_pdf
[33] Clean Air Strategy
[34] Chemicals Acts 2008 and 2010 - Health and Safety Authority
[35] National Strategy on Education for Sustainable Development in Ireland
[36] Food Vision 2030 – A World Leader in Sustainable Food Systems

3.76 Under the SDG Policy Map, 'A Better World',[37] Ireland's policy for international development is the relevant national policy for the achievement of this target.

SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

3.77 Under SDG 9, infrastructure is recognised as a foundation for development, industrialisation as a necessary step for economic growth, and innovation as a driver for progress. Target 9.4 of SDG 9 is:

'By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.'

3.78 Under the SDG Policy Map, the relevant national policies for the achievement of this target are the National Implementation Plan on Persistent Organic Pollutants, the Waste Action Plan for a Circular Economy, the National Waste Prevention Programme (EPA) and the National Development Plan.

SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable

3.79 SDG 11 recognises that over half of the world's population now lives in urban areas, with this trend expected to continue. Consequently, while economic opportunities have developed, so have issues such as overcrowding, pollution, inadequate housing, and strained infrastructure. Target 11.2 of SDG 11 is:

'By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.'

3.80 Under the SDG Policy Map, for the achievement of this target, EU Regulation 1370/2007 on Public Passenger Transport Services by Rail and by Road and repealing Council Regulations (EC) Nos 1191/69 and 1107/70,[38] the Revised Dublin Transport Authority Act 2008,[39] and the Rural Transport Programme[40] are relevant policies.

SDG 12: Ensure Sustainable Consumption and Production Patterns

3.81 SDG 12 focuses on ensuring responsible consumption and production patterns and is rooted in the need to reduce the environmental footprint of human activities. Target 12.4 of SDG 12 is:

'Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.'

3.82 Relevant policies for the achievement of this target are the National Implementation Plan on Persistent Organic Pollutants, the Waste Action Plan for a Circular Economy, the National

[37] Ireland's Policy for International Development | Ireland.ie
[38] EUR-Lex - 02007R1370-20171224 - EN - EUR-Lex
[39] Revised Acts
[40] c5438716e7e24ba1afe7415aef6906d4.pdf

Waste Prevention Programme (EPA) and the National Clean Air Strategy.

SDG 13: Take urgent action to combat climate change and its impacts

3.83 SDG 13 states that climate change is one of the most pressing challenges of our time, which affects every country and community globally. Target 13.1 is:

'Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.'

3.84 Relevant policies for the achievement of this target are the National Adaptation Framework[41] which aims to strengthen adaptive capacity and to support the transition towards a climate resilient Ireland by 2050, the Sectoral Adaptation Plans[42], the 2021 Climate Action Plan, and the Agriculture, Forest and Seafood Climate Change Sectoral Adaptation Plan.[43]

3.85 Target 13.2 is:

'Integrate climate change measures into national policies, strategies and planning.'

3.86 Relevant policies for the achievement of this target are the 2021 Climate Action Plan, the National Biodiversity Action Plan 2017-2021[44] which includes objectives to improve the management of protected areas and species, conserve and restore biodiversity, maintain biodiversity, and to strengthen international governance for biodiversity, and the AgClimatise National Climate & Air Roadmap for the Agriculture Sector to 2030 and Beyond[45] which promotes the use of protected nitrogen products to reduce emissions.

3.87 Target 13.3 is:

'Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.'

3.88 Relevant policies for the achievement of this target are the 2021 Climate Action Plan, the National Adaptation Framework, AgClimatise National Climate & Air Roadmap for the Agriculture Sector to 2030 and Beyond, Food Vision 2030, the National Strategy on Education for Sustainable Development in Ireland 2014-2020,[46] and the Creative Ireland Programme – Engaging the Public on Climate Change through the Cultural and Creative Sectors.[47]

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainable manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

3.89 SDG 15 recognises that ecosystem degradation and biodiversity loss threaten the livelihoods of many globally, with the planet experiencing a mass extinction crisis. Target 15.3 of this goal is:

'By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world.'

3.90 Accordingly, the National Biodiversity Action Plan 2017-2021 is the relevant national policy

[41] National Adaptation Framework (NAF)
[42] Sectoral Adaptation Planning
[43] Government Approves Agriculture, Forest and Seafood Climate Change Sectoral Adaptation Plan
[44] National Biodiversity Action Plan English.pdf
[45] Ag Climatise - A Roadmap towards Climate Neutrality
[46] National Strategy on Education for Sustainable Development in Ireland
[47] Engaging-the-Public-on-Climate-Change.pdf

for the achievement of this target.

3.91 Target 15.5 of SDG 15 is:

'Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.'

3.92 The relevant policies in respect of the achievement of this target are the National Biodiversity Action Plan 2017-2021, the Department of Agriculture, Food and the Marine Statement of Strategy 2023 – 2026,[48] Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market,[49] and S.I. No. 316/2014 – European Union (Timber and Timber Products) (Placing on the Market) Regulations 2014.[50]

Conclusions on Statutory Mandate

3.93 We have previously assessed that the essence of our statutory mandate, prior to the amendment of the 2001 Act by the ANTA, is to promote economic efficiency and maximise the value provided in the operation and development of Dublin Airport, through the implementation of the price cap based regulatory model. As was explained in the 2022 Review Decision, we consider that the revisions set out by the ANTA do not fundamentally change our mandate in this regard. The IAA is required by the 2001 Act to carry out a balancing exercise, taking account of various and sometimes competing objectives, when making a determination.

3.94 We also note the Policy Statement frames these revisions as *'Building from a Position of Strength'*. This further supports the conclusion that the purpose of the revised Statutory Objectives is not to generate any fundamental change in the regulatory model to be applied, but rather provide for a refresh in certain respects to bring the objectives into line with developments in international practices, and to increase the required focus on certain topics, namely:

- Sustainability.
- Encouraging airline competition at Dublin Airport to— (i) improve capacity, (ii) provide choice on routes, (iii) provide choice between airlines, and (iv) improve international connectivity.

3.95 Promoting safety and security, particularly by including required costs associated with compliance, has always been considered implicit in the interests of Users. The ANTA has now made this an explicit objective. The efficient and economic development and operation of the airport such that high quality and cost-effective services are provided was unchanged by the ANTA, but made more explicit.

3.96 Although the ANTA has removed the statutory objective to enable daa to operate and develop Dublin Airport in a sustainable and financially viable manner, this remains an implicit requirement which is relevant to the other objectives and most of the Due Regard Factors. As such, we intend to continue to assess the financeability of the determination. In the event that there was clash or trade-off with our Statutory Objectives, it would of course be necessary for those to be prioritised, however in practice it is likely to be complementary to, rather than in conflict with, our Statutory Objectives, as outlined above.

3.97 In our view, having taken account of relevant policies as they currently stand, the primary

[48] Statement of Strategy 2023 - 2026
[49] EUR-Lex - 02010R0995-20200101 - EN - EUR-Lex
[50] S.I. No. 316/2014 - European Union (Timber and Timber Products) (Placing on the Market) Regulations 2014.

area where additional focus is now required, relative to the 2001 Act prior to the ANTA amendments, relates to the promotion of sustainable development related policy. As in the 2022 Review Decision, it will be necessary to consider how the various business and investment planning elements of the determination will strike an appropriate balance between these objectives, which is a question for Dublin Airport in the first instance in its submissions.

3.98 We will also continue to have due regard to the Due Regard Factors. As apparent from the above, in many cases those are closely related to and/or cover the same topics as the Statutory Objectives, in particular those related to costs, investments, revenues (including commercial revenues), and national and international obligations of daa and the IAA. We consider that the new Due Regard Factor in relation to encouraging airline competition aligns closely with our other objectives. In the context of a determination, airline competition will be most effectively encouraged by maximising the value which Dublin Airport provides to current and future Users, ensuring that Airport Charges are not excessive relative to costs, and by facilitating the cost-effective development and operation of the airport.

3.99 We will continue to have due regard to imposing the minimum restrictions on daa consistent with the functions of the IAA; in that regard, we expect to again impose only a single annual price cap, and not sub-caps or other such restrictions. The Due Regard Factors related to the restructuring of daa (where Shannon Airport was separated from daa group in 2012) were relevant in contemporaneous determinations but are likely to be of limited relevance to the 2026 Determination given that the restructuring is long completed.

Appeal Process

3.100 The ANTA amended the appeals process in respect of a determination. Under section 39A(1) of the 2001 Act:

'A relevant person who is aggrieved by a determination of the [IAA] under section 32(2) may, not later than 3 months after notice has been given under section 32(11), appeal to the High Court against that determination.'

3.101 Section 39A replaces the former Section 40, which provided for an appeal to be heard before an ad-hoc appeals panel appointed by the Minister. The 2026 Determination is the first determination to be made under Section 32(2) subsequent to the commencement of Section 39A, and we consider that it may be helpful, at this point, to outline the IAA's position in respect of the nature of the new appeal process.

3.102 As with many statutory appeals, the test to be applied by the High Court is not specified in the legislation, and there is no specific precedent yet established in the case of this new provision. The IAA considers that the correct test to be applied under Section 39A is the *Orange* test.[51] To satisfy the *Orange* test, an appellant must show that the decision reached by the IAA, as a matter of probability, was vitiated by a serious and significant error or series of such errors. An appellant must also show that the error or errors relied on were material, in the sense that such error(s) resulted in the overall decision being one that can properly be said to be vitiated by a serious error, based on the information before the decision maker (the IAA) at the time it made the decision.

3.103 Consequently, with reference to the above, and generally, an aggrieved party would not be permitted to raise new points, or adduce further evidence, which it had not already made in

[51] The *Orange* test (from the Supreme Court Judgment in Orange Communications Limited v The Director of Telecommunications Regulation (No. 2) [2000] 4 IR 159) provides that an appellant must establish that the Review Decision was vitiated by a serious and significant error or a series of such errors.

submissions to the IAA prior to us making the determination. In the context of any such appeal, the IAA is likely to adopt the position that an appellant must be limited to the case it made to the IAA; the Section 39A appeal is not an opportunity for parties to attempt to make new or better submissions which they did not make to the IAA during the relevant consultation periods. This is consistent with the established precedent in respect of statutory appeals generally, and also consistent with the approach adopted by appeals panels under the old Section 40.[52]

Key Questions and Considerations

3.104 We invite submissions from stakeholders on a number of key questions and considerations:

- Do you agree with our interpretations outlined in this section, and regarding the focus of our statutory mandate?
- Do you think that there are any other relevant policies which we have not addressed, and how should any such policies be taken into account for the 2026 Determination?
- Do you agree that we have identified the key aspects of the relevant policies for the purpose of making the determination? If not, please identify what other aspects you consider to be important.
- What weight should we afford to such aspects in our decision-making when making the 2026 Determination, and what decisions or prioritisations should that lead to?

[52] See, for example, the appeals panel decisions of 2020 and 2021:
https://www.iaa.ie/docs/default-source/car-documents/aviation-appeals-panel-daa-appeal-decision-4_5_20.pdf?Status=Master&sfvrsn=3ac914f3_0
https://www.iaa.ie/docs/default-source/car-documents/aviation-appeals-panel-ryanair-appeal-decision-4_5_20.pdf?Status=Master&sfvrsn=2ec914f3_0
https://www.iaa.ie/docs/default-source/car-documents/decision-aviation-appeals-28-july-2021.pdf?Status=Master&sfvrsn=13cb14f3_0

4. Approach to Regulation

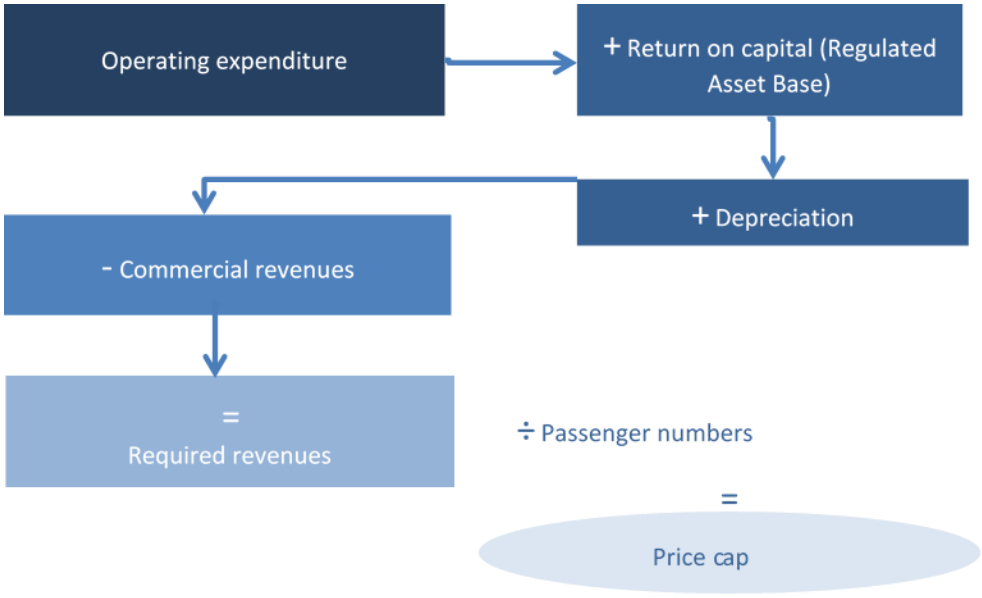
4.1 This section addresses the overall approach to the 2026 Determination, including an overview of the proposed high-level approach, a discussion of risk allocation including current mechanisms in place and historic outcomes, and a consideration of the trade-offs between Building Blocks.

High Level Approach

4.2 It follows from the Statutory Objectives that we need to establish a methodology to set the price caps with reference to the estimated efficient costs of operating and developing the airport. This principle of 'cost-related' Airport Charges is also an element of the ACD, and a key principle of the International Civil Aviation Organisation (ICAO), of which Ireland is a Member State. This methodology is commonly termed the 'Building Blocks' approach, and is summarised in Chart 4.1 below. To date, the IAA has used the Building Blocks approach to set the price caps.

4.3 This approach requires calculating inputs for Operating Expenditure (Opex), Commercial Revenues, Passenger Forecasts, and Capital Expenditure (Capex)- which in turn requires an assessment of proposed capital projects. Dublin Airport has been regulated under a single till, which means that we include a forecast of Commercial Revenues (such as retail, car parking and food & beverage), as well as a forecast of the costs associated with providing these non-aeronautical services.

Chart 4.1: The Building Blocks Approach



Source: IAA

4.4 We have previously used a RAB-based approach when estimating capital cost inputs. The RAB is the stock of undepreciated capital investment which the regulator has determined should be paid for by the Users of Dublin Airport. The return on capital and depreciation allowances thus depend on capital expenditure allowances in both the current and previous determinations.

4.5 We have set service quality standards, where the price caps are linked to the level of service provided. This works to incentivise Dublin Airport to maintain and improve the performance

in areas that are important to Users. A further discussion of these metrics and targets is contained in Section 11.

4.6 We have implemented incentive-based regulation. Where Dublin Airport outperforms our targets, it generally keeps the additional remuneration, and vice versa where it underperforms. With some exceptions, Dublin Airport is thus assigned the risk within the period, and the result of materialised risk is transferred to Users at the time of the subsequent determination. This incentivises Dublin Airport to act as a company in a competitive market would, being rewarded for responding optimally to circumstances as they unfold within the determination period.

4.7 Outturn figures will invariably differ from the individual forecasts used to derive the price caps. The Building Blocks approach is a centreline forecasting exercise which is used by the IAA to set up a 'fair bet'. Essentially, the forecasts should be set such that if Dublin Airport operates efficiently, it has a good prospect of earning the reasonable level of profit implied by the cost of capital we set. If Dublin Airport outperforms reasonable expectations, it can earn additional profit, and where it is inefficient or downside risk materialises, it may earn less profit. In that regard, as has been accepted by stakeholders in previous determinations, and is standard regulatory practice, the overarching aim of the forecasts should be to balance achievability with an appropriate challenge for the regulated entity to improve the value it provides. We therefore refer to the 'challenging but achievable' forecasting standard underpinning each forecast.

4.8 The individual forecasts estimated by the IAA are thus not to be considered as, for example, determining any prescriptive level of staffing, wage rates, or capital investment which must be specifically followed by Dublin Airport. The only compliance aspect of the determination is the single price cap figure in each year. This affords Dublin Airport a high degree of flexibility, while preventing misuse of SMP.

4.9 We note the importance of regulatory consistency and predictability for all stakeholders, including those who provide capital to Dublin Airport. While we are open to considering alternative methodologies that stakeholders may propose, we expect to again adopt the Building Block methodology in the 2026 Determinations. Any move away from the Building Block approach would need to be considered very carefully.

Sensitivity of the Price Cap to each Building Block

4.10 In the table below, we show what the average price cap would have been if each Building Block forecast were increased by 10% over 2023-2026, with all of the other building blocks held constant. Note that this shows raw sensitivities for illustrative purposes, not taking into account the interactions between Building Blocks (for example, a 10% increase in passenger numbers would have also increased the Opex and Commercial Revenue forecasts, and potentially had implications for the level of Capex).

Table 4.1: Sensitivity of the Average Price Cap 2023-2026 (untriggered)

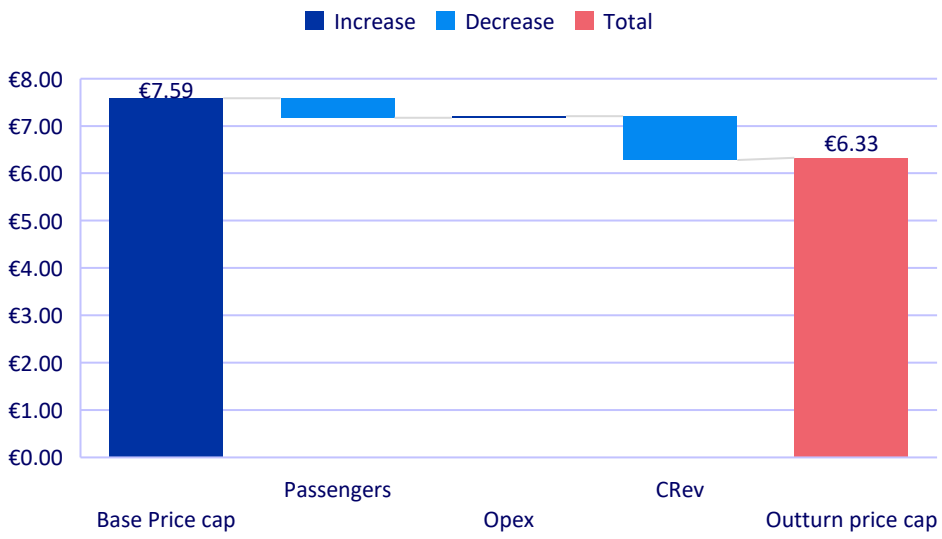
Building Block	Determination level	10% above	% Change
Passengers	€8.77	€7.97	-9%
Opex	€8.77	€9.86	+12%
Capital Costs	€8.77	€9.59	+9%
Commercial Revenue	€8.77	€7.73	-12%

Source: 2022 Review Decision, IAA Calculations.

Simulated price caps using outturn passengers, operating expenditure, commercial revenue

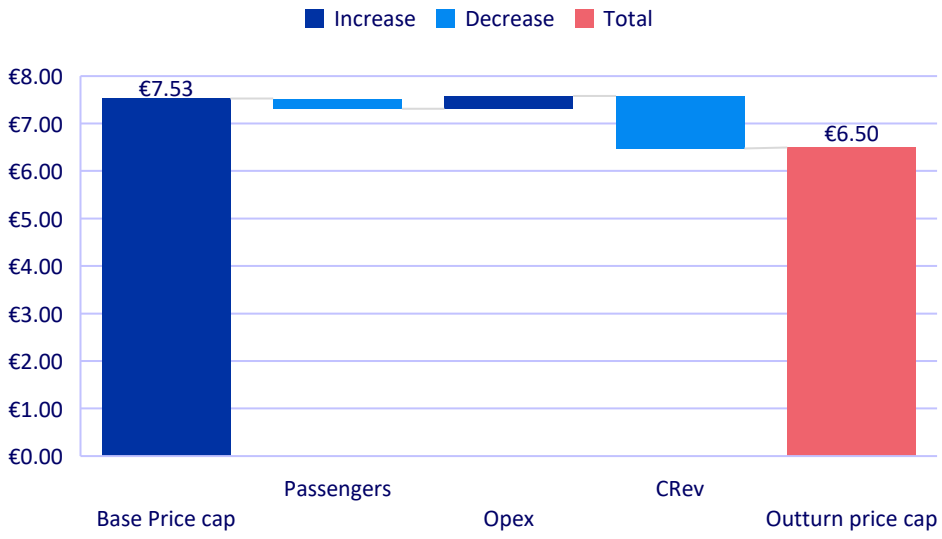
4.11 As outlined further below, Dublin Airport has, in 2023 and 2024, overall outperformed the current determination assumptions in relation to commercial revenue and passenger traffic, slightly offset by Opex. Charts 4.2 and 4.3 provide high level estimates of what the base price caps would have been if those forecasts in our calculations were replaced with the outturn figures for both years.

Chart 4.2: 2023 Base Price Cap with Forecasts Replaced by Outturns



Source: Dublin Airport Regulatory Accounts, IAA calculations

Chart 4.3: 2024 Base Price Cap with Forecasts Replaced by Outturns



Source: Dublin Airport Regulatory Accounts, IAA calculations

4.12 In 2023, the real base price cap would have fallen by €1.26, and by €1.03 in 2024. In nominal terms, we estimate that the ultimate final price caps, including adjustments and equivalently based on the extant forecast rather than outturn inflation, would have been:

- In 2023, €7.14 rather than €8.46.
- In 2024, €8.37 rather than €9.54.

4.13 This suggests that, all else equal, the Building Blocks re-set and transfer of materialised risk to Users as part of the 2026 Determination might put significant downward pressure on the price caps. Of course, many other factors will also influence the final pricing outcome, including forward looking factors (rather than just recent past performance) in relation to these three building blocks, the size of the RAB relative to forecast, the reassessed cost of capital, the clawback of any unspent Capex allowances, and rolling scheme adjustments (as explained in Section 7).

Till Structure

4.14 Airport operators generate revenue from the Airport Charges which they levy in return for the provision of aeronautical services, such as runway movement charges or departing passenger charges, but also from unregulated commercial services, such as retail and carparking. A single till approach to regulation means that, when applying the Building Blocks approach, estimates of the total capital and operating costs required to provide all aeronautical and commercial services at the airport are included in the calculations. Forecasts of Commercial Revenues, such as revenues from retail and carparking, are thus also included in the calculations as a separate Building Block. Those revenues cover some of the costs, and Airport Charges are then set on the basis of covering the balance of the forecast cost requirements.

4.15 A dual till approach, on the other hand, involves splitting all of the capital and operating costs at the airport between an aeronautical till, and a commercial till. The aeronautical till should include costs associated with providing the aeronautical services for which charges are regulated. Airport Charges are set based on the aeronautical till only. All other costs (and thus revenues from commercial activities) are excluded from consideration.

4.16 In its response to the Timeline Consultation of March 2025, Dublin Airport requests that the current single till approach be examined. Of the single till structure, Dublin Airport states that it '*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, the single till approach gives rise to an aeronautical pricing structure, which introduces or accentuates allocative inefficiency and the single till mechanism can distort investment incentives in both aeronautical and non-aeronautical activities*.'

4.17 The IAA has previously considered the question of the regulatory till structure in some detail, as has the Thessaloniki Forum.[53] The IAA concluded that the single till structure should be retained. The Indecon report also recommended that the single till approach be retained, but that this decision should remain within the competence of the IAA. Indecon stated that '*The potential benefits of a single till approach is that it reflects the reality of the interaction between airport operational activities and other income derived as a result of passengers visiting the airport. It also removes the need to attempt to separate all costs which are related to airport operational requirements and those costs attributable to other sources of airport revenues within the airport*'.

4.18 As reflected in the above papers, there is a wide range of theoretical arguments which have been made by industry on this topic, with airline representatives generally in favour of a

[53] https://www.iaa.ie/docs/default-source/car-documents/2010_cp4-2010-defining-the-regulatory-till(1).pdf?Status=Master&sfvrsn=2bab14f3_0
https://www.iaa.ie/docs/default-source/car-documents/cp1_2012-future-investments-and-the-regulatory-till.pdf?Status=Master&sfvrsn=a3ac14f3_0
https://www.iaa.ie/docs/default-source/car-documents/2012-12-07-cp3_2012-capex-consultation-guidance-commercial-investments.pdf?Status=Master&sfvrsn=afac14f3_0
https://www.iaa.ie/docs/default-source/car-documents/tf-papers-2020/airport-till-structure-cost-allocation-paper-tf-adopted-january-2021.pdf?Status=Master&sfvrsn=b4c514f3_0

single till, and airport representatives generally in favour of dual tills for regulated airports. Such arguments often focus on points of theory such as allocative efficiency or generating desirable incentives at the airport in question. The different arguments are also discussed in an extensive body of academic work.

4.19 The single till structure in place at Dublin Airport includes the possibility to till exit certain developments under particular circumstances. We do not propose to make any changes to the till structure ahead of, or as part of, the 2026 Determination, for the following reasons:

- As reflected in the previous papers, and the Indecon report, the single till approach clearly remains better aligned with our statutory objective in respect of the interests of Users, based on the available evidence.
- As was the case previously, this is a topic which would require to be considered separately from, and well in advance of, a determination process, not as part of or alongside a determination process which is already ongoing.

Aligned with Statutory Objectives

4.20 In respect of the first point, as we have set out previously, we assess that a single till approach yields Airport Charges more in line with those that would be observed in a competitive environment, and thus better aligns with the interests of Users. Similarly, the Thessaloniki Forum has noted that operators of smaller airports, which are subject to effective competition, often choose to operate in line with a single till approach, which enables them to compete more effectively with other airports in the terms of the value they offer.[54] The application of a dual till charging structure can in some cases be an indicator of market power.

4.21 Based on its submission, Dublin Airport believes that Airport Charges would be higher under dual till. Given the many different approaches that can be adopted to cost allocation of that nature, we tend to think that the extent to which that is so (if at all) would depend on the detail of the approach ultimately adopted.[55] Splitting all costs between aeronautical and commercial raises various conceptual and practical issues in respect of which significant judgment is required.

4.22 If Dublin Airport were correct, we note that improving the '*price signalling*' to avoid '*allocative inefficiency*', with all else equal relative to the current till structure, in plain language means dissuading (some) Users from using the airport by increasing Airport Charges beyond the level required to efficiently operate and develop the airport. Diminishing the value which Dublin Airport provides to Users in this manner would run contrary to our key statutory objective in the most direct sense. Strong evidence of any benefits of such an approach, going beyond mere assertion of the existence of such distortionary effects and inefficiencies, would be required to outweigh this. We have not, in practice, seen any evidence of any distortion of incentives, or any other material disadvantage that manifests in practice.

4.23 A single till approach may reduce the extent to which the regulated entity is incentivised to maximise Commercial Revenues, if it were to take a longer-term strategic perspective, but again it is not apparent that this is operative in practice. Further, the incentive is already equalised through rolling schemes, as outlined in Section 7. Further, as set out in our benchmarking analysis, Dublin Airport's Commercial Revenues per passenger appears to be towards the upper end of the comparator sample, and we do not see any particular trend

[54] Airport Till Structure and Cost Allocation, paragraph 3.5.
[55] As Dublin Airport outlined in its 2024 response to the draft decision on Ryanair's complaint under the 2011 Regulations: https://www.iaa.ie/docs/default-source/1c-economic-regulation/2024-07-02-daa-response-to-iaa-dd-on-ryanair-complaint_redacted.pdf?sfvrsn=1fc1ecf3_1

which suggests that the dual till airports are performing better than single (or hybrid) till airports. In any event, it is not apparent that any unbounded or further strengthened incentive to maximise Commercial Revenues would be better aligned with our Statutory Objectives, particularly where any resulting benefit would accordingly be retained by Dublin Airport rather than passed on to Users.

4.24 We do, however, consider it timely to review cost allocation between the Dublin Airport regulated entity and daa group. In most cases, the costs are distinct, however there has been an increase in the extent of shared services since the last review. We intend to review the treatment of the costs of such services in Q4 2025, ahead of the Draft Determination.

Timing and practicalities

4.25 In any case, we do not see that it would be possible to implement a dual or hybrid till system ahead of the 2026 Determination, when the process to make that determination is already underway. Should any party wish to do so, they should make a detailed proposal well in advance of the determination in question. For example, this could be done in 2027, with a view to considering the topic ahead of the subsequent determination. In doing so, some of the main issues to be addressed would be:

- Aligning the proposal with our Statutory Objectives, based on evidence.
- The development of a cost allocation system across the entire airport which splits costs between aeronautical and non-aeronautical. This would be a much more complex exercise compared to, for example, estimating cost-related differentiations in Airport Charges.
- The extent to which historic costs also need to be split, given that more than 20 years data has at times been used for forecasting or analytical purposes.
- The reconstruction of the existing RAB to split all of those capital costs between aeronautical and commercial.
- How would financeability be assessed (if at all)? As noted in Section 11, a single till approach is more credit protective by reducing volatility, lowering downside but also limiting upside - but that is from the perspective of the whole airport. For the same reason as we currently assess the financeability of Dublin Airport rather than the entire daa group, it may be incongruous to consider the commercial till within the scope of such analysis where a dual till model is in place.

4.26 The Thessaloniki Forum has outlined, as examples, some of the challenges which have been experienced in such models:[56]

- Certain assets at the airport have many uses (both commercial and aeronautical) which makes it difficult to assign the associated costs (including depreciation and cost of capital) between the tills. For example, allocation of profits and expenses related to airbridges, and particularly for those related to advertising on these units, is a particular challenge, as are infrastructure resources (electricity, heating, water).
- Allocating common costs can involve a degree of arbitrariness. Different allocation methods can lead to different results.
- A lot of time and resources are spent on recording, processing and presenting data to update the system, which can be resource intensive for all involved.
- The allocation of costs between aeronautical and commercial activities may not take into account that commercial activities may generate costs due to the optimization of the (aeronautical) terminal buildings from a commercial perspective. Similarly, for example, to what extent should security Opex be allocated to commercial revenues, given that a key driver of

[56] airport-till-structure-cost-allocation-paper-tf-adopted-january-2021.pdf

increased retail revenues is maintaining processing times as low as possible, which generates additional Opex?

4.27 There would also be a range of issues to be addressed which are more specific to Dublin Airport. For example, FastTrack generates both commercial and aeronautical revenues, and so would likely require a bespoke allocation system.

Other Key Decisions on High- Level Approach

Form of the cap

4.28 Section 32 of the 2001 Act requires us to set '*the maximum level of airport charges that may be levied by [daa] in respect of Dublin Airport*', but permits a number of different forms in which that maximum level might be specified.

4.29 Previously, we have considered the most appropriate form to be a limit on the average level of Airport Charges accrued per passenger, for each year of the regulatory period. Other than in 2020 to address exceptional circumstances, we have not in recent determinations set any sub-caps, such as, for example, requiring differentiated or peak pricing. We considered that there was no strong basis for such an approach, which might have unintended consequences, and also had regard to imposing the minimum restrictions on Dublin Airport consistent with the functions of the IAA. Our initial thinking remains unchanged on this point.

Length of the period

4.30 The 2001 Act requires a determination period of not less than 4 years. As amended by the ANTA, the 2001 Act now allows for the determination period to be subsequently extended within the period, up to a maximum of two further years. In setting the duration of the determination period, there are a number of trade-offs:

- A longer period provides further medium-term clarity over pricing for both Dublin Airport and Users, and also strengthens incentives for the airport to improve performance. On the other hand, it increases the extent of forecasting uncertainty (especially given that the greatest uncertainty arises furthest in the future), thus potentially leading to an increase in exposure to systematic risk, as well as a greater degree of divergence between outturn developments and the assumptions underlying the price caps.
- A shorter period allows for a quicker reset and thus a quicker transfer of efficiencies to Users, and thus reduces the extent of forecasting risk within the decision. On the other hand, it provides less certainty over pricing and potentially weaker incentives. The existence of any major forecasting uncertainties might weigh in favour of a shorter period.

4.31 In previous determinations, we concluded that five years offers a reasonable balance between providing medium-term clarity over pricing, while also limiting the forecasting risk involved in a multi-year determination. Subject to any compelling arguments to change that length, our initial thinking is that five years remains an appropriate length of time for the 2026 Determination.

4.32 Should respondents consider that a different duration would be optimal, in order to be potentially persuasive, we would expect any such proposal to be comprehensive in laying out the implications of a shorter/longer time period on the Building Blocks. In order to be potentially persuasive, any such contribution should look to demonstrate how a different duration would better align with our Statutory Objectives, based on quantified analysis where appropriate.

Enabling efficient financing

4.33 When arriving at a price cap, we check that, when all of the Building Blocks are taken together, Dublin Airport is able to raise debt at reasonable cost and without excessive financial risk. This remains in line with our Statutory Objectives, as outlined in Section 3. As discussed further in Section 10, the determination should not only enable the financial viability of the regulated entity, but should also enable the regulated entity to raise the required capital, at reasonable cost, to fund the forecast Capex. It is in the interest of both Dublin Airport, and Users, that the regulated entity can access any debt needed to fund its investment programme.

4.34 The regulatory model at Dublin Airport is mature and stable, which provides Dublin Airport's investors with a significant degree of predictability/stability. Remaining consistent with regulatory precedent in terms of our approach, unless there is a clear case for change, works to support Dublin Airport in accessing finance at a reasonable rate.[57] In the 2019 Final Determination report, we noted the following:

'Dublin Airport and those who provide debt to it have certainty that capital expenditure which enters the RAB will be remunerated efficiently for the life of the assets. This gives investors long term assurances that, if Dublin Airport follows the clear processes set out in our Determinations, it will have sufficient funds to service debt.'

Strategic Considerations

Capacity

4.35 Section 33 of the 2001 Act requires the IAA, when making a determination, to seek to '*facilitate the efficient and economic development and operation of Dublin Airport*'. Since the making of the 2019 Determination, Dublin Airport has delivered additional airfield capacity through the North Runway in 2022, supplemented by significant improvements to taxiway infrastructure, with further improvements ongoing. New stands have also been delivered at Apron 5H and at the MRO stands on the north apron.

4.36 Slot capacity at Dublin Airport has been increased by the IAA, due in significant part to the development of this airfield infrastructure. It appears that the key current capacity shortfall is contact stands, the lack of which causes poorer service quality in terms of suboptimal locations and/or disparate operations, and increased towing requirements (with associated additional environmental impacts). The Dublin Airport Infrastructure Application,[58] submitted in 2023, includes various infrastructural improvements, including additional contact stands and gates, and enhanced passenger processing facilities, which would improve the service standards provided to passengers and airlines. At this time, the application remains undetermined in the planning process.

4.37 We must consider how we will facilitate the development of Dublin Airport, while still protecting the interests of Users, in circumstances where other processes such as planning approvals might ultimately delay that development. This will be particularly relevant for Capex allowances, given the current difficulties faced by Dublin Airport in delivering infrastructure which enhances aircraft or passenger processing. We have previously made use of the Capex trigger mechanism to mitigate this challenge. This has the benefit of making the determination flexible and fit-for-purpose both in a scenario where projects are progressing, but also in a scenario where they are being delayed. In the 2022 Review

[57] See similar analysis of the UK CAA in its 'Lessons Learnt' review of its recent price control decisions: Setting future price controls – lessons learnt from the review of approach (Paragraph 1.33)
[58] Planning application before Fingal County Council: F23A/0781

Decision, we implemented a total of 8 new triggers associated with the major infrastructure projects.

4.38 How we take account of capacity issues will require careful consideration. We will approach the issue from the perspective of our Statutory Objectives, including those which require us to '*encourage competition at Dublin Airport*' and '*protect and promote the reasonable interests of current and prospective users of Dublin Airport*'. As discussed in Section 9, it may be that the extensive use of trigger mechanisms will be the best way to address this challenge.

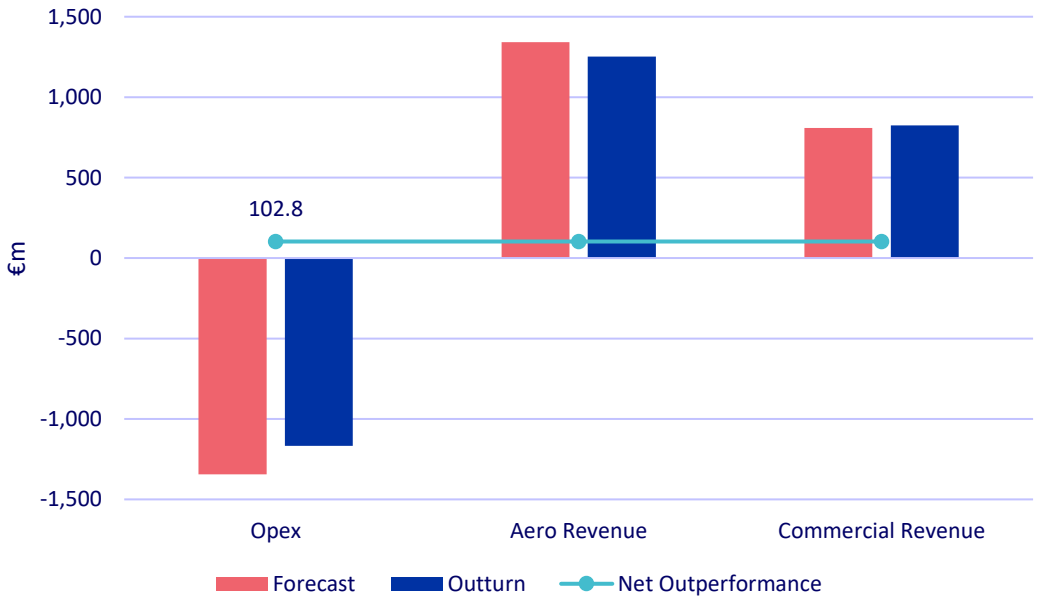
Allocation and Materialisation of Risk

4.39 Within the regulatory period, the majority of risk has historically been allocated to Dublin Airport, on the basis that it is the party best able to manage it, and on the basis that this approach generates powerful efficiency incentives. There have been some exceptions/ mitigations to this, which include the Opex pass-through mechanism, price caps indexed to inflation, and the volume risk on the North Runway trigger. We have also introduced various flexibilities in relation to the allocation of Capex risk and flexibility, as outlined below.

4.40 The combined effect of different elements of risk being allocated to Dublin Airport results in high powered incentives, not only to beat the various targets we set, but also to respond appropriately to changing circumstances. Below, we have reviewed the results of materialised risk over the last number of regulatory periods in terms of EBITDA (noting that Capex risk is allocated differently, as explained below).

4.41 Over 2010-2014, passenger numbers were 5.2% lower than forecast in the 2009 Determination.[59] As illustrated in Chart 4.4 below, Dublin Airport was able to manage the reduced demand through Opex savings (and also marginally outperformed on Commercial Revenues), which more than offset the drop in aeronautical revenues throughout the period.

Chart 4.4: Risk is allocated to Dublin Airport, which responds within the period (2010-2014)

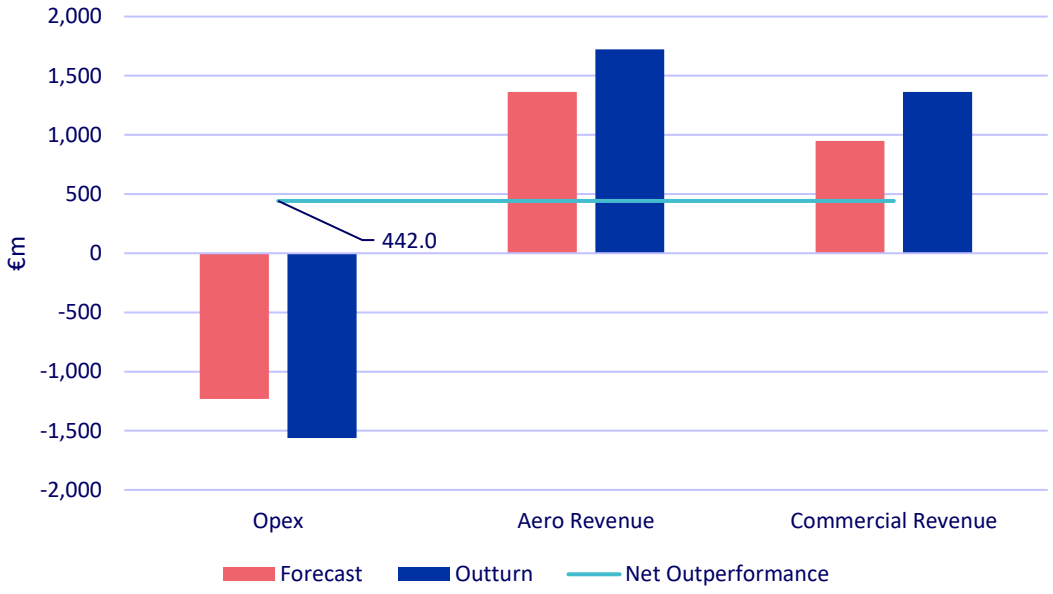


Source: Dublin Airport regulatory accounts, 2009 Determination, IAA calculations.

[59] Figures from the 2009 Determination relate to the varied determination following the decision of the 2010 appeals panel.

4.42 In contrast to the period covered by the 2009 Determination, Chart 4.5 below illustrates how Dublin Airport responded to increased passenger demand by incurring additional Opex relative to the forecasts in the 2014 Determination. The additional commercial and aeronautical revenues earned by Dublin Airport over 2015-2019 far exceeded the additional costs incurred. If Dublin Airport did not hold the volume risk associated with a per passenger price cap, then it would not have been as strongly incentivised to incur the additional Opex to meet the increased passenger demand.

Chart 4.5: Dublin Airport benefits from passenger upside and transforms commercial revenues (2015-2019)

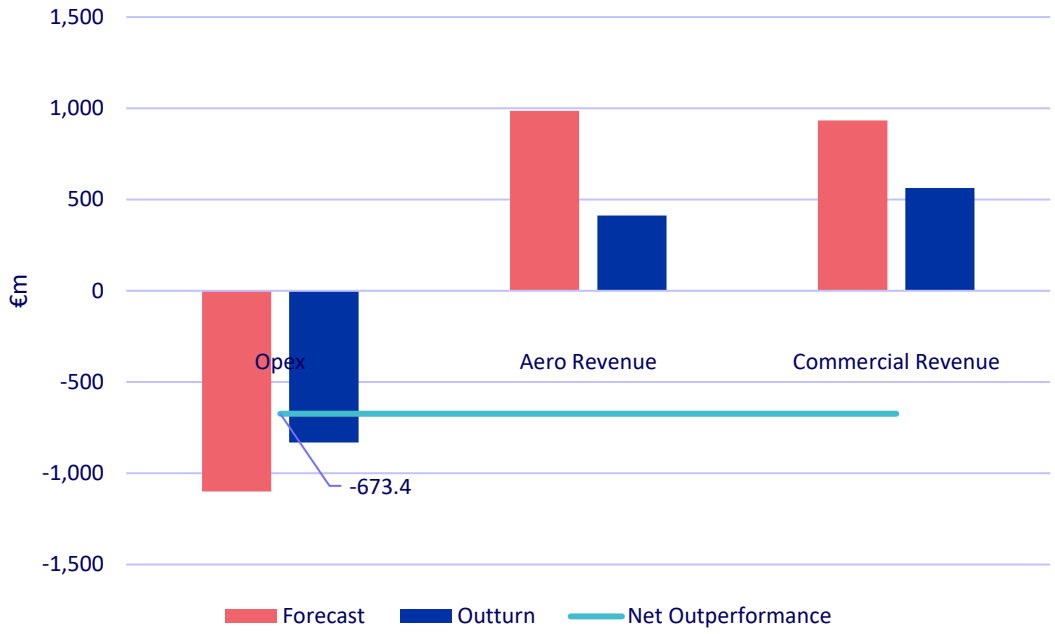


Source: IAA Calculations, Dublin Airport regulatory accounts, 2014 Determination

4.43 Chart 4.6 below illustrates the impact of the Covid-19 pandemic on Dublin Airport, where actual passenger numbers over 2020 to 2022 were less than half the level forecast in the Original 2019 Determination. The IAA amended the determination in respect of those years, with the effect that the price caps were increased, while Dublin Airport also benefitted from central and local government supports (in particular, the Employee Wage Subsidy Scheme, and a local authority rates waiver). Although Dublin Airport incurred losses in 2020 and 2021, it was still able to earn 60% of the forecast level of Commercial Revenues.

4.44 Dublin Airport was able to reduce Opex across these three years from the forecast of €1.1bn to just over €800m, but this was not sufficient to fully mitigate the dramatic reduction in aeronautical revenues, and, to a lesser extent, Commercial Revenues, in 2020 and 2021. By 2022, while passenger volumes remained significantly below the forecast from the Original 2019 Determination, the recovery was well underway, with underperformance relative to the Original 2019 Determination falling to €100m.

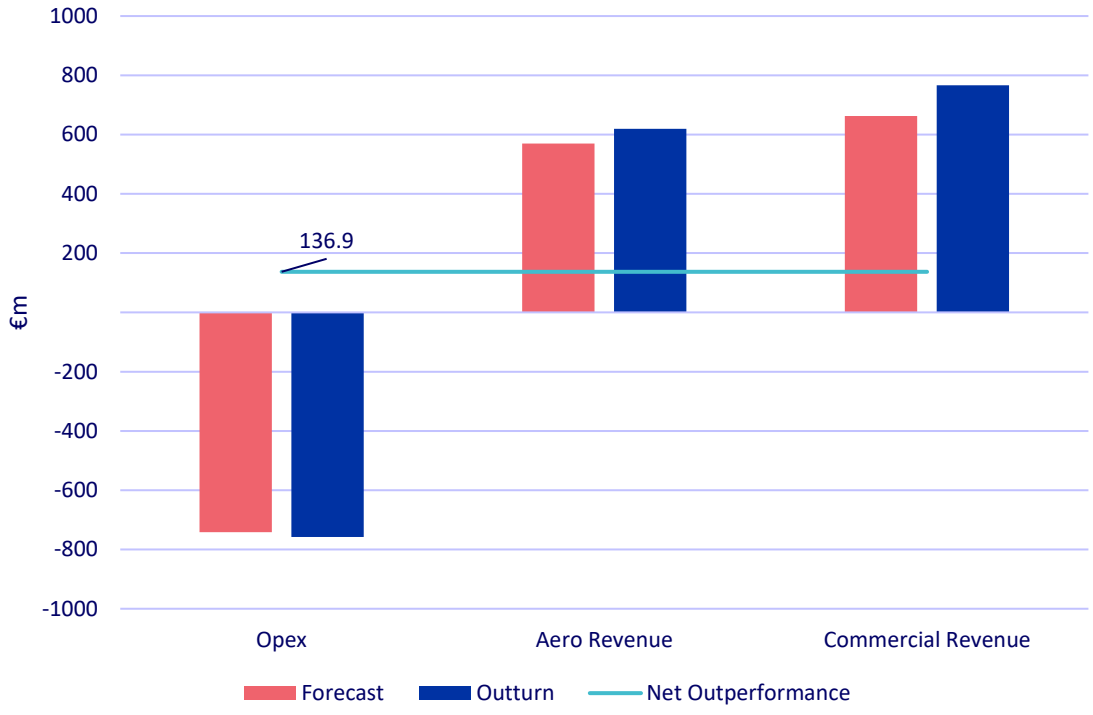
Chart 4.6: Covid-19 causes significant underperformance (2020-2022)



Source: IAA calculations, Dublin Airport regulatory accounts, Original 2019 Determination

4.45 Following the 2022 Review Decision, Dublin Airport's ability to meet passenger demand was again observed in 2023-2024, as shown below in Chart 4.7. Relative to the IAA forecasts, passenger numbers outperformed by approximately 4.3%. Opex was almost in line with the forecast, while Commercial Revenues outperformed by 15.7%.

Chart 4.7: Outperformance re-established over 2023-2024



Source: Dublin Airport regulatory accounts, IAA calculations, 2022 Review Decision. As outlined in Section 6, rates costs are a passthrough item and are normalised in the above chart for a direct comparison..

Conclusions

4.46 It is apparent from the above analysis that Dublin Airport is capable of responding within the regulatory period to various prevailing circumstances, to optimise its performance. We note that this is not a zero-sum game, whereby Users necessarily suffer a detriment when the airport operator outperforms the Building Block assumptions on a net basis. All parties could end up losing out if Dublin Airport was incentivised to operate inefficiently. Airport Users benefit over time as the Building Blocks are re-set and the results of materialised upside risk are passed on to them. Hence, it is not illogical, either, for Users to support the allocation of risk to Dublin Airport, as they have done to date.

4.47 Equally, we note that there are some areas where outperformance is significant and repeated, and not primarily attributable to an exogenous change (such as, for example, Commercial Revenues outperformance driven by passenger forecast outperformance). In those cases, it is particularly appropriate to review methodologies previously employed, to assess whether they provide a reasonable balance between challenge and achievability. This topic is addressed further in the relevant sections below.

4.48 Overall, based on the period 2010-2024, it is apparent that, in 'normal times', Dublin Airport has been able to consistently outperform the regulatory settlements, with outperformance ranging from modest (such as during the traffic downside over 2010-2014) to significant (such as during the traffic upsides from 2015-2019 and 2023-2024). By contrast, the period where Covid-19 generated an unprecedented traffic downside led to very significant underperformance relative to the determination, and even, in 2020 and 2021, operating at a small loss, rather than profit.

4.49 Summing the outperformance from the period 2010-2024, it becomes apparent that the consistent outperformance in the twelve years outside of the period 2020-2022 is almost exactly offset by the significant underperformance over 2020-2022, with overall outperformance of just €8m on forecast total EBITDA of €3.2bn (0.26% variance). Consequently, across a sample of 15 years where three of those years were impacted by the major pandemic downside, the 'fair bet' has materialised very closely. On the one hand, it could be argued that this suggests that the forecasts, and regulatory model adopted more broadly, have been very successful in setting a challenging but achievable threshold and collectively generating a 'fair bet' over time. On the other hand, it could be argued that this sample over-weights the pandemic period and the associated major underperformance, with 20% of years being majorly impacted by the pandemic. If a major downside such as the pandemic were to occur less frequently than one in every five years, then the consistent outperformance in the other years would outweigh the infrequent major underperformance.

4.50 In that regard, should present trends continue, and given that certain Capex triggers may also activate, it is reasonable to think that outperformance over 2025-2026 could be close to €200m, meaning that overall outperformance across the 2009 Determination, 2014 Determination, and 2019 Determination would be in the order of €200m.

Existing Measures for Risk Mitigation

Interim reviews

4.51 Under the 2001 Act, the IAA can, *'if it considers that there are substantial grounds for so doing, review the determination and, if it sees fit, amend the determination'*. The IAA made use of this mechanism in response to the Covid-19 pandemic, where three interim reviews were carried out between 2020-2022.

4.52 To preserve the incentives in price cap regulation, interim reviews are used sparingly. However, the regulatory formulae are typically not equipped to deal with extreme downsides such as the impact of the Covid-19 pandemic, and such situations will likely require an amendment to the determination. Nevertheless, the option for the IAA to intervene and conduct a review of the Building Blocks remains open, which somewhat protects Dublin Airport from the risk of extreme downside within a regulatory period (as reflected in the analysis above).

Price cap adjustments (w, y, z factors)

4.53 In the 2022 Review Decision, we included *ex-post* adjustments for both Opex (in narrowly limited circumstances) and inflation. The introduction of an *ex post* inflation adjustment (z-factor) came about due to the volatile inflation environment in 2022, which meant that relying solely on an *ex-ante* adjustment would be insufficient. The *ex-post* true-up inflation mechanism adjusts for the difference in forecast and outturn CPI relating to year *n*, in year *n+2*. The z-factor is discussed further in Section 12.

4.54 In the Original 2019 Determination, Opex passthrough terms (termed 'w' and 'y') were included to allow for the remuneration of (narrowly limited) cost lines which were largely outside the control of Dublin Airport. Dublin Airport was required to demonstrate that it had taken all reasonable measures to achieve the best value possible for stakeholders before such costs would be passed through.

4.55 The Opex passthrough mechanism protects Dublin Airport in respect of costs which are largely outside its control- a key one being local authority rates, which is a highly material cost line currently subject to a high level of uncertainty, due to an appeal process. Further discussion is contained in Section 6.

Capital expenditure

4.56 Our aim in respect of Capex is to create the right incentives and oversight mechanisms to incentivise efficient capital expenditure. It must be acknowledged that it is not possible, in respect of a complex airport such as Dublin, to achieve a high degree of *ex ante* accuracy in forecasting/Quantity Surveying the ultimate cost of each individual project over an investment horizon spanning years into the future. The challenge lies in balancing flexibility to facilitate efficient changes in cost or scope, with maintaining incentives for efficient expenditure (and relatedly, protecting Users from the risk of remunerating inefficient expenditure), all in a proportionate manner.

4.57 The grouped allowance approach for smaller projects offers Dublin Airport the flexibility to re-assign funds across projects within a particular regulatory funding 'bucket' (eg. Security, Asset Care, Commercial, etc.) to meet unanticipated needs/additional costs. StageGate is a structured process for ongoing flexibility (with ongoing consultation and oversight) in respect of delivering large-scale projects. This is discussed further in Section 9.

Allocation of risk for the 2026 Determination

4.58 At the time of the 2022 Review Decision, the outlook was relatively uncertain, and we acknowledged the impact this could have on the forecasts. We presented a number of possible risk sharing mechanisms for stakeholder consideration in the 2022 Issues Paper. However, there was little support for these, and we decided not to introduce them.

4.59 The possible risk sharing mechanisms included the following:

- Traffic Risk Sharing Mechanism (TRS). Typically, a TRS includes several bands of variance in outturn traffic performance relative to forecast traffic, with a defined sharing key for each band. The Single European Sky (SES) performance and charging regulation, under which we developed the Performance Plan for air navigation services in Ireland for 2025-2029, provides for a three banded TRS.[60] The general approach to TRS mechanisms is to provide a relatively greater degree of protection against the more significant variations from the forecasts.
- General Risk Sharing Mechanism (GRS). Instead of the adjustment being based on traffic variation relative to forecasts, it would be based on EBITDA variation. A GRS mechanism would be a more aggressive form of risk sharing mechanism than a TRS, as it provides direct protection against Opex and Commercial Revenue risk too.
- Capex adjustment mechanism. A traffic related mechanism which would adjust, on a sliding scale after a deadband, the quantum of Capex allowances which would be subject to clawback at the next building block review. For example, if passenger numbers were more than 5% below the forecast, the mechanism would allow for a corresponding proportion of Capex, if unspent, to not be clawed back.

4.60 In the 2018 Issues Paper, we also explored the possibility of risk sharing through debt indexation, where the cost of debt would be updated based on a pre-determined formula in the cost of capital. We considered:

a) Continuing with a fixed cost of debt as forecast at the time of the determination (no indexation or risk sharing).

b) Indexation of cost of new debt only.

c) Full indexation of cost of debt.

4.61 We assessed that approach a) would provide Dublin Airport with a strong incentive to manage its debt costs but Users would not share the costs/benefits of changes in the cost of new debt, b) would provide a stronger incentive to manage the cost of embedded debt than full indexation, but weaker incentive to manage the cost of new debt compared to the fixed allowance and allocated the forecast risk of the cost of new debt to Users, while c) would provide Dublin Airport with a weak incentive to manage its debt costs, and the forecast risk is allocated to Users which increases the volatility of airport charges. We also noted that a debt indexation approach would generate various practical challenges and potential internal inconsistencies, and ultimately did not adopt it.

4.62 We are currently unconvinced that there is merit in any such additional risk sharing mechanisms beyond those currently in place (which are addressed in the relevant sections below). Our key objectives, aligned with the interests of Users, are overall fair pricing, and generating the correct incentives. We consider that such further mechanisms may lead to a risk of these objectives being lost or occluded in the pursuit of complexity or false precision. In overall terms, our current thinking is to retain the current risk allocation in the 2026 Determination.

4.63 If we were to introduce any such mechanism(s), this would need to be supported by strong evidence (such as a cost-benefit analysis) and a comprehensive proposal. Stakeholders should consider any such proposal holistically; for example, by considering the interaction with other adjustments, and the impact (if any) this would have on risk exposure, and consequently the allowed WACC.

[60] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0317
Variation of up to 2% is fully at the risk of the Air Navigation Service Provider (ANSP). Between 2% and 10%, the ANSP bears 30% of the risk, while airspace users bear 70%. Beyond 10%, airspace users bear the full risk, while this level of variance is also set as the threshold for reopening the existing Performance Plan.

Trade-offs and Interactions Across Building Blocks

4.64 More generally, we ask that stakeholders consider the interactions and trade-offs that exist between Building Blocks when commenting on methodologies. Our intention is to ensure that the regulatory settlement is internally consistent across the Building Blocks. A forecast in one Building Block should be consistent with other Building Blocks, in order to generate a centreline estimate. For example, if we are forecasting passenger numbers to reach a certain level, then the cost forecasts should be sufficient to facilitate this. Similarly, commercial forecasts require appropriate operating and capital costs. Equally, if a capital project is expected to lead to significant Opex savings and/or generate additional revenues, this should be reflected in the relevant forecasts.

4.65 When we set the cost of capital, we assess the risk held by the regulated entity and estimate an appropriate return. Changes to risk allocation in other Building Blocks could change the underlying risk profile of the regulated entity and thereby influence the cost of capital. It can be difficult to quantify the extent of such changes, however, and even when the change can be quantified, it can be offset by changes elsewhere, and the impact on the cost of capital might be immaterial in some cases.

Timeline and Consultation

4.66 In March 2025, we published a consultation outlining our proposed timeline for the 2026 Determination. The purpose of the timeline consultation was to give stakeholders an indication of our initial plans for the 2026 Determination, and provide an opportunity to make submissions in relation to the timeline. We proposed to publish the Draft Determination in June 2026 and the Final Determination by the end of November 2026. We received responses from Aer Lingus (with support from IAG), Dublin Airport, and Ryanair.

Earlier publication of the Draft and Final Determinations

4.67 Aer Lingus, Dublin Airport and Ryanair all request earlier publication of both the Draft and Final Determinations. Ryanair requests a May and September target for the Draft and Final Determinations respectively, while Dublin Airport proposes April and September 2026. Aer Lingus refers to previous determinations, which have been made in October. The responses suggest that publishing in November could impact Dublin Airport's ability to conduct the 2027 annual charges consultation, in compliance with the notice period required by the ACD.

4.68 Aer Lingus expresses concern that insufficient time between the Final Determination and the implementation date for associated new Airport Charges by Dublin Airport (likely March 2027) would impact on User's abilities to assess the implications for ticket pricing. Ryanair also makes the point that most airlines will finalise their schedules and put the majority of their capacity for the Summer 2027 season on sale before November 2026. Ryanair states that if the planned November publication was delayed, this would cause a knock-on delay to Dublin Airport's 2027 annual charges consultation which would ultimately limit Users' ability to adjust capacity in response.

Publication of an 'Issues Paper Conclusions' document

4.69 Dublin Airport requests that we publish a summary document at the end of 2025, to conclude on submissions received from stakeholders in response to the Issues Paper.

Other

4.70 Dublin Airport also raises additional points not related to the timeline. In short, Dublin Airport

asks the IAA to:

- Review the current regulatory model
- Re-examine the single-till structure
- Conduct a Market Power Assessment
- Set a regulatory period longer than 5 years
- Consider environmental modulations as part of the Issues Paper

4.71 Dublin Airport also suggests that it, and Users, should jointly appoint an 'Independent Reporter' in respect of the Dublin Airport-led consultation phase. The IR would attend and report on each phase of stakeholder engagement.

IAA Response

4.72 We acknowledge the concerns raised in relation to the window that would be available to Dublin Airport for consultation on the 2027 annual charges consultation should the Final Determination be made in November. There is a trade-off, however, between that consideration, and ensuring that the determination takes account of the most up-to-date information and data. We will aim to publish the Draft Determination in May 2026 and make the Final Determination by the end of October 2026. We reiterate that this timeline should not be considered as set in stone, and may need to be adjusted depending on the circumstances pertaining at the relevant times, including whether timely and complete submissions have been received from Dublin Airport. To facilitate this timeline, Dublin Airport will now need to submit its Regulatory Proposition and Capital Investment Programme by early February 2026, rather than by the end of February as per our original proposal.

4.73 We have included the publication of an 'Issues Paper Conclusions' document in the timeline below. We acknowledge that decisions on some of the broader points which are addressed in this paper will be required in advance of the preparation/finalisation of the Regulatory Proposition, such as in relation to the length of the regulatory period.

Chart 4.8: Planned Timeline for the 2026 Determination

Source: IAA

4.74 In respect of the other submissions from Dublin Airport, we have set out above why we consider that the single till approach is best aligned with our Statutory Objectives. The 2026 Determination process is already ongoing; if Dublin Airport wishes to make a detailed proposal to amend the till structure, it should do so early in the next regulatory period (e.g. in 2027).

4.75 Similarly, there is insufficient time now to consider conducting another Market Power

Assessment (MPA) process ahead of the 2026 Determination, where the process to make that determination is already ongoing. This will, in fact, be the first new determination made under the revised legislation as recommended on foot of the previous MPA in any case.

4.76 We have considered the question of the length of the determination period above, where we note that our current thinking is that the 2026 Determination should last for a 5-year period. Insofar as relevant, the topic of environmental modulations is covered in the Section 12.

4.77 Any appointment of an 'Independent Reporter' to facilitate or report on the Dublin Airport-led consultations is a matter for Dublin Airport and the airlines. Should Dublin Airport and the airlines proceed to appoint a reporter, we will consider any consultation reports he/she submits, together with all other submissions. In any case, the IAA will attend these consultation meetings.

Approach to consultation

4.78 Parties should ensure to meet the specified consultation deadlines. We are unlikely to be in a position to allow any extensions to the stated deadlines, particularly in the case of a statutory consultation period.

4.79 Respondents should take care to provide internally consistent and accurate submissions and avoid changes in positions over time (whether within the 2026 Determination process, or previous submissions) without an objective basis or adequate explanation. Failure to do so may lead to the IAA placing reduced weight on the submission. We encourage stakeholders to interact with each phase of the determination process, providing reasoned and constructive responses to help inform the 2026 Determination. We will carefully consider all submissions, and explain how they have informed the determination and why or why not.

Consultation questions

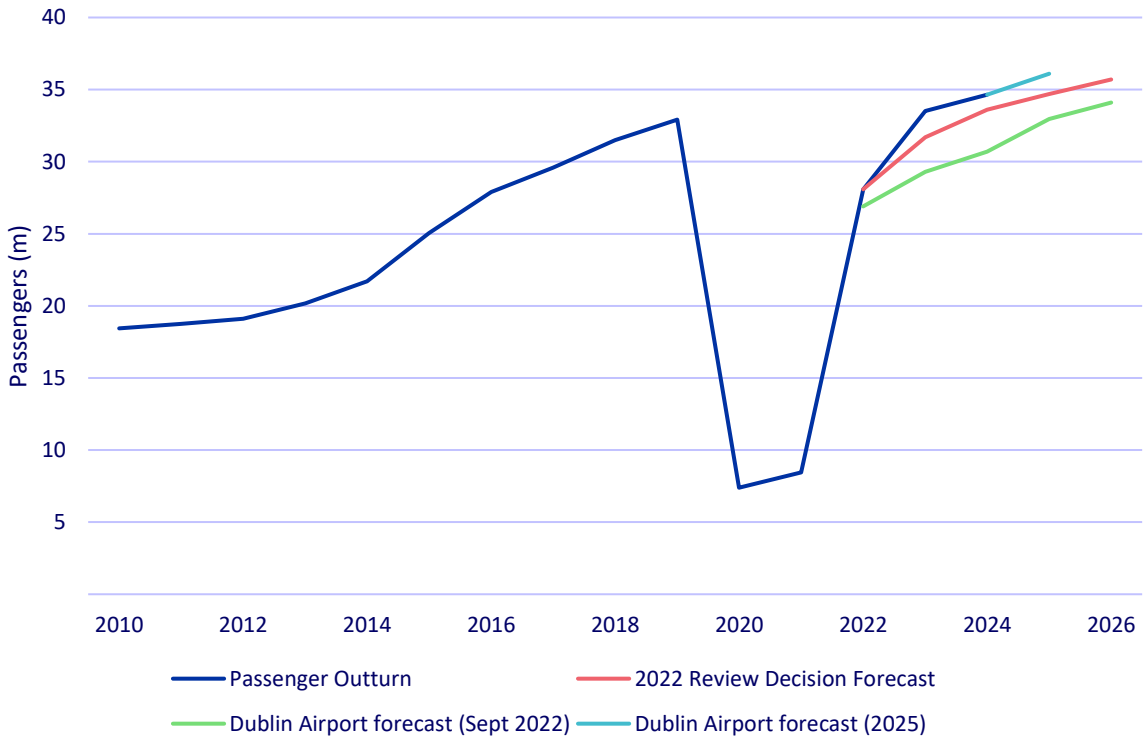
- Do you agree that we should continue to use the Building Blocks approach based on a 'challenging but achievable' forecasting standard?
- Do you agree that the determination should again take the form of a single maximum permitted average charge per passenger in each year of the regulatory period?
- Do you agree that a 5-year determination period continues to strike an appropriate balance? If proposing an alternative period, you should look to show how an alternative period would better align with our Statutory Objectives.
- Do you agree with our high-level thinking to continue the existing approach to allocation of risk into the 2026 Determination? If not, what changes should we make and why?
- Do you think that there is merit in Dublin Airport, and airlines, jointly appointing an Independent Reporter to report on the Dublin Airport-led consultation process?

5. Passenger Forecasts

5.1 The Passenger Forecast is a key Building Block in a determination, as it is the denominator in the price cap calculation, and also typically an important driver of other Building Block forecasts. In this section, we first outline the approach taken in the Original 2019 Determination, and in the 2022 Review Decision. We address key questions that we have identified, as well as potential approaches, in respect of forecasting passenger numbers at Dublin Airport for the 2026 Determination.

5.2 Chart 5.1 shows the outturn level of passenger traffic over the period 2010-2024, relative to the 2022 Review Decision forecast and Dublin Airport's traffic forecast which it submitted to us in September 2022. Actual traffic in 2023 and 2024 has somewhat exceeded the IAA forecast (red), and far exceeded the Dublin Airport forecast. Dublin Airport now expects total airport passenger traffic to reach 36.1 million in 2025.

Chart 5.1: Outturn traffic 2010-2024, forecasts for 2022-2026



Source: 2022 Interim Determination, Dublin Airport response to 2022 Draft Decision, Dublin Airport regulatory accounts.

Approach of the Original 2019 Determination and 2022 Review Decision

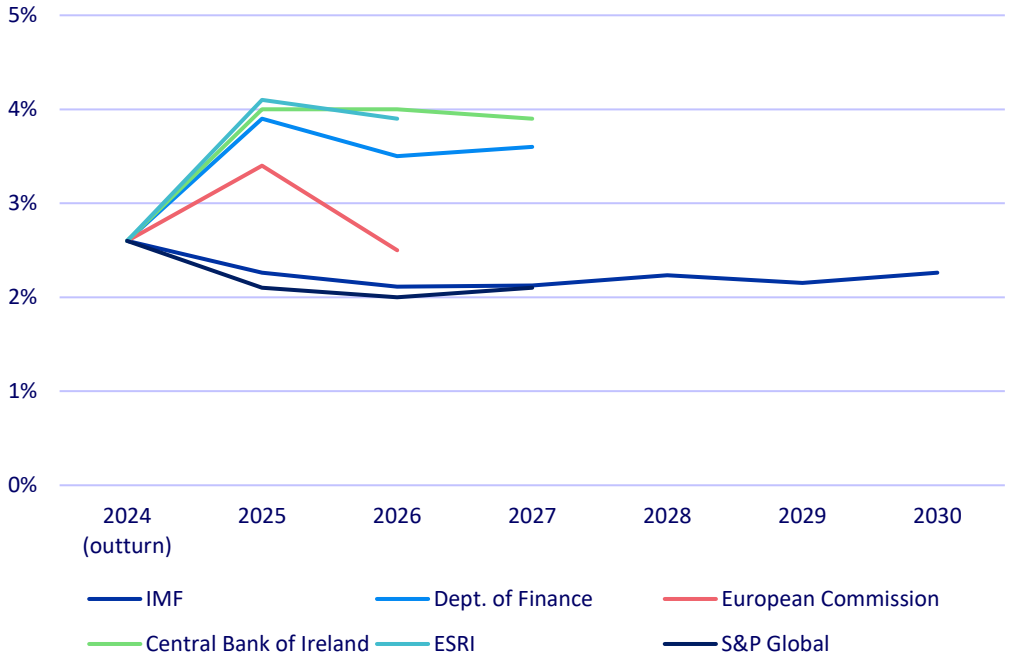
Original 2019 Determination

5.3 The 2009 and 2014 determinations, and the Original 2019 Determination, all used a simple causal forecast to estimate passenger traffic volumes, based on a single explanatory variable (changes in Irish GDP) and time-series trends. In 2019, we used annual data from 1997-2018 to estimate the GDP elasticity of passenger traffic at Dublin Airport, and then forecast passenger growth for 2020-2024 based on forecast growth in Irish GDP. We noted the simplicity and transparency of this approach, and the relatively limited evidence that the more complex or granular forecasting models would actually or systematically produce better forecasts, particularly for the medium or longer term.

5.4 To estimate the passenger elasticity with respect to Irish GDP, we estimated a log-log regression model, using annual GDP data from the CSO and outturn passenger numbers.[61] This generated an elasticity of 1.01 between passenger numbers and Irish GDP. To estimate future passenger growth rates, we multiplied the elasticity of 1.01 by the IMF's Irish GDP forecast for each year of the regulatory period. We used the estimated growth rates to project 2020-2024 passenger numbers from a 2019 baseline, which we estimated based on partial-year actual data combined with a forecast for the rest of 2019.

5.5 This approach is dependent on the GDP forecasts available at the time of the determination. A key advantage of using the IMF forecasts is that, as illustrated below, the IMF produces long-term forecasts, unlike other sources which do not forecast beyond the next 3 years. It is notable how divergent these contemporaneously estimated GDP forecasts are in the short term. Five of the six forecasts below date from Q4 2024, with the IMF forecast being slightly earlier, from September 2024.

Chart 5.2: Real Irish GDP growth forecasts



Source: IMF, ECB, EC, ESRI, DFin, CBI, S&P Global

5.6 In 2019, we forecast that passenger numbers would grow from 34m in 2020 to 38.1m in 2024. However, due to the impact of the Covid-19 pandemic, annual passenger numbers at Dublin Airport fell below 10m for both 2020 and 2021, before recovering rapidly in 2022 and 2023.

2022 Review Decision

5.7 For the 2022 Review Decision, we considered that this same approach could not be repeated, given the severed link between passenger traffic and GDP growth as a result of the pandemic. However, we took the view that the severed relationship would be temporary, and we expected that the historical relationship would reassert itself once full recovery of traffic levels had been achieved.

[61] Considered by both ICAO and ACI to be an appropriate methodology.
https://www.icao.int/MID/Documents/2014/Aviation%20Data%20Analyses%20Seminar/8991_Forecasting_en.pdf
https://store.aci.aero/wp-content/uploads/2018/05/ACI_Guide_to_World_Airport_Traffic_Forecasts_2016-2-1.pdf

5.8 In estimating a traffic baseline for 2022, we took account of the latest airline schedules at Dublin Airport, year-to-date actual traffic and load factors, airline intelligence, and various forecasts including the EUROCONTROL Terminal Navigation Service Unit (TNSU) aircraft movement forecast. We also derived a forecast for total operated seat capacity in 2023, based on slot demand patterns at initial coordination relative to previous seasons, and from that derived a passenger forecast for 2023 based on load factor forecasts.

5.9 The projections for 2023 and 2024 were ultimately based on the respective EUROCONTROL 'base' scenario TNSU forecasts, and an assumption of load factors reverting to 2019 levels. We thus forecast passenger traffic to reach 96% of the 2019 level in 2023 (31.7m) and 102% of the 2019 level in 2024 (33.6m). For 2025 and 2026, we reverted to the approach followed in the 2019 Determination (and prior to that), modelling passenger traffic growth as a function of Irish GDP. We also noted that if we used the EUROCONTROL base TNSU scenario and 2019 load factor approach, this would yield similar passenger numbers to the econometric approach for 2025 and 2026.

5.10 Table 5.1 below shows that traffic rebounded strongly to outperform the IAA forecasts in both 2023 and 2024. We note that, while we decided not to use directly our 2023 forecast based on slot demand, as a result of taking account of various downside risks and uncertainties, the slot demand-based forecast (33.6m) ultimately proved most accurate for 2023.

Table 5.1: Passenger forecasts and outturn 2023-2024, millions

Forecast	2023	2024
Passenger Outturn	33.5	34.6
Original 2019 Determination	37.1	38.1
2022 Review Decision	31.7	33.6
Dublin Airport (September 2022)	29.3	30.7

Source: 2019 Determination, 2022 Interim Determination, daa regulatory accounts

5.11 Annual passenger numbers at Dublin Airport grew by 19.4% in 2023 and a further 3.4% in 2024. Our forecast had estimated growth rates of 13% and 6% in 2023 and 2024 respectively. Outturn passenger numbers between 2022-2024 respectively reached 85%, 102% and 105% of the 2019 level.

Methodologies

Possible options

5.12 In response to submissions on the 2019 Draft Determination, we considered a range of alternative passenger forecast methodologies. Those included:

- Including dummy variables in the log-log regression: Dublin Airport submitted than the Irish-GDP based forecast could be improved by adding dummy variables to correct for the variance between 2006-2009. We concluded that while dummy variables improved the fit for historic data, it would not improve the forecast accuracy as there is no way to predict similar outlier years. For this reason, we did not include dummy variables in the final model.
- Examining the use of a levels regression model rather than a log-log model. We found that both the levels and log-log model estimated similar ranges for Irish GDP.
- Estimating the total passenger forecast based on key regional markets. Using blended GDP of Ireland, Europe, North America and UK yielded higher passenger numbers under both linear and log-log models. For the regressions by market, we estimated elasticities for seven markets,

representing 94% of total passengers in 2018- including UK, Transatlantic, Eastern and Western Europe. We used a 50/50 blend of Irish GDP and GDP in the relevant market. The log-log regression by market approach led to a higher total traffic forecast than levels regression by market, which estimated similar levels to our Irish GDP model.

- Dublin Airport also suggested an approach based on stand/runway capacity. Using historic data, we concluded that passenger growth above the limitations of the suggested capacity model had been achieved due to different combinations of increased slot utilisation, load factors and slot capacity. We concluded that this approach was simplistic and excessively conservative in estimating passenger numbers.

5.13 As noted above, in 2009, 2014, and 2019 we forecast passenger numbers using a simple causal model based on a single explanatory variable (changes in Irish GDP) and time-series trends. The positive relationship between per capita income and the propensity to travel has been shown by empirical data in many European countries. However, given the effect of the pandemic, 2022 saw passenger numbers almost triple year-on-year. While GDP growth was positive year-on-year also, it did not, of course, grow in line with the rate of passenger growth from 2021 to 2022. In 2023 when passenger numbers continued to grow, GDP decreased relative to 2022. As per our assumption in the 2022 Review Decision, there appears to be some re-stabilising of the relationship in 2024.

Chart 5.3: Growth in Irish GDP and passenger numbers at Dublin Airport, 2019-2024

Source: IMF, cso.ie, Dublin Airport, IAA Calculations

5.14 If we were to again follow the approach used prior to 2022, and use Irish GDP as the single explanatory variable, our estimation of the GDP elasticity could include dummy variables for the years impacted by the pandemic. Alternatively, we could exclude that period entirely. As referenced above, the use of dummy variables would not account for possible future shocks, although, in the event of such a major downside shock being repeated, we would likely need to review and amend the determination in any case, which is a distinguishing feature of the pandemic period relative to the period 2006-2009. Further, it may not yet be fully clear whether the relationship between GDP and passenger numbers will re-establish itself in the manner in which it was observed prior to the pandemic.

5.15 As reflected in Chart 5.2 above, the table below summarises recent forecasts of Irish GDP. In each case, it is forecast to grow at a slightly lower (or equal) rate in 2026 than 2025. The IMF forecast, which is the only available long-term forecast, shows slow but consistent real GDP

growth from 2026 up to 2030. The Department of Finance, the Central Bank of Ireland and the ESRI all forecast higher GDP growth for the next three years relative to the IMF forecast. S&P Global forecast more conservative levels of growth for Ireland over the next two to three years. If we continue to use Irish GDP as an input to the passenger forecasts, we will consider the most up to date GDP forecast(s) available ahead of the Final Determination.

Table 5.2: Irish Real GDP forecasts 2025-2030

Source	Publication	2025	2026	2027	2028	2029	2030
IMF	April 2025 Economic Outlook	2.26%	2.11%	2.13%	2.23%	2.15%	2.26%
Dept. of Finance	Stability Programme update 2024	3.9%	3.5%	3.6%			
European Commission	Economic forecast for Ireland - European Commission	3.4%	2.5%				
Central Bank of Ireland	QB1 2025	4%	4%	3.9%			
ESRI	Quarterly economic commentary Spring 25	4.1%	3.9%				
S&P Global	November 2024 Republic of Ireland Economic Outlook	2.1%	2%	2.1%			

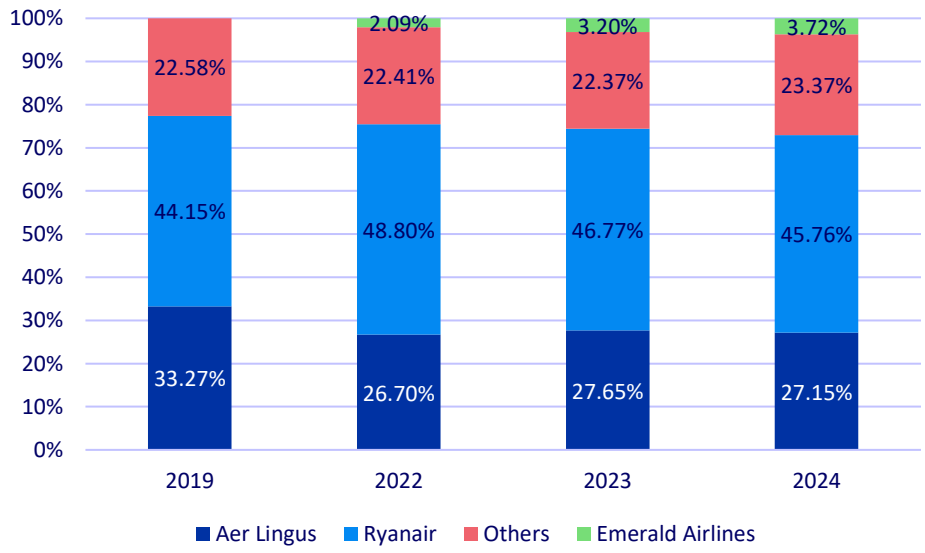
Source: IMF, ECB, EC, DFin, CBI, ESRI, S&P

5.16 As discussed in 2022, we could also consider a multivariate causal forecast which would account for other factors likely to drive passenger traffic. If we were to proceed with this approach, we would have to consider what additional variables to include and whether reliable data and forecasts on such sources is available.

Overall or disaggregated forecast

5.17 Charts 5.4 and 5.5 below show the composition of traffic at Dublin Airport by airline and by region, pre-pandemic (2019) and then over 2022-2024.

Chart 5.4: Share of traffic by airline, 2019 and 2022-2024



Source: Dublin Airport, IAA Calculations

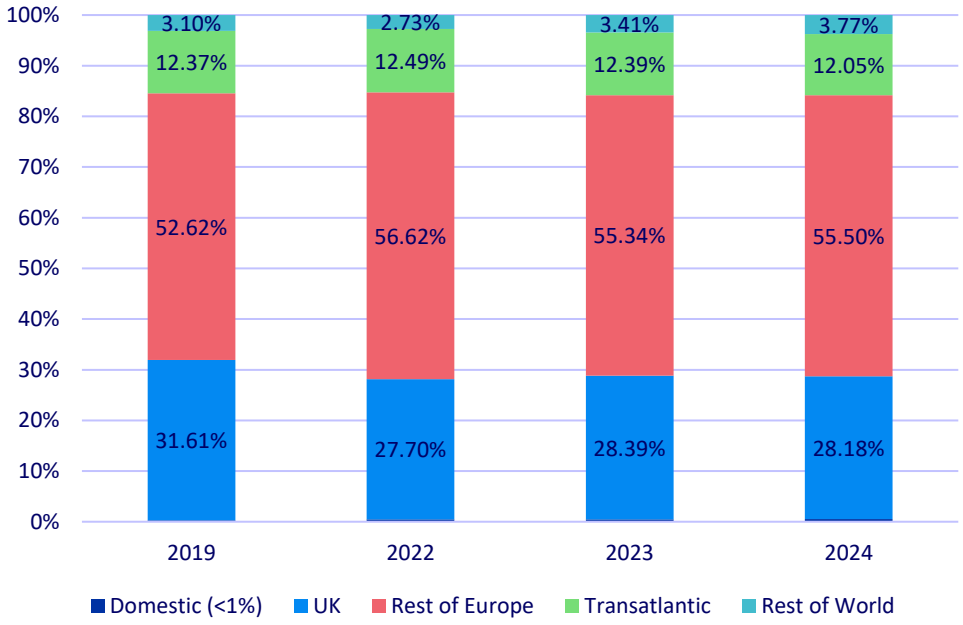
5.18 Ryanair carried 44% of passengers in 2019, and then recovered more quickly from the pandemic than others, carrying almost half of passengers in 2022. Since then, it has been trending back towards its 2019 share as other airlines recovered, although in 2024 it retained slightly more than its pre-pandemic share. As of 2024, Aer Lingus' share remains somewhat behind its pre-pandemic position, although it should be noted that the 2019

figure included Stobart. This is also linked to an increase in the share of airlines other than Ryanair and Aer Lingus.

5.19 In total terms, relative to 2019, total passengers carried by Ryanair in 2024 increased by 9%, while the number of passengers travelling with airlines other than Ryanair and Aer Lingus has increased significantly. The trend is reflective of increased competition at Dublin Airport from airlines such as JetBlue, Delta, American Airlines and KLM.

5.20 Chart 5.5 shows the breakdown of passenger traffic by region for the years 2019, 2022, 2023 and 2024. Notably, the UK traffic share has fallen relative to pre-pandemic, with volumes still below 2019 levels. Total passengers in 2023 were approximately 0.61m above the 2019 level. The share of transatlantic traffic has remained broadly constant, while the 'Rest of Europe' and 'Rest of World' (which includes, in particular, destinations in the middle east and Asia) shares have increased.

Chart 5.5: Composition of traffic by Region 2019-2024



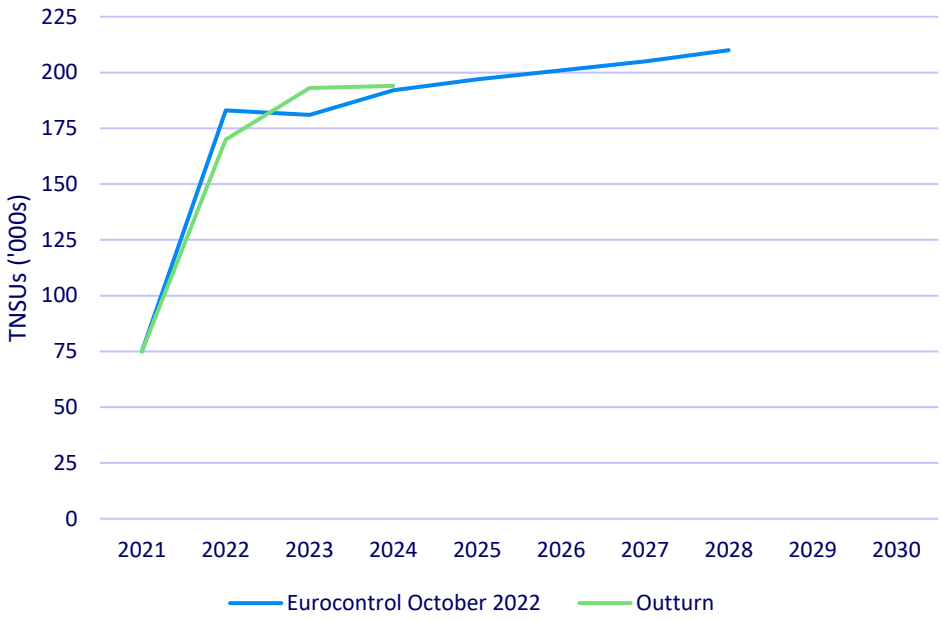
Source: Dublin Airport

5.21 In previous determinations, we have raised the possibility of disaggregating the traffic forecast into different categories of passengers, and done so as a sensitivity in certain instances. To date, we have not seen compelling evidence to support moving away from an overall passenger forecast.

EUROCONTROL Traffic forecasts, and Load Factors

5.22 As mentioned above, in estimating the passenger forecast in the 2022 Review Decision, we made use of the Autumn 2022 EUROCONTROL 'Base' TNSU forecast, together with load factor forecasts. As evidenced in the chart below, while 2023 TNSUs exceeded the forecast levels by almost 7%, outturn 2024 TNSUs were just 1% above forecast.

Chart 5.6: EUROCONTROL TNSU Forecast vs Outturn



Source: EUROCONTROL

5.23 We combined the EUROCONTROL aircraft movement forecast with the 2019 annual average load factor of 84% to estimate the traffic forecast. Table 5.3 below shows that load factors in 2023 were behind 2019, but in 2024 load factors recovered to slightly exceed the 2019 level. In Winter 2024 specifically, load factors increased by 3% year on year, which is likely linked to the seat cap coordination parameter in effect for that season only, to take account of the 32mppa Conditions (as addressed below).

Table 5.3: Annual Average load factors at Dublin Airport 2022-2024

	2022	2023	2024
Load factors	78.4%	82.4%	84.7%

Source: Dublin Airport

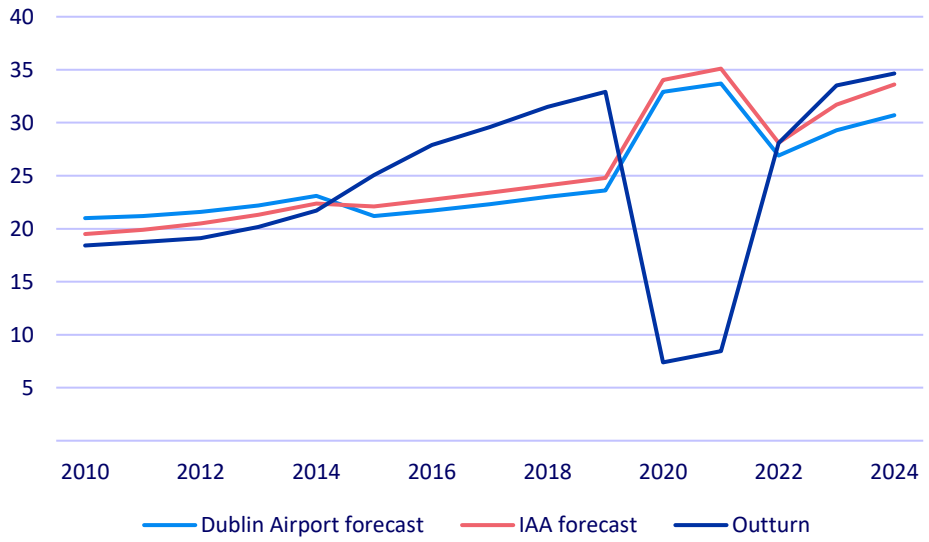
5.24 Consequently, the outperformance of our forecast in 2023 was driven by more aircraft/seat capacity at Dublin, which was partly offset by lower load factors. In 2024, the small degree of outperformance was driven by both seat capacity and load factors being slightly ahead of our assumptions.

Further Considerations

Dublin Airport forecasting

5.25 Dublin Airport will estimate its own passenger forecast, which will underpin the other aspects of its Regulatory Proposition, including its proposed Capital Investment Programme (CIP27). We expect that Dublin Airport will consult Users on its passenger forecast, and the relevant methodologies behind the forecast, during its own consultation phase which is set to begin later this year. We expect that other stakeholders may also submit their own forecasts, and/or comment on or refer to the forecasts of others.

Chart 5.7: IAA and Dublin Airport passenger forecast and outturns, 2010-2024



Source: Regulatory accounts, Dublin Airport forecasts, 2009 Determination, 2014 Determination, 2019 Determination, 2022 Review Decision

Forecasts for 2020-2021 relate to the Original 2019 Determination, forecasts for 2022-2024 relate to the 2022 Review Decision.

5.26 As stated above, we will give due consideration to stakeholder forecasts when finalising our own. However, as reflected in the difference between Dublin Airport's forecast and outturn passengers in Chart 5.7, we must be cautious of the various incentives facing stakeholders when submitting traffic forecasts. For example, Dublin Airport may be minded to again understate expected traffic growth, which may put upward pressure on the price caps, all else being equal. Airlines, on the other hand, may seek high forecasts to reduce the per passenger cap, but may also want reduced cost allowances, arguing against further expenditure on the grounds of lower passenger forecasts.

5.27 It is likely that we will again develop our own independent forecasts, while using Dublin Airport's forecasts (and any other forecast submitted to us) as an input and/or relevant consideration. We note this is somewhat consistent with the approach now decided on by the UK CAA in its H8 Method statement, where it confirms the development of independent traffic forecasts, which the UK CAA has said will be estimated having regard to joint traffic forecasts submitted to it by HAL and the airlines. This approach is different from the UK CAA's approach in H7 which used HAL's own forecasting models as a basis for the final traffic forecast.[62]

Potential Operating Restrictions

5.28 The IAA is responsible for declaring coordination parameters (i.e. slot capacity) at coordinated Irish airports pursuant to Article 6 of the Slot Regulation EC 95/93. Dublin Airport is currently the only Irish coordinated airport. The coordination parameters are to be determined taking account of relevant technical, operational and environmental constraints as well as any changes thereto. In that regard, constraints related to planning conditions attached to certain developments at Dublin Airport have generated uncertainty in respect of traffic growth at Dublin Airport in recent years.

[62] Economic regulation of Heathrow Airport Limited: H7 Initial Proposals - Section 1: Overall approach and building blocks

32mppa Conditions

5.29 Condition 3 of the 2007 planning permission for the construction of Terminal 2 states that *'The combined capacity of Terminal 2 as permitted together with Terminal 1 shall not exceed 32 million passengers per annum'*. This restriction was then re-stated as a condition of a Terminal 1 extension permission in 2008 (collectively known as the '32mppa Conditions').[63]

5.30 As part of the Winter 2024 decision on the coordination parameters at Dublin Airport, we identified the 32mppa Conditions as a relevant constraint under the Slot Regulation for that season. We thus included a seasonal seat-cap-based parameter for terminals 1 and 2, estimated so as to align with an annualised combined capacity limit of 32mppa. We followed a similar approach in determining the coordination parameters for Summer 2025. These decisions were subject to various judicial review challenges from various airlines and daa.

5.31 A number of airlines subsequently sought and were granted a stay on the operation of the seat cap coordination parameter for Summer 2025. In December 2024, the High Court then decided to refer three questions to the Court of Justice of the European Union, on the basis that it would not be possible to resolve proceedings without a ruling on various questions of interpretation and application in relation to the Slot Regulation.

5.32 Ahead of the subsequent determination of the Winter 2025 coordination parameters, Ryanair sought an order from the court to the effect that, pending the delivery of the CJEU ruling on the questions referred and the determination of the proceedings by the High Court, the IAA should not take account of the 32mppa Conditions in setting coordination parameters. The proposal was supported by the other airlines involved, but opposed by daa. The High Court granted the order sought, and consequently no such coordination parameter has been included for Winter 2025.

5.33 The 32mppa Conditions have become increasingly relevant given the significant growth in traffic following the Covid-19 pandemic as illustrated in the charts above.[64] While total passenger numbers at Dublin Airport in 2023 exceeded 32 million (33.5m), the Terminal Count of passengers was just below 32 million (31.9m).[65] In 2024, 33.3 million passengers passed through Terminals 1 and 2. There is dispute as to whether the 32mppa Conditions relate to the Aviation Count, i.e. the entire airport, or only to Terminals 1 and 2 as per their wording (the 'Terminal Count').

North Runway conditions

5.34 Two conditions attached to the planning permission granted for the North Runway at Dublin Airport in 2007 related to nighttime operations at Dublin Airport. Condition 3(d) of the 2007 planning permission stated that the North Runway cannot be used for landings or take-offs between 11pm and 7am, whilst Condition 5 of the same planning approval placed a 65-movement cap right across the airfield, within the same 11pm to 7am period.[66] In 2022, Fingal County Council (FCC) granted permission for a Relevant Action[67], adopting the Regulatory Decision made by the Airport Noise Competent Authority which amended Conditions 3 and 5 as follows:

[63] Microsoft Word - D220670.DOC
[64] Passenger numbers quoted refer to total annual passenger passing through Dublin Airport: 'Aviation Count'
[65] Almost 32 Million Through Dublin Airport's Terminals In 2023
[66] Microsoft Word - D217429.DOC
[67] Within the meaning of the Aircraft Noise (Dublin Airport) Act, 2019.

- Condition 5 was revoked and replaced by a Noise Quota Count (NQC) scheme. This is an annual night noise 'budget', in which each aircraft movement will use a proportion of the budget based on its noise output.
- Condition 3(d) was amended such that it applies from 0000 to 0559 (local time), rather than 2300 to 0700 as originally specified in 2007.

5.35 FCC's decision was appealed to An Bórd Pleanála (ABP) in 2022. A decision has very recently been issued.[68] ABP has confirmed the decisions of FCC in the above regards, but has also imposed a new Operating Restriction in the form of a limit of 35,672 annual movements between 2300 and 0700. Further work would be required to understand the implications of the decision in terms of a potential constraint on traffic growth. It remains to be seen whether any party seeks to challenge this decision. Further, it will be subject to review by the European Commission as to whether it complies with Regulation 598/2014.[69]

Impact on the 2026 passenger forecasting approach

5.36 Thus, there is a degree of uncertainty around these planning conditions. That uncertainty may or may not subsist by the time we make the Draft Determination and/or Final Determination. The extent to which they ought to impact the 2026 Determination will depend on the status of the conditions at the time of the Final Determination.

5.37 There is also uncertainty over the potential for operational and/or infrastructural constraints to weigh materially on traffic growth at some point, given the delays being experienced with delivering the Infrastructure Application. Equally, as we showed in the Original 2019 Determination, annual traffic may continue to grow notwithstanding some constraints, due to increases in off-peak utilisation, increases in general slot utilisation, targeted slot capacity increases, and increased load factors. In 2019, there were significant runway capacity constraints on demand across most of the operational day, which have largely been alleviated as a result of the delivery of the North Runway. Nonetheless, we concluded in the Original 2019 Determination that a demand-led forecast remained appropriate.

5.38 The IAA's intention is to ensure that all elements of the building blocks are internally consistent. In the case of estimating passenger numbers, if our forecasting methodology were to take account of capacity restrictions, such as planning conditions, this would also be reflected in the allowances we set for capital and operating expenditure.

Proposed Approach

5.39 Our proposed approach is to assess all of the forecasts and evidence available to us. We will consider all forecasts submitted to us by stakeholders, and potentially also EUROCONTROL terminal traffic forecasts, slot filings, load factors, and GDP projections, before deciding on the weight to be attached to all of this evidence with a view to generating a reasonable centreline forecast to underpin the price control. This would likely include publicly available forecasts from sources such as ACI, IATA and EUROCONTROL but also any forecasts that airlines operating at Dublin Airport are willing to share with us.

5.40 Historically, we have seen that a simple and transparent forecast, developed by an entity which is unbiased in that it has no incentive to either overstate or understate the forecast, often performs as well if not better than a more complex forecast. Complex causal or judgement-based forecasts with multiple inputs often rely on more assumptions or forecasts which can introduce more uncertainty to the forecasts. That is, even if additional or more

[68] Notice of Decision ABP-314485-22 | An Coimisiún Pleanála -
[69] https://eur-lex.europa.eu/eli/reg/2014/598/oj/eng

granular causal factors are validly identified and included, uncertainty in relation to the forecast evolution of those factors themselves necessarily feeds through to the traffic forecast. The additional complexity associated with such models may also come at the cost of transparency.

5.41 We welcome all opinions and feedback on potential forecast methodologies, factors to consider, and appropriate causal drivers. We also remain open to considering alternative options that we may have overlooked in this overview.

Consultation questions

- Do you agree with our overall proposed approach? If not, in what respect(s)?
- What data sources/traffic forecasts do you consider relevant to our projections?
- For any GDP (or related metrics) based models, should we continue to rely solely on IMF forecasts, or use a blend or midpoint of different forecasts?
- How should we address the pandemic period within any GDP based modelling? What time period should we consider to be the 'pandemic period' for that purpose?
- If we were to estimate a multivariate causal forecast, what explanatory variables would be important to include?
- Should we consider using a more disaggregated passenger forecast?
- Do you have any views in relation to the other approaches we used in 2022, in particular the use of the EUROCONTROL forecast together with load factor assumptions, or the slot demand based forecast?
- How should we take account of any Operating Restrictions and/or any potential capacity constraints on a demand-led forecast?

6. Operating Expenditure

6.1 In this section, we explore the key issues relating to the Operating Expenditure ('Opex') forecasts for the 2026 Determination. We provide an overview of Dublin Airport's outturn performance relative to the assumptions and forecasts included in the 2022 Review Decision. We also present some potential approaches for estimating the forecasts and discuss other key issues of interest for the 2026 Determination.

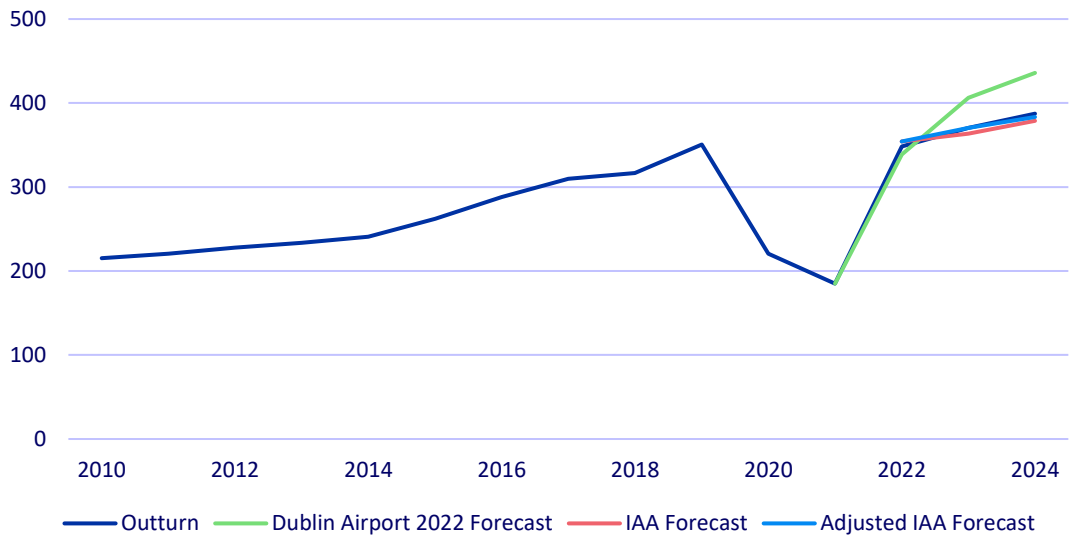
Forecasts and Outturns

6.2 Alongside a rebound in passenger numbers, total Opex rose sharply to €348m in 2022, just €3m below the 2019 pre-pandemic level. Outturn Opex continued to increase in 2023 and 2024, reaching €370m and €387m respectively, €7m and €9m above the IAA forecast respectively.[70]

6.3 As outlined in previous sections, this is primarily related to passenger numbers exceeding the forecast, to Dublin Airport's overall benefit; by 5.8% in 2023 and 3.1% in 2024. Updating the Opex forecasts based on those outturn passenger numbers (referred to as 'Adjusted IAA Forecast' in all charts below), sees the difference between outturn and forecast Opex reduce to just €0.2m in 2023 and €4m in 2024. This means that, had outturn passenger numbers for 2023 and 2024 been perfectly predicted, the Opex forecast for 2023 would have been €370m, increasing to €383m in 2024.

6.4 Outturn Opex has been significantly below the final Dublin Airport forecast submitted to the IAA in 2022. In 2023, actual Opex was €36m below the Dublin Airport forecast, with the differential widening to €49m in 2024.

Chart 6.1: Total Opex Outturns and Forecasts, €millions



Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

[70] This section assumes consistent treatment of Local Authority Rates across all forecasts and outturns. As set out in the 2019 Determination, these costs are passed through to the price cap rather than the risk being allocated to Dublin Airport. The final Rates bill for 2023 and 2024 remains under appeal. This section assumes the 'high' Rates outcome, in line with Dublin Airport's approach in it's Regulatory Accounts.

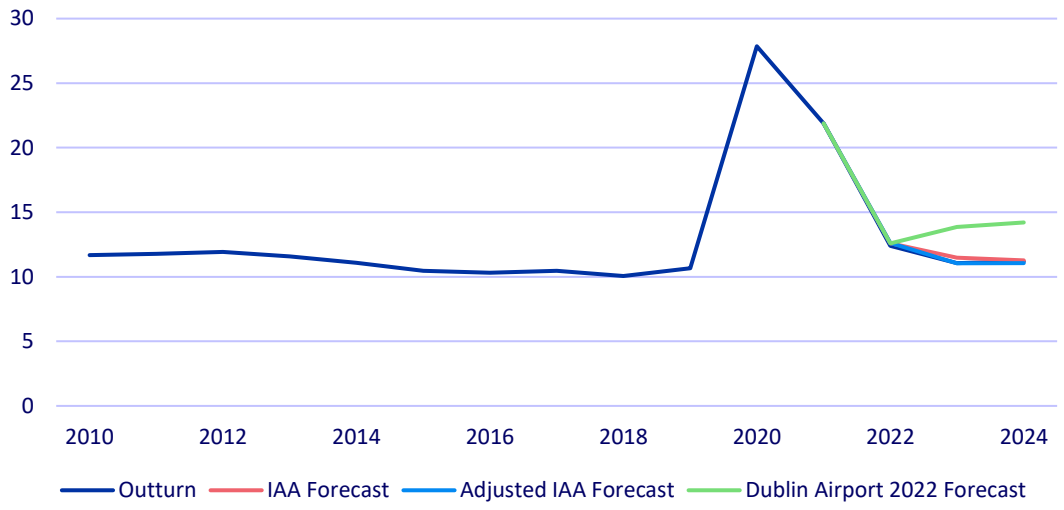
Opex per passenger

6.5 Chart 6.2 compares the outturn and forecast Opex per passenger. Outturn Opex per passenger has trended downward in real terms, from €12.40 in 2022 to €11.18 in 2024. Outturn Opex per passenger was somewhat below the IAA's forecast in 2023, by €0.42, and marginally below in 2024 (€0.09). This is largely a function of higher passenger numbers, offset by slightly higher total Opex.

6.6 When the Opex forecast is updated for the actual passenger numbers, the gap between forecast Opex per passenger and outturn Opex is minimal, with no variance at all in 2023, and outturn €0.12 greater than forecast in 2024.

6.7 Looking to the Dublin Airport forecast Opex per passenger for 2023 and 2024, as submitted to the IAA in 2022, the outturn has been far lower. This is a function of both total Opex being much lower than forecast by Dublin Airport, and passenger traffic being much higher than forecast by Dublin Airport. In 2023, outturn Opex per passenger was €2.81 less than forecast by Dublin Airport, with the deviation increasing to €3.02 in 2024.

Chart 6.2: Total Opex per Passenger Outturns and Forecasts, €



Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

6.8 Thus, at an overall level as an input to the price cap calculation, Opex has tracked very closely in line with our expectations, in particular given outturn passenger volumes. In the discussion which follows, we assess the outturn Opex compared with forecast on a more granular level.

Staff Opex

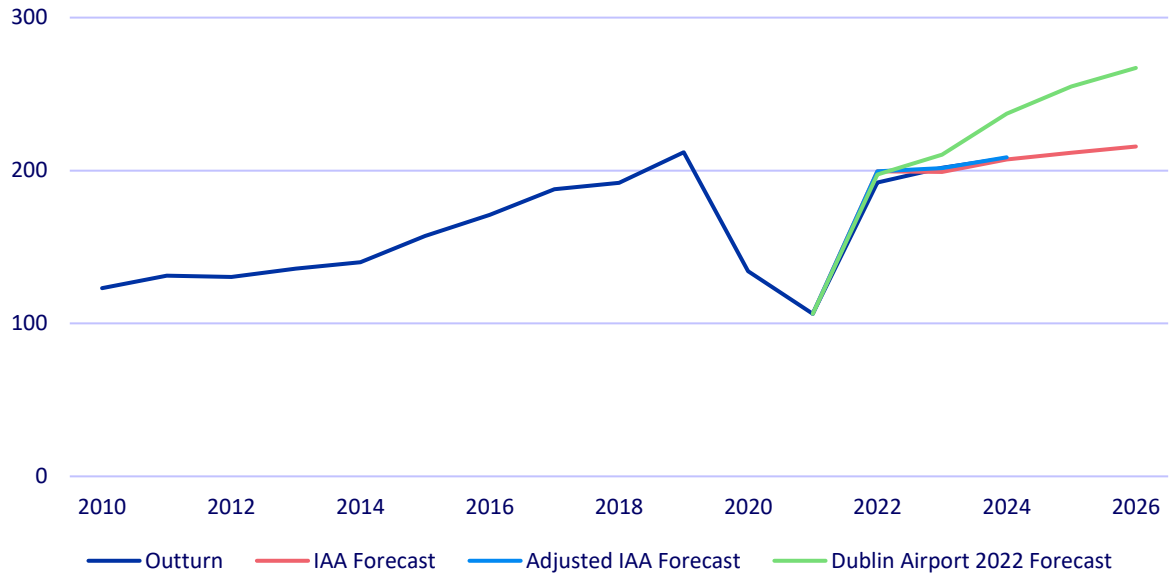
6.9 Outturn Staff Opex in 2022 was €192m, increasing gradually to €208m in 2024. This was close to the 2022 Review Decision forecast, with the outturn greater than forecast by €3m and €1m in 2023 and 2024 respectively.

6.10 Again, updating the Opex forecasts for outturn passenger numbers narrows the gap further, with cost lines which are sensitive to passenger volumes increasing (in particular, security). There is a close match to outturn, i.e. if passenger numbers had been forecast exactly, the differences between Staff Opex outturns and forecast would be minimal, at just €100k above forecast in 2023, and €500k above forecast in 2024.

6.11 Staff Opex has been considerably lower than forecast by Dublin Airport, with the deviation

increasing year-on-year. Outturn was lower by €9m in 2023, and by €29m in 2024, relative to the Dublin Airport forecast.

Chart 6.3: Staff Opex Outturn and Forecasts, € millions

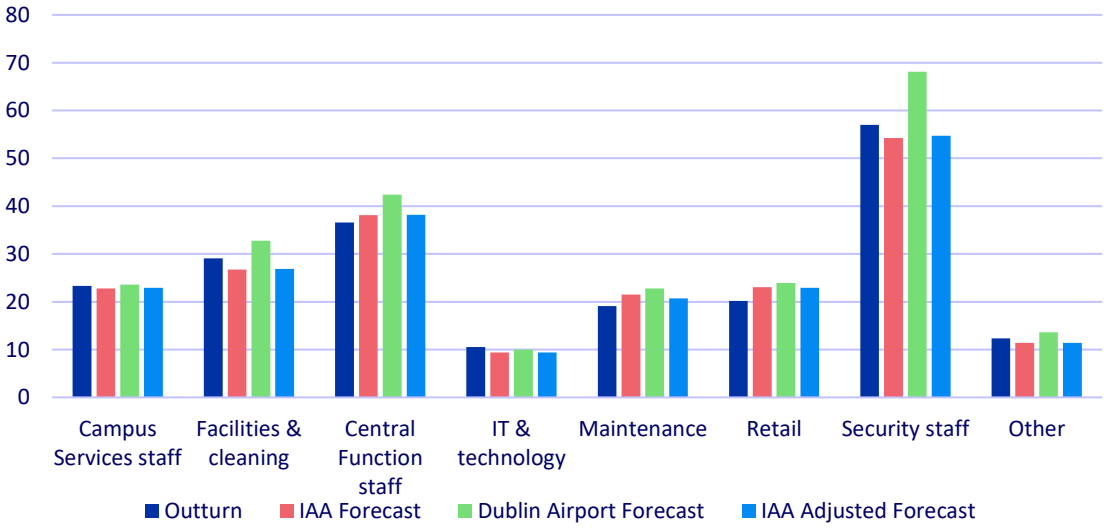


Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

6.12 Next, we review 2024 Staff Opex by category. As reflected below, the overall picture of Staff Opex being in line with forecast does not hide any large variances within categories:

- Central Functions (-€1m), Maintenance (-€3m), and Retail (-€3m) were below forecast.
- Campus Services (+€1m), Facilities & Cleaning (+€2m), IT & Technology (+€1m), Security (+€3m), and Other smaller staff categories (+€1m) were above forecast. When adjusted for outturn passenger numbers, variance decreases, with for example the Security outturn being €2m higher than forecast.

Chart 6.4: 2024 Staff Opex Outturn compared with Forecast, € millions

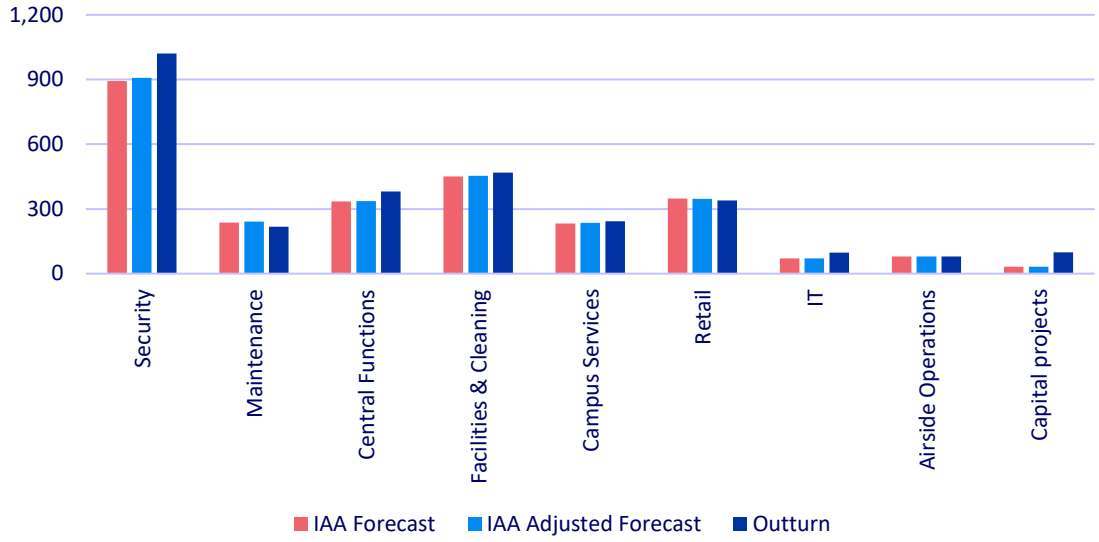


Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

6.13 Chart 6.5 shows 2024 outturn Full Time Equivalents (FTEs) compared to the 2022 Review Decision forecast, in raw terms before adjusting for productivity and unit cost differentials. Notwithstanding total Staff Opex deviating little from forecast, we see a greater degree of

FTE variance. This is driven by increased FTEs in security, central functions, capital projects, IT, and marginally more in facilities & cleaning, offset by fewer FTEs in maintenance and marginally fewer in retail.

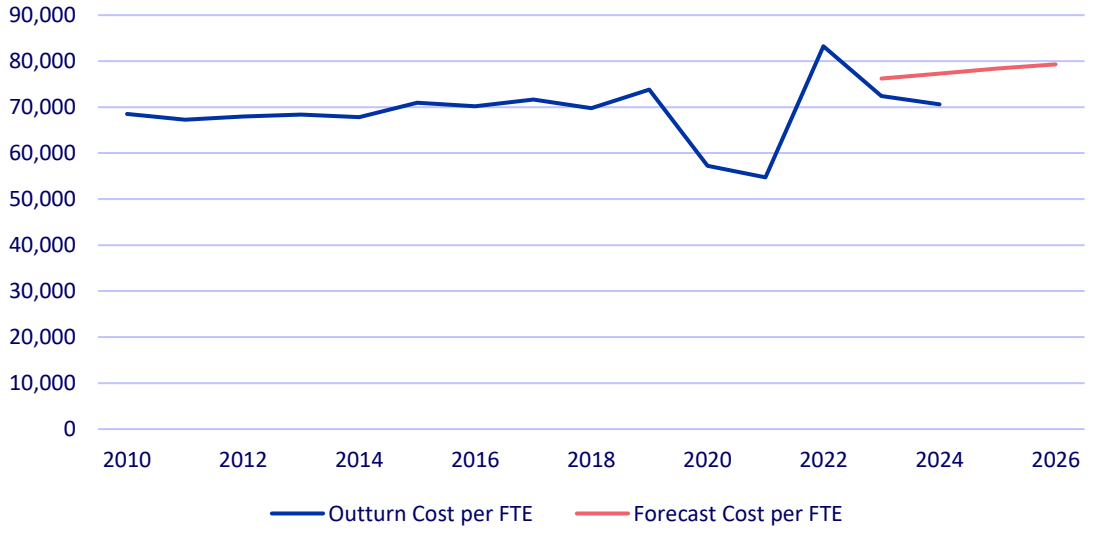
Chart 6.5: Raw FTE Outturn compared with Forecast, 2024



Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

6.14 Higher FTEs not translating to higher staff costs is explained by an offsetting reduction in the actual cost per FTE. In its final report,[71] CEPA/TA outlined that the forecast level of recruitment would put downward pressure on unit costs relative to the 2019 cost baseline (as new staff start on lower points of pay scales), offset by a reduction in productivity relative to 2019 (less experienced staff are also less productive). CEPA/TA forecast that these effects would balance out, so made no adjustment to the 2019 baseline either in terms of productivity or unit costs. Hence, the FTE forecasts outlined above are in 2019 productivity terms. In both 2023 and 2024, actual cost per FTE was indeed below forecast, by €3,800 and €6,700 respectively.

Chart 6.6: Cost per FTE, €



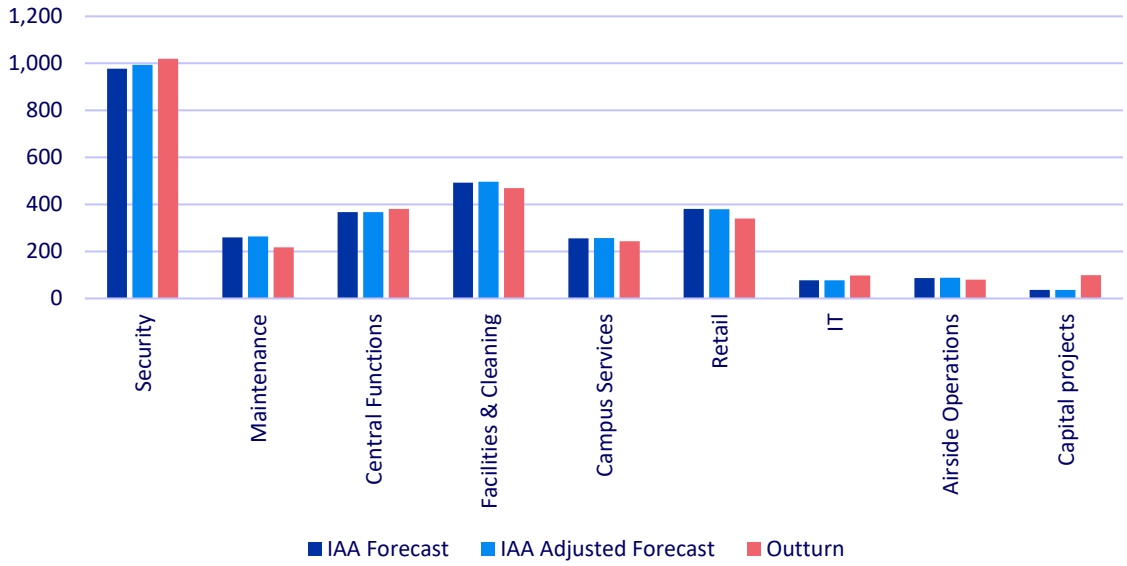
Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

6.15 Chart 6.7 below takes account of the different productivity bases by showing both outturns

[71] Dublin Airport Operating Expenditure Assessment:

and forecasts in terms of 2024 productivity.

Chart 6.7: 2024 FTE forecasts and outturns, 2024 productivity terms



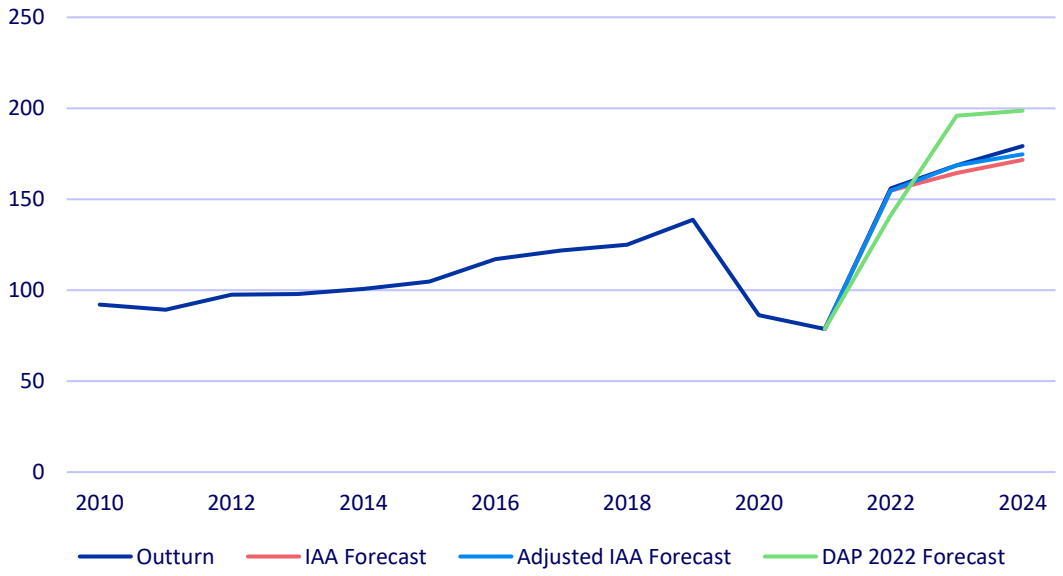
Source: IAA, Dublin Airport.

6.16 This accounts for the FTE variance shown above, with a total of 2,934 forecast FTEs, or 2,958 based on outturn passenger volumes, relative to the 2024 outturn FTE figure of 2,947.

Non-Staff Opex

6.17 Non-Staff Opex relates to all other day-to-day costs incurred by Dublin Airport which are not related to payroll. Outturn Non-Staff Opex exceeded the forecast in both 2023 and 2024, by €4m and €8m respectively. Once forecasts are adjusted for outturn passenger numbers, the deviation between outturn and forecast reduces, with 2023 above forecast by less than €100k, and 2024 by €5m. The outturn expenditure was significantly lower than Dublin Airport's forecast submitted to us in 2022; by €27m in 2023 and €19m in 2024.

Chart 6.8: Non-Staff Opex Outturn compared with Forecast, € millions



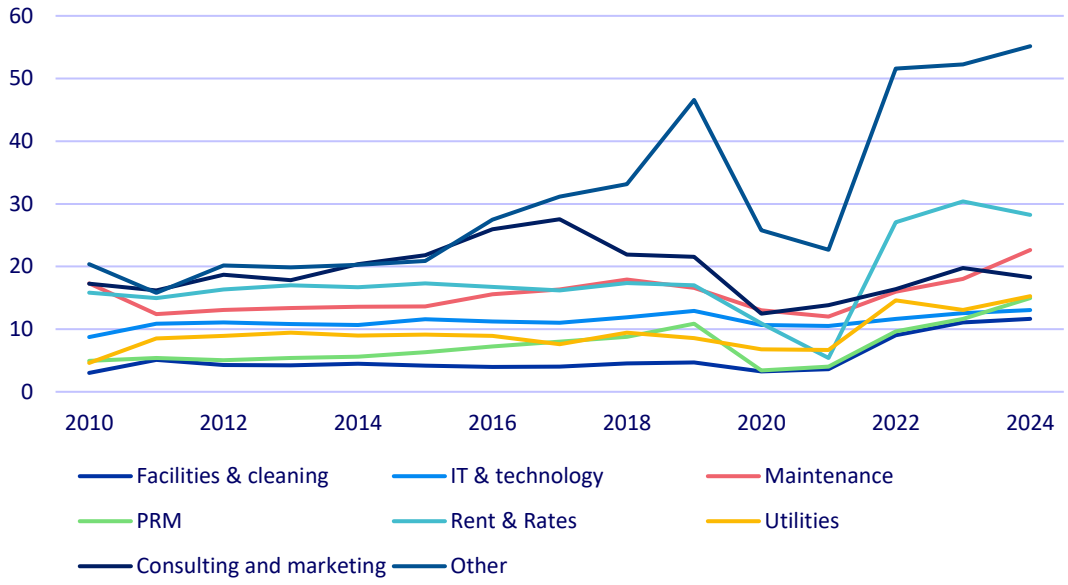
Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

6.18 The largest cost category here is 'Other' costs, which consists of Other non-pay related staff costs, Car parks, and Miscellaneous costs, with the majority related to Miscellaneous costs.[72] Relative to 2019, this category has increased by €9m, with €7m of this increase attributable to Miscellaneous costs. Of all cost categories, just one, Consulting and Marketing, fell below 2019 levels in 2024, reducing by €3m.

6.19 The most significant reported increase relates to Rent and Rates, with costs higher by €11m in 2024 compared with 2019. These costs include both commercial rates which are paid by Dublin Airport to the local authority (Fingal County Council), and rents which are paid on lands and properties leased for airport operations. As outlined previously, the provisional Rates increase relates to Tailte Éireann's increased valuation of Dublin Airport, which remains under appeal and consequently the ultimate outturn remains unknown.[73]

6.20 Other notable increases in costs between 2019 and 2024 include Facilities and Cleaning (linked the anticipated outsourcing of cleaning services since 2019 and so offset by a corresponding reduction in payroll cleaning costs), and Utilities, with both categories rising by €7m in real terms. Maintenance has increased by €6m over the same period, while IT and Technology has remained flat.

Chart 6.9: Non-Staff Opex Outturn Trend, € millions[74]

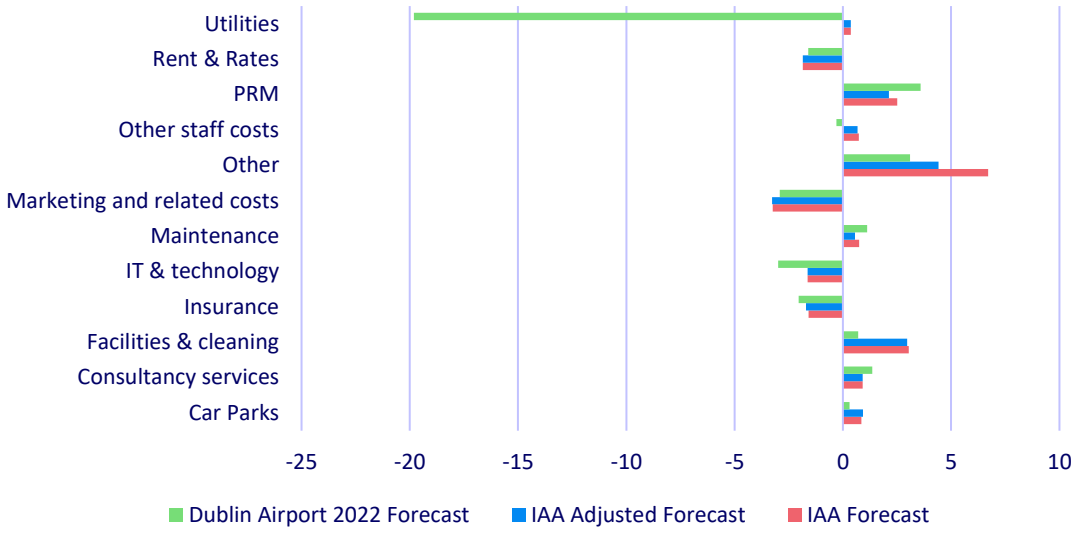


Source: 2022 Review Decision, Dublin Airport, IAA Calculations.

6.21 Within cost categories, the greatest deviation from forecast has been 'Other' costs, with outturn greater by €7m in 2024. When the IAA forecasts are adjusted for passenger numbers, this deviation falls to €4m above forecast. Notably, the IAA forecast of efficient Utility costs for 2024 was closely in line with outturn. This compares with Dublin Airport's forecast, which was €20m higher than the outturn (absent which Dublin Airport's overall Non-Staff forecast would indeed also have been relatively close to the outturn).

[72] Over 2022-2024, 70% of the 'Other' Non-Staff Opex category related to Miscellaneous costs, 18% to Other non-pay staff costs, and 12% to Car park costs.
[73] We understand that any variation on foot of the appeal would have retrospective effect.
[74] 'Other' includes Other non-pay related staff costs, Miscellaneous costs, and Car parks. For reference, in 2024 Other non-pay related staff costs were €9m, Miscellaneous costs were €39m, and Car park costs were €8m.

Chart 6.10: 2024 Outturns compared with Forecasts, € million



Source: 2022 Review Decision, Dublin Airport, IAA Calculations. Positive value indicates outturn is above forecast.

Original 2019 Determination and 2022 Review Decision

6.22 For the Original 2019 Determination, we commissioned CEPA and Taylor Airey ('CEPA/TA') to provide support on the estimation of an efficient level of Opex for Dublin Airport for the years 2020-2024. CEPA/TA conducted a bottom-up efficiency assessment, deconstructing the costs of the airport into the component parts and considering each separately, while accounting for interdependencies. In summary, CEPA/TA used the base-trend-step approach whereby they:

- Examined actual expenditure against what was assumed in the 2014 Determination and assessed the efficiency of outturn expenditure to determine whether historic expenditure had been efficient, and the overall size of any inefficiency identified.
- Constructed an estimate of 2019 expenditure which then formed the baseline, constructed using either Dublin Airport's estimate for 2019 expenditure, with inefficiencies removed, or by using 2017 outturn expenditure and removing any inefficiencies.
- From this baseline, gross expenditure was projected forward by applying various drivers, such as forecast passenger volumes and associated elasticities. For certain cost categories, other cost drivers were used such as energy price forecasts and projections of wage growth.
- Finally, the gross expenditure estimates were adjusted for any anticipated step changes, such as costs arising from new activities, the implementation of efficiency initiatives, and ongoing productivity improvements.

6.23 In the Original 2019 Determination, we decided to use a latest estimate of Dublin Airport's 2019 Opex as the starting point for the Opex forecast. The allowances were higher than the more efficient level of Opex estimated by CEPA/TA. We thus implemented a glidepath to allow Dublin Airport more time to achieve the efficient level of Opex. Originally, the length of the glidepath was four years, but this was reduced by us to two years on appeal, following the referral of the Appeal Panel on Ryanair's appeal in 2020.

6.24 In addition, we introduced a cost passthrough mechanism for costs which we considered to be ultimately outside of the control of Dublin Airport. This was largely limited in scope to local authority rates and certain regulatory charges.

6.25 CEPA/TA again provided support for the 2022 Review Decision, undertaking a new bottom-up efficiency assessment using the base-trend-step approach:

- First, CEPA/TA assessed the efficiency of historic expenditure over the period 2019-2021 and used this information to estimate a baseline reference year for efficient expenditure in 2022. This was informed by the estimates of efficient expenditure in the 2019 study adjusted for passenger outturn, Dublin Airport's regulatory submission, and additional benchmarking analysis of Dublin Airport's expenditure against industry comparators.
- Next, the efficient expenditure was projected over the period 2023-2026, using volume/price drivers and elasticities where appropriate. For unit payroll costs, CEPA/TA projected in line with economy-wide forecasts of real wage growth.
- Finally, CEPA/TA added/subtracted anticipated step changes in expenditure over the period 2023-2026. Where Dublin Airport was suggesting that a step increase in expenditure would be required, a three-step test was applied:

1. Need: Had the airport justified the case for any proposed increase in expenditure?
2. Additionality: Was there compelling evidence that the additional spending was surplus to the base estimate or volume-adjusted estimate, or was it already implicitly built into the forecast?
3. Efficiency: Had Dublin Airport provided strong evidence to support its estimate of the scale of additional expenditure?

6.26 In line with our approach for other building blocks, CEPA/TA produced a centreline forecast which balanced reasonable ambition with achievability, while ensuring forecasting assumptions are consistent with regulatory requirements (such as those relating to safety and security), and service level targets.

Key Considerations

6.27 We have identified a number of key considerations as follows.

How Should Opex be expected to evolve from 2027

6.28 As expected, there has been an increase in Opex since 2022, relating to increased passenger volumes and improved service standards. As outlined above, Opex has developed closely in line with the bottom-up forecast over 2023 and 2024.

6.29 While we may again undertake a bottom-up forecasting approach, it will remain important to consider top-down trends and high-level sense checks. In that regard, we will need to consider whether we would now expect Opex to develop in line with recent trends and in line with generally acknowledged passenger elasticity of about 0.3 to 0.4, or whether there is sufficient evidence to conclude that a different forecast trajectory should be adopted. That trajectory might be higher, reflecting efficient cost pressures, or lower, reflecting achievable efficiency or productivity improvements. Factors that might drive such trajectories include:

- New technologies and/or enhanced management performance/focus can lead to increased productivity and reduced costs, all else equal.
- New cost lines or drivers.
- Changes in regulatory requirement may serve to increase or decrease cost pressures (or in some cases essentially replace previous requirements which will not have a material cost impact either way).
- Changes in service quality requirements or expectations.

6.30 We also note that the effect of efficiency incentives may have been dulled over the current determination period (since 2023) due to considerable overall financial outperformance, most notably in Commercial Revenues. We have previously found that such a situation may lead to deteriorating efficiency, given the absence of a pressing financial need to maintain it; in particular, over the 2014 Determination period. However, here we note that Opex has remained in line with the forecast notwithstanding outperformance in other building blocks.

6.31 Another factor to be mindful of is the quality of service expected by Users, and how this will ultimately interact with the Opex building block.

Approach to forecasting

6.32 In both the Original 2019 Determination and the 2022 Review Decision, we commissioned CEPA/TA to conduct a bottom-up analysis. A bottom-up analysis is a granular piece of work whereby total Opex is broken down into individual components or cost lines, and each is forecast separately and the summed to generate an efficient Opex estimate. A top-down approach is typically based on a more high-level benchmarking (potentially including techniques such as Stochastic Frontier Analysis), and/or trend based analysis.

6.33 While, historically, bottom-up assessments have informed our forecast of efficient Opex, supplemented by cross-checks and top-down assessments when necessary, there are other approaches which we could take. For example, in the CAA's H7 Decision on the Opex allowance for Heathrow Airport Limited (HAL), guided by support from CEPA/TA, a top-down approach was undertaken, supplemented by a more granular approach when necessary.

6.34 There are potential advantages and disadvantages of both approaches:

- A top-down approach requires fewer input data points and assumptions than a bottom-up approach. As a result, it could provide a broad overview of overall efficiency, and lowers the risk of false precision; additional inputs or assumptions each bring their own degree of uncertainty and thus may not necessarily improve the overall reasonability of a forecast.
- Relatedly, a bottom-up assessment is more resource-heavy to undertake, requiring more data and input assumptions and a broader range of expertise.
- A top-down approach does not reveal or substantiate specific findings at a granular, cost category level. In a bottom-up assessment, specific evidence of scope for improvement can be highlighted and interrogated, with targeted challenges introduced to the forecast where appropriate.
- Although top-down benchmarking against industry comparators is possible, this may overlook firm-specific factors which are difficult to capture and adjust for in full. Across airports, as outlined in the benchmarking annex, there are significant differences in business models, the scope of services provided, the till structure, the extent of outsourcing, the regulatory model, etc. All of this will drive variant outcomes on metrics such as Opex per passenger which are unrelated to any true cost-efficiency differential.

6.35 Our current thinking is that the approach taken in 2019 and 2022, namely a detailed bottom-up assessment supplemented by top-down sense-checks, remains the optimal approach for the 2026 Determination, providing greater insights and a more reasonable and reliable forecast across cost lines. We consider that this approach aligns best with discharging our Statutory Objectives, and the level of analysis which stakeholders expect us to undertake.

6.36 In addition, the IAA has engaged CEPA, supported by Think, to conduct a detailed efficiency assessment of the security operation at Dublin Airport, with work currently ongoing. This assessment will be more granular again than conducted in 2019 or 2022. The primary

purpose of this study is to develop a comprehensive view of what constitutes an achievably efficient security operation, in circumstances where the security operation is the most material Opex category, and has changed very significantly since we last assessed it in 2022. This granular security assessment would be most usefully deployed as part of a subsequent bottom-up Opex assessment. When complete, this report will be published.

Estimating a forecasting baseline

6.37 In 2019, we used the latest available 2019 year-to-date outturns to derive a forecast for 2019 Opex, which we used as the baseline. On the grounds of achievability, we introduced a top-down glidepath from that baseline to converge down towards the efficient forecasts by 2022. On the other hand, in the 2022 Review Decision, achievability was assessed within each cost category, and then the overall forecast was assessed for achievability. Given the impact of the pandemic making certain more recent outturns unreliable as a baseline for 2023-2026, a 2022 'reference year' was constructed based on a bespoke analysis of the most appropriate baseline in the case of each cost category. For example, in some cases, we used 2019 actual costs, in other cases we used more recent data.

6.38 If scope for efficiency improvement is identified in the baseline, the question may then arise as to how we should address it in the forecast (e.g. through a baseline adjustment, or otherwise), and how long we should allow for it to be addressed. We consider that this question will need to be considered in the specific circumstances, based on the overall principle of the challenging but achievable forecasting standard.

Risk allocation

6.39 As noted above, Opex risk is currently assigned to Dublin Airport, apart from certain limited costs which we de-risked through the Opex passthrough mechanism. The reason for de-risking those costs is that they are largely outside of the control of Dublin Airport. In all other respects, Opex risk is assigned to Dublin Airport, as the entity best placed to control its own Opex, and to respond appropriately to changes in circumstances within the context of the overall determination. This incentivises efficient and flexible expenditure. Any outperformance, whether by efficiency improvements or otherwise, retained by Dublin Airport, and vice versa.

6.40 The Opex passthrough mechanism corrects for the difference between forecast and outturn costs which are largely outside of the control of Dublin Airport, provided that Dublin Airport demonstrates that it has taken reasonable measures to limit those costs insofar as it can. The scope of this mechanism is limited to Local Authority Rates applicable to the regulated entity, and direct charges set out in new or amended primary or secondary legislation, which are outside of the control of Dublin Airport, exceed €0.5m per annum, and relate to activity undertaken by the regulated entity. It also includes IAA oversight costs which we charge to Dublin Airport (and thus ultimately Users) in respect of economic, safety, and security regulation.

6.41 We see merit in maintaining the Opex passthrough mechanism for the 2026 Determination. In particular, the scope for variance in relation to Rates is high, and the quantum of cost is highly material, to the extent that, for example, the outcome of the appeal could materially impact our financeability analysis (one way or the other). A judgment on Dublin Airport's appeal on the matter is still pending.

6.42 Our current thinking is that it should remain limited to those costs which are outside of the control of Dublin Airport. The mechanism would therefore apply, as it did in the 2019 Determination, 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, and IAA costs, which exceed €0.5m per annum, and relate to activity undertaken by the regulated entity or the appropriate portion thereof.

6.43 Where there is any dispute over the proper application of this mechanism, the IAA would make the decision.

6.44 There are a number of other approaches we could introduce, or provide for:

- A share of unanticipated Opex costs to be passed on to Users. Similarly, while Dublin Airport currently holds all upside risk, any gains would be shared with Users.
- A provision by which Opex outside of the control of Dublin Airport, such as, for example, mandated security costs which were not foreseen prior to the making of the determination, or pension costs in certain circumstances, are allowed to be passed through to the price cap.
- Individual cost lines could be banded, which would provide for an adjustment to the allowance if such bands are exceeded.

6.45 Ultimately, we think that such approaches risk adding internal inconsistency within the building block and/or with other building blocks, throwing off the centreline balance of the price control, and generating practical challenges as well as significant additional complexity and compliance workload for the parties involved (in particular, Dublin Airport and the IAA). Even if there was merit in doing so (and we do not see that there is), attempting to address all of these issues in a coherent way is likely to tend towards unworkability.

Proposed Approach

6.46 Our initial thinking is that we will again use a bottom-up methodology, combined with appropriate sense checks, for the 2026 Determination. This approach will benefit from the more granular security efficiency assessment, and the underlying forecasting methodology can be amended accordingly to reflect any developments and findings. We do not propose to make other changes to Opex, as outlined above, and in particular, we propose to maintain the current risk allocation as per the 2019 Determination.

Consultation Questions

- How Opex should be expected to evolve over the determination period? Is there scope for Dublin Airport, if managed effectively, to become more efficient/productive over the period of the next determination? Or will cost pressures lead to a productivity degradation? What factors or relevant considerations are likely to drive this outcome?
- How efficient is Dublin Airport currently? Do you see areas of particular efficiency or inefficiency, and on what basis?
- Do you agree with our proposed approach to estimating Opex, namely a bottom-up analysis, supported by top-down sense checks? Are there any other categories of Opex that you think would benefit from a 'deep dive' bottom-up review, such as is currently ongoing in relation to security, and why?
- Should any efficiency possibilities be assumed from the outset of the period (if identified), or should a period of rectification be allowed to account for such potential inefficiencies?
- Do you agree with the proposed allocation of Opex risk? Are any changes required to the Opex passthrough mechanism, and if so, what should be adjusted?

7. Commercial Revenues

7.1 This section explores how Dublin Airport has performed to date on Commercial Revenues, and asks how we should forecast this Building Block in the 2026 Determination. A number of issues are addressed, including:

- The extent to which estimates for the various revenue categories were borne out.
- The distinction between categories of aeronautical and commercial revenues.
- The approach adopted to forecasting future commercial revenues.
- A review of the rolling schemes and whether we should continue to include them.
- Any significant changes/developments affecting commercial revenues which were not previously considered.

7.2 Within the regulatory period, Dublin Airport is incentivised to outperform our target of commercial revenues, as any revenues above this level are retained by Dublin Airport.[75] Users benefit from this incentive when the forecasts are reset between determinations.

Forecasts and Outturns

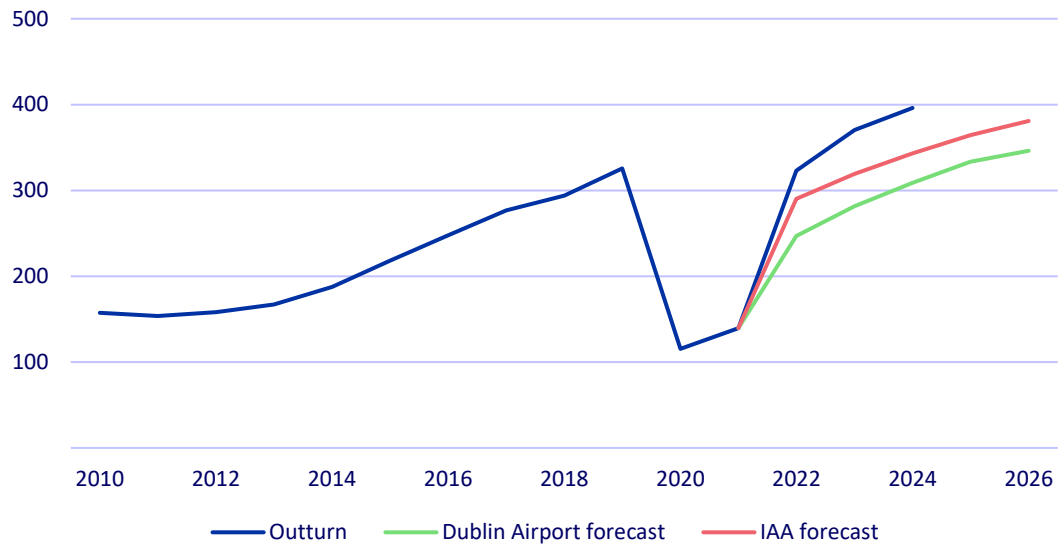
2022 Review Decision

7.3 In the 2022 Review Decision, we forecast that Commercial Revenues would return close to the 2019 outturn at €319m in 2023, before increasing to €381m by 2026. Outturn Commercial Revenues between 2022-2024 have significantly exceeded that forecast, growing from €323m in 2022 to €370m in 2023 and €396m in 2024.[76] This translates to an outperformance relative to the forecast of 16% and 15% in 2023 and 2024 respectively.

7.4 Dublin Airport's bottom-up forecast submitted to us in September 2022, ahead of the 2022 Review Decision, suggested that Commercial Revenue would instead be €247m in 2022, growing to just €282m in 2023 and €309m in 2024. Consequently, Dublin Airport has outperformed it's own forecast by 31%, 31%, and 28% respectively.

[75] Except for Access to Installation (ATI) fees where these is no incentive to exceed our forecast of ATI Fees Examples of ATI fees: rental fees for check-in desks, charges for using common-use self-service.
[76] 2022 outturn commercial revenue is inclusive of Exchequer funding of €12,850,369 which was attributable to CBP discounts.

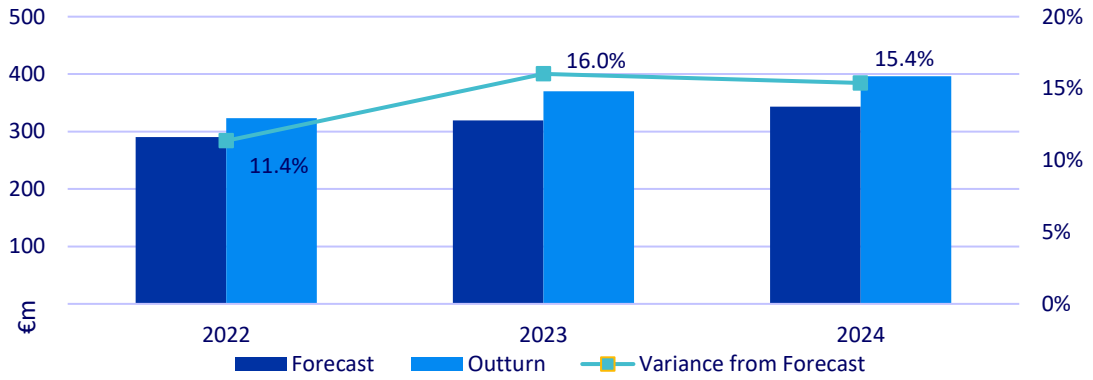
Chart 7.1: Outturn and Forecast Net Commercial Revenues, 2010-2026



Source: 2022 Interim Review, Dublin Airport, daa Regulatory Accounts

7.5 The rate of growth thus considerably outperformed the forecast rate of growth, as reflected in Chart 7.2 below.

Chart 7.2: Outturn variance from Forecast

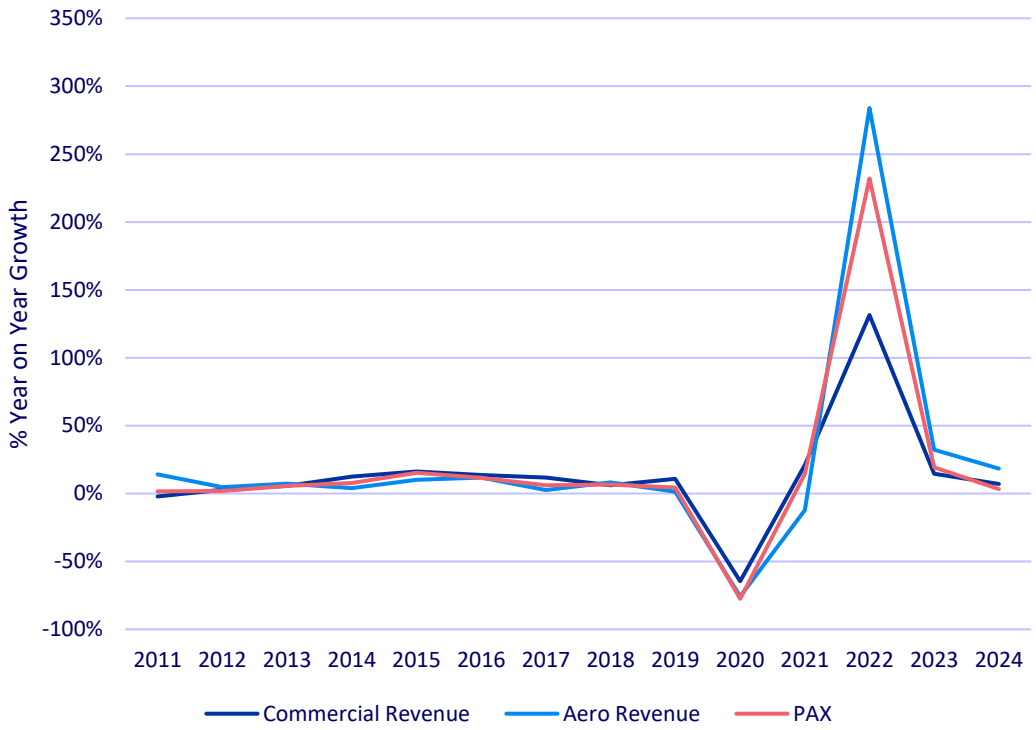


Source: 2022 Interim Review, daa Regulatory Accounts, IAA calculations

7.6 Chart 7.3 compares the differing growth rates between aeronautical revenue, commercial revenues and passenger numbers for the period 2011-2024. In the years 2014-2017, Dublin Airport experienced year-on-year commercial revenue growth at rates which exceeded both aeronautical and passenger growth. This strong commercial performance was evident again in 2019, when commercial revenue grew by 11% relative to 2018 levels. Passenger growth in the same period was 4.5%.

7.7 In 2023, the year-on-year growth in commercial revenues closely followed the growth in traffic while in 2024, commercial revenues grew at almost twice the rate of traffic relative to 2023.

Chart 7.3: Year-on-year growth rate in commercial revenues, aeronautical revenues and passengers at Dublin Airport, 2011-2024



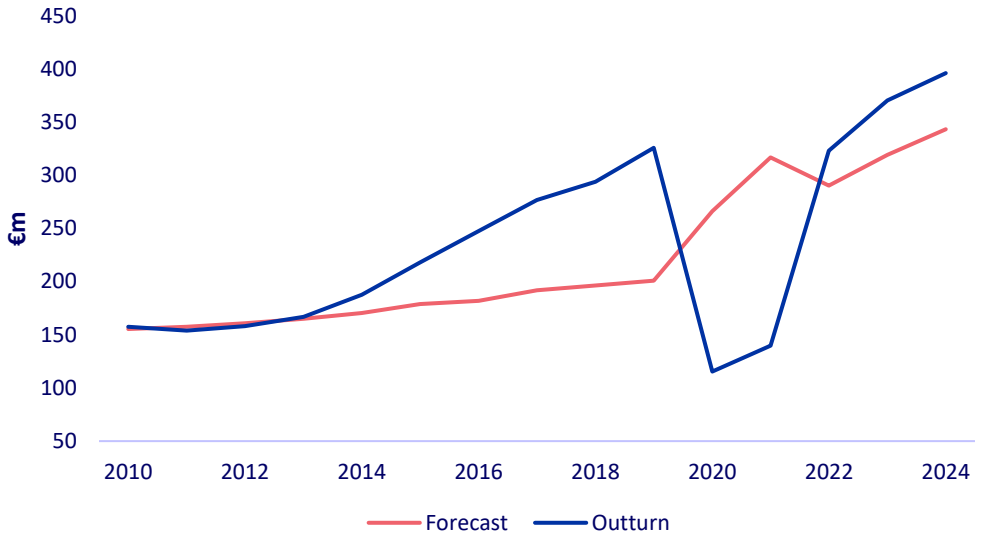
Source: daa Regulatory accounts, IAA calculations

Aggregate outturns v forecasts over time

7.8 Chart 7.4 compares outturn total Commercial Revenues with the respective determination forecasts for each year between 2010-2024. In most years over this period, Dublin Airport outperformed the Commercial Revenues forecast from the relevant determination. The exceptions were 2010-2013, when it performed in line with the forecast (notwithstanding lower traffic), and 2020-2021, due to the pandemic as outlined above.

7.9 During the period 2015-2019, Dublin Airport significantly outperformed the forecast and, notwithstanding that our forecasts in 2022 expected it to a certain extent, performance in 2023-2024 has shown a step increase which is a significant margin above the previous peak in 2019.

Chart 7.4: Aggregate Outturn Commercial Revenue versus Forecast, 2010-2024

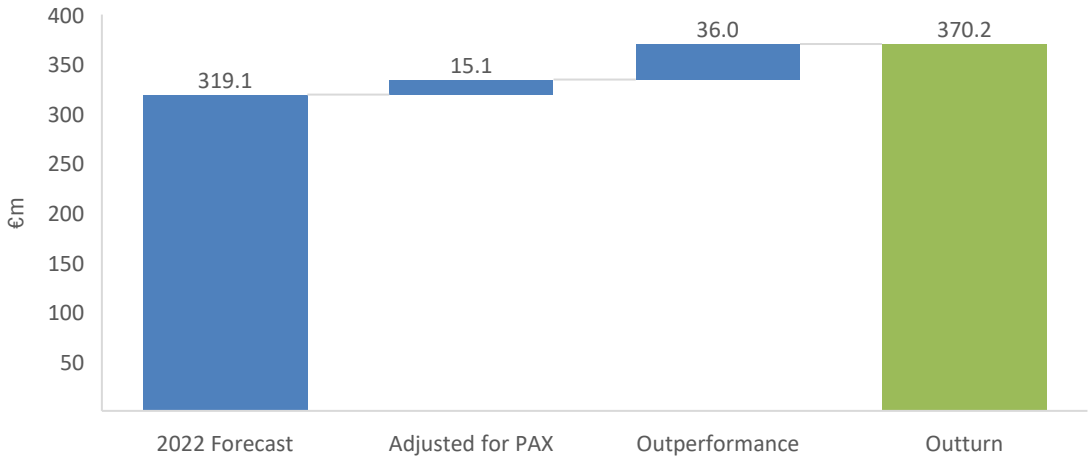


Source: daa Regulatory Accounts, 2009, 2014, 2019 Determination, 2022 Review Decision. Forecast figures relate to the forecast amount in the relevant determination period in Real April 2025 prices. 2009 Determination for 2010-2014, 2014 Determination for 2015-2019, 2019 Determination for 2020-2021, 2022 Review Decision for 2022-2024

7.10 In Chart 7.5 and Chart 7.6, as with Opex, we assess the extent to which the higher level of passenger traffic relative to our Passenger Forecasts explains the difference in outturn Commercial Revenues, as opposed to outperforming our Commercial Revenues assumptions themselves. As illustrated, most of the difference cannot be explained by outturn passenger numbers, and so represents outperformance of our revenue assumptions themselves.

7.11 Using actual 2023 passengers, we estimate a Commercial Revenues backcast of €334m which is an increase of €15m compared to the 2022 Review Decision forecast. The passenger outperformance thus explains 30% of the commercial revenue outperformance.

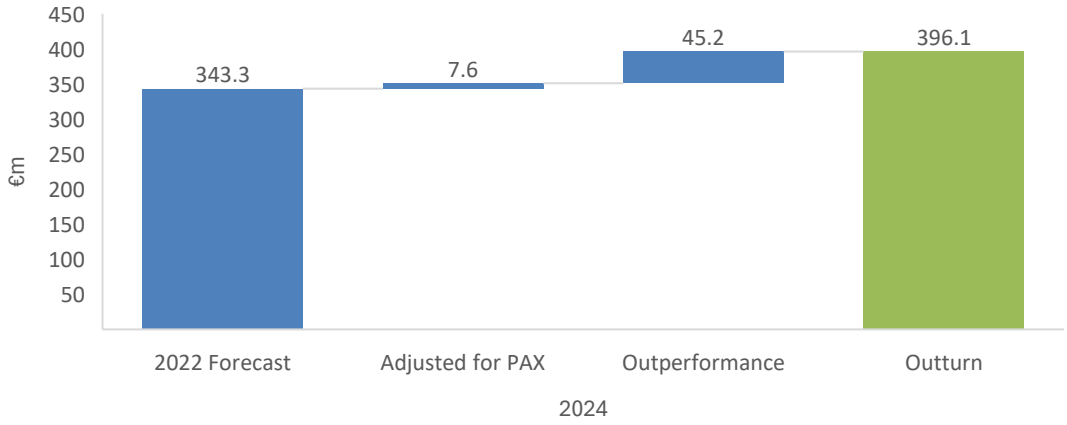
Chart 7.5: Forecast and Outturn Commercial Revenues, 2023



Source: Regulatory Accounts, 2022 Review Decision, IAA Calculations.

7.12 Using actual 2024 passengers, we estimate a commercial revenue backcast of €351m, which is an increase of €8m compared to the 2022 Review Decision estimate. The passenger outperformance thus explains just 14% of the variance.

Chart 7.6: Forecast and Outturn Commercial Revenues, 2024



Source: daa regulatory accounts, 2022 Interim Review, IAA Calculations.

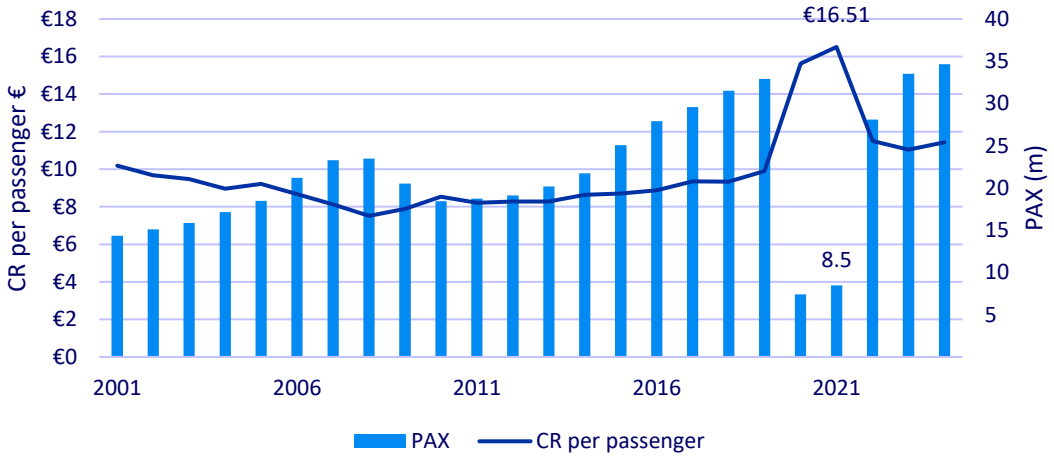
7.13 For both 2023 and 2024, the remaining difference between forecast and outturn (labelled as 'Outperformance' in charts 7.5 and 7.6) accounts for 70% of the total variance from forecast in 2023, and 86% in 2024.

Commercial Revenues per passenger

7.14 In the 2022 Review Decision, we forecast Commercial Revenues per passenger of €10.07 in 2023, rising to €10.21 in 2024 and then to €10.66 in 2026. Outturn data shows an outperformance of the targets in both 2023 (€11.04) and 2024 (€11.43), by 10% and 12% respectively. This outperformance is particularly notable considering passenger traffic in both years also exceeded the forecast levels.

7.15 In Chart 7.7, we have assessed the longer-term trend in Commercial Revenues per passenger.

Chart 7.7: Commercial Revenue per passenger, passenger numbers 2001-2024



Source: Regulatory Accounts, IAA calculations

7.16 We consider that four distinct phases become apparent. From 2001 to 2008, a relatively steady decreasing trend in Commercial Revenues per passenger is observed, where passenger numbers are increasing steadily while Commercial Revenues is stagnant or growing modestly. The implied elasticity of total Commercial Revenues to passengers over this period was 0.33.

7.17 Following a drop in passenger numbers in 2009 and 2010, between 2010 and 2019 passenger numbers increased steadily once more, from 18.3m to 32.9m. At the same time, Commercial Revenues increased significantly, with the overall result being that Commercial Revenue per passenger increased gradually, to reach a similar level (in real terms) by 2019 as in 2001, with more than twice as many passengers. The beginning of this trend (2010) coincided with, and was likely related to, the opening of Terminal 2. The implied elasticity of total Commercial Revenues to passengers over this period was 1.36.

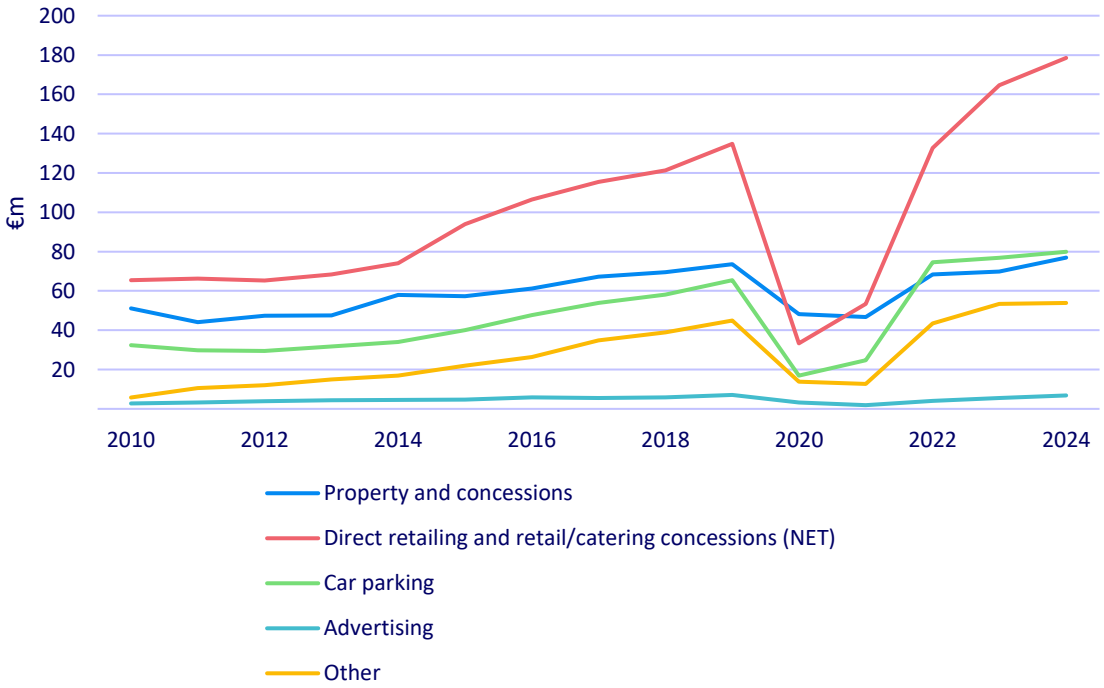
7.18 Both 2020 and 2021 were complete outliers due to the pandemic, with passenger numbers collapsing. Despite Commercial Revenues per passenger increasing dramatically compared to 2019, the total outturn Commercial Revenues take fell by more than two-thirds.

7.19 From 2022 to 2024, and in line with a return to international travel, we observed a reversion towards more 'normal' outturn Commercial Revenues per passenger. However, outturn per passenger remains considerably elevated relative to historic performance. Total outturn Commercial Revenues grew from €323m in 2022, to €396m in 2024. The implied elasticity of total commercial revenue to passengers over this period was 0.97.

Outturns by category

7.20 Chart 7.8 below breaks down the real trajectory over 2010-2024 by category. It is apparent that, while all categories have contributed to the increasing trends since the opening of Terminal 2 as outlined above, in absolute terms it has been driven most by the transformative change in retail (including F&B). This has more than doubled in real terms since 2014, from €74m to €179m, increasing by almost €2 per passenger over the same period to €5.15 per passenger in 2024. It is notable that, as set out in other sections, this was achieved despite underspending on revenue Capex, and retail Opex, relative to our forecasts.

Chart 7.8: Commercial Revenue outturn by category, 2010-2024

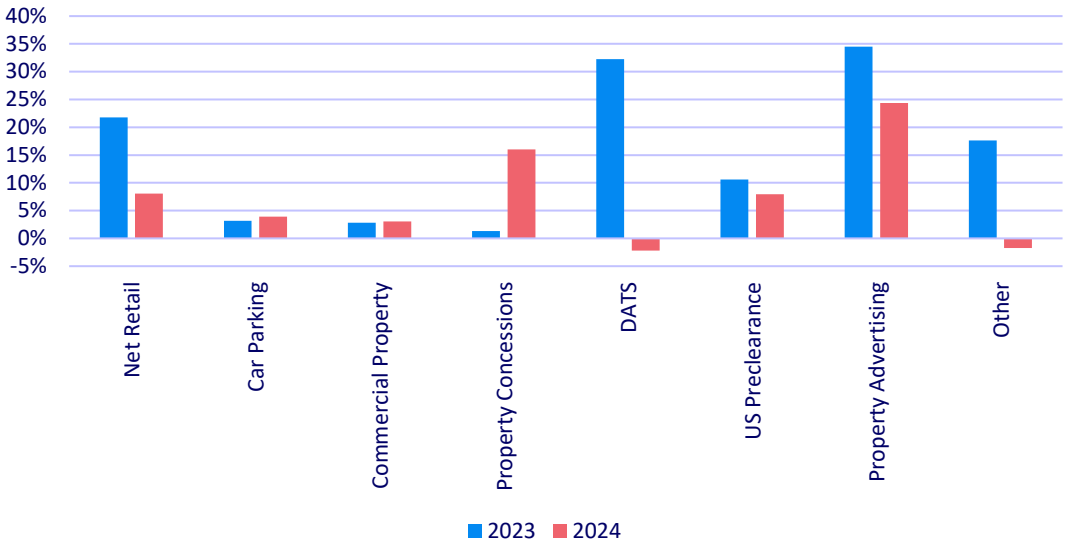


Source: Dublin Airport, IAA calculations.

7.21 In both 2023 and 2024, almost all Commercial Revenues categories experienced year on year

growth.[77] Notably, Property Advertising achieved the greatest growth rates in both 2023 and 2024, and Lounges, Fast Track, and Platinum services (DATS) grew by just under a third in 2023. Carparking also performed strongly, increasing by 22% in 2023, and a further 8% in 2024.

Chart 7.9: Year-on-year growth rates



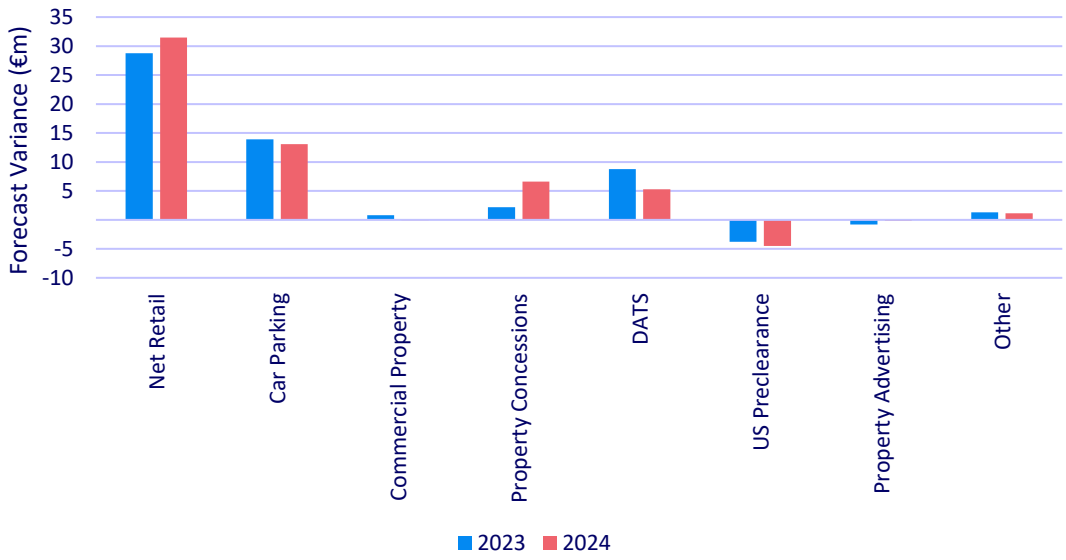
Source: daa Regulatory Accounts, IAA calculations*

*The figure for US Preclearance contains €12.85m of Exchequer funding under Article 107(2)(b) of the Treaty of the Functioning of the European Union. DATS (Dublin Airport Travel Services) includes lounges, FastTrack, and Platinum Services.

7.22 Chart 7.10 reveals that the primary driver of the outperformance relative to our forecast in 2023 and 2024 was Retail, followed by Carparking. Property Concessions and DATS also contributed materially, while the only category with material underperformance was US Preclearance, where the charge per US departing passenger was not increased in line with inflation.

[77] In 2024, only 'Lounges, FT and PS' and 'Other' experienced falling YoY growth.

Chart 7.10: Commercial Revenue outperformance by Category, 2023-2024

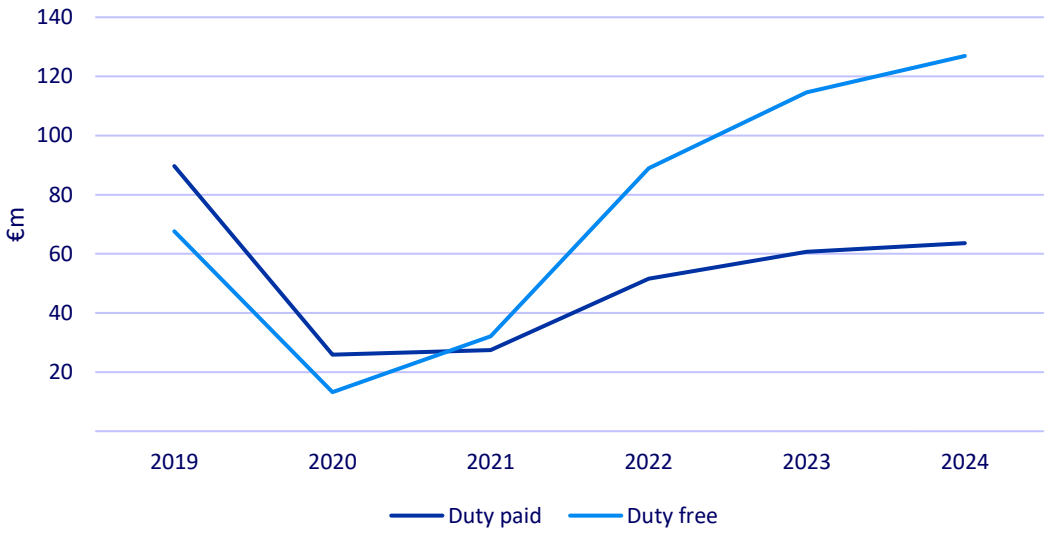


Source: Dublin Airport, IAA calculations

Retail

7.23 As outlined above, Net Retail grew to €179 in 2024, an increase of c.€44m from the 2019 outturn of €135m.[78] Notably, from 2021 onwards, Duty Free sales overtook Duty Paid sales as the predominant retail revenue source, and from 2022 has grown dramatically.

Chart 7.11: Retail split by Duty free and Duty paid, 2019-2024



Source: Dublin Airport, IAA calculations.

7.24 This trend is likely significantly linked to Brexit, as a result of which passengers flying to the UK are no longer liable to pay duties. In the 2022 Review Decision forecast, we estimated that this would lead to a net step increase in Retail of €1.13 per UK-departing-passenger.

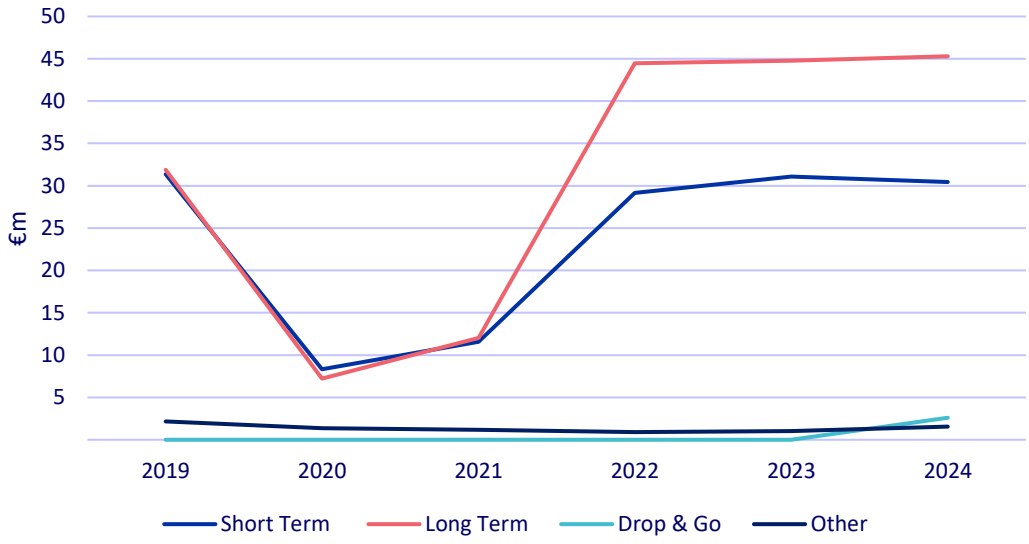
[78] Net retail is gross retail (i.e. turnover) less cost of goods sold.

Carparking

7.25 Carparking became the second largest source of Commercial Revenues for Dublin Airport from 2022. Aside from 2020 and 2021, which were significantly impacted by the collapse in passenger numbers, Carparking revenues grew to €75m in 2022 from €65m in 2019, €77m in 2022, and further again to €80m in 2024.

7.26 Apart from 2019 – 2021 when both short-term and long-term parking moved closely in line with one another, long-term parking revenue grew at a quicker pace in 2022, and has continued to generate more Commercial Revenues since. In 2024, long-term parking accounted for €45m of the total Carparking revenue, while short-term Carparking accounted for €30m.

Chart 7.12: Carparking revenue by subcategory, 2019-2024



Source: Dublin Airport, IAA calculations.

7.27 As appears from the chart, the outperformance over 2022-2024 relative to 2019, including increased yields per passenger, was driven by the long-term sub-category. This is likely at least partly linked to the closure of the former competitor QuickPark facility throughout 2022-2024. Park2Travel, a new competitor offsite car park, opened at the same site in March 2025, again offering the 6,000 long term carparking spaces to Dublin Airport passengers.[79]

7.28 While this is in line with our forecast assumptions from 2022, we had expected the site to re-open much sooner (in 2023). For the 2026 Determination, we will need to consider the extent to which Dublin Airport's Carparking revenues may be affected. We note that the distance of the new car park from the airport may again have a more significant impact on long-term car park revenues rather than the short-term options. A study of the 10 top European Airports by passenger traffic (including Madrid Barajas, Heathrow and Frankfurt) found that for every 1000 car park spaces, revenue increased by €0.53 million.[80]

Methodology from 2022 Review Decision

7.29 In the 2022 Review Decision, we separated Commercial Revenues into the eight categories in Table 7.1 below. We identified the key driver of each category and used econometric

[79] New Park2Travel carpark opens at Dublin Airport
[80] Determinants of car parking revenues: An econometric analysis of large European airports - ScienceDirect

modelling to estimate the relationship between the category and its associated driver.

Table 7.1: Categories and associated drivers

Category	Driver
Retail	Passenger Numbers
Car park	Passenger Numbers
Commercial property	GDP
Property concessions	Passenger Numbers
Lounges, Fast Track, Platinum Services	Passenger Numbers
US Preclearance	US Passengers
Property Advertising	Passenger Numbers
Other	None

Source: 2022 Review Decision

7.30 The methodology was implemented in four steps:

- First, we used outturn data from 2001 to 2019 to estimate the elasticity of each category with respect to associated drivers. This measures how each individual category varies in response to a change in the relevant driver.
- Second, we selected the most appropriate driver for each category based on the robustness of the results.
- Third, we constructed a 2023 baseline by taking the 2019 outturn per passenger for each category and scaling it to our 2023 passenger forecast. Commercial revenues from property concessions and property rents and US Preclearance were estimated separately.
- Finally, we used the baseline, the estimated elasticity, and forecasts for the selected driver to arrive at the target for each revenue category in each year from 2024 to 2026.

7.31 We then adjusted our forecasts to account for uplifts for revenue generating CIP projects, as well as an uplift to Retail based on our estimate of the impact of UK departing passengers being Duty Free when they were historically Duty Paid. We also subtracted revenue associated with the displacement of certain commercial property due to the planned developments in the north and south aprons.

Rolling schemes

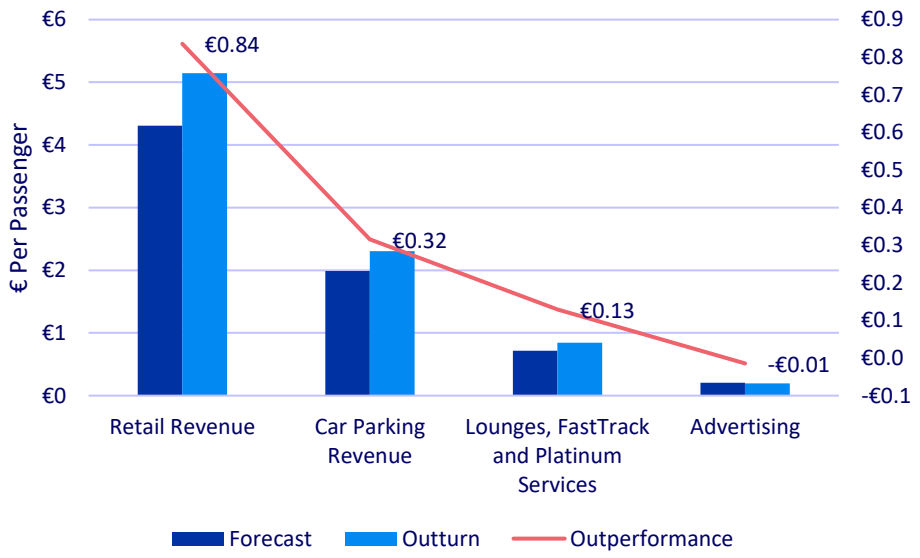
7.32 The purpose of rolling schemes is to equalise the incentive on Dublin Airport in respect of Commercial Revenues at every point in time during the regulatory cycle. Otherwise, for example, there may be an incentive to defer revenue generating initiatives towards the end of the regulatory period and implement them at the start of the subsequent period. In 2014, we first introduced rolling schemes for all categories of Commercial Revenues. This encompassed per passenger schemes for Retail, Carparking and Advertising and a gross revenue scheme for revenues from Property Concessions and Rent. The nature of rolling schemes is that revenue targets are set by category, with any outperformance relative to the targets deducted from Commercial Revenues forecasts for a period in the following determination period (thereby allowing Dublin Airport retain the benefit of outperformance for that period).

7.33 In 2022, we included rolling scheme incentives for 2023-2026 in the same four categories as the Original 2019 Determination: Retail, Carparking, Lounges/FastTrack/Platinum Services, and Advertising. We introduced the condition that in any one year and for each category, the total outperformance subject to carry-forward would be capped at 10% of the target. Consistent with the approach in the 2014 and 2019 determinations, per passenger targets

were set for the years 2024 and 2025 in relation to the revised regulatory period 2023-2026. Any outperformance adjustment in respect of 2024 would be retained until 2027 (inclusive), and in respect of 2025 would be retained until 2028.

7.34 Chart 7.13 below illustrates Dublin Airport's performance relative to the 2024 targets. In each category, except for Advertising (which missed the per passenger target by approximately €0.01), Dublin Airport outperformed the target set. Across the four rolling schemes Dublin Airport earned a considerable outperformance of €1.27 per passenger. However, because the cap was exceeded in some cases, it will only be partly carried forward.

Chart 7.13: Rolling Scheme Outperformance 2024



Source: Regulatory accounts, IAA calculations, 2022 Review Decision

7.35 In previous determinations, we stated that the success of the rolling schemes would be assessed based on whether they incentivised Dublin Airport to achieve improved Commercial Revenues offerings and performance. Based on Table 7.2 below, we consider that the rolling schemes may have contributed to encouraging Dublin Airport in that regard. While we will also take account of further outturn data when finalising the 2026 Determination, our current thinking is that we will retain the rolling scheme incentives in some form.

Table 7.2: Rolling scheme Outperformance 2024

Category	Forecast	Outturn	Outperformance	% Variance
Retail Revenue	€4.31	€5.15	+0.84	19%
Car Parking Revenue	€1.99	€2.30	+0.32	16%
Lounges, FastTrack and Platinum Services	€0.72	€0.85	+0.13	18%
Advertising	€0.21	€0.19	-0.01	-7%

Source: Regulatory Accounts, 2022 Review Decision, IAA calculations.

7.36 The implication of Dublin Airport's outperformance of the rolling schemes will be reflected in downward adjustments to the Commercial Revenues targets at the beginning of the 2026 Determination. As outturns from 2025 are not yet known, the overall impact of the outperformance cannot be estimated.

Approach to Commercial Revenues Forecasts

7.37 In assessing the most appropriate approach to forecasting Commercial Revenue, and in light of the above, we note that:

- As observed in 2014-2019, Dublin Airport has again significantly outperformed the forecasts from the 2022 Review Decision. Notably, this outperformance has been driven primarily by outperforming the Commercial Revenues forecast assumptions, with additional passenger traffic contributing to a lesser extent.
- Commercial Revenues per passenger in both 2023 and 2024 remains significantly above the pre-pandemic, 2019, levels.
- Outperformance within the Carparking and Retail categories has been the primary driver.
- Some of the outperformance over 2023 and/or 2024 is likely to be at least partially temporary in nature, such as the increase in car parking revenues as a result of the closure of QuickPark. In other areas, however, there is less reason to consider this trend is likely to be only temporary. An important consideration for the 2026 Determination will be to consider the extent to which such changes are likely to persist, and what further changes might arise during the next regulatory period.
- Outperformance in itself does not necessarily imply that there was something wrong with the forecasting methodology. It may be the case that the regulated entity performed better than might reasonably been anticipated, or that the incentive to outperform is working well. The forecast should be set on a centreline basis, aiming to set up a 'fair bet'. However, repeated outperformance across periods may be indicative of a basis to increase the level of challenge in the forecast methodology to generate a centreline approach.

Approach to forecasting Commercial Revenues

7.38 There are a number of potential approaches we could take:

- As in both 2019 and 2022 (and described above), we could choose to follow a relatively high level 'Base-Trend-Step' approach. This requires fewer input data points and assumptions than a more granular approach (discussed below). However, although the methodology is comparably simpler, there are risks that such an approach does not adequately capture efficiencies or opportunities which may reasonably be expected over the forecast period.
- We could also take a more granular bottom up 'Base-Trend-Step' approach, like that which we have previously adopted in Opex (as per Section 6). This approach would break commercial revenue categories down further relative to the top-down approach (for example, separately estimating different categories within retail and carparking). This approach may have more merit if we think that there is now more divergence within the sub-categories relative to the historic position.
- A benchmarking-based approach is a further option, which would compare Dublin Airport's performance across a number of close comparator airports. This can take the form of a simple benchmarking exercise, or a more complex approach, like a stochastic frontier analysis.
- We may also develop forecasts based on reviewing Dublin Airport's business plans and its Regulatory Proposition.
- A combination of the options above could also be used, whereby a top-down approach is used for certain revenue categories, while for others we take the more granular bottom-up approach. In addition, benchmarking could be used to supplement and sense check outputs.

7.39 Our current thinking is that we will adopt an econometric approach. However, we have noted throughout this section that outturn Commercial Revenues have significantly exceeded our forecasts. We will need to consider further the reasons for this, and aim to set a centreline

forecast with appropriate challenge.

7.40 Ahead of the Draft Determination, we will have to consider further outturn data and assess the appropriateness of the drivers chosen for each category. It may also be appropriate to further disaggregate the categories from the 2022 Review Decision which may allow for a more precise estimation of the elasticity for each product.

7.41 An advantage of using a small number of drivers lies in simplicity and transparency, and helps to ensure the consistency in our approach. However, there are, arguably, many additional factors that determine the level of Commercial Revenues. Therefore, there is an argument for refining the econometric models to incorporate additional drivers and control variables. An advantage of such an approach is that the risk of estimating biased revenue forecasts is mitigated. This is particularly relevant in the case of time-series models, which are prone to omitted variable bias because many continuous variables over time will naturally be correlated with each other.

7.42 Conversely, using additional predictive variables requires forecasts of more variables, each of which brings its own uncertainty. As a result, even if a particular factor is correctly identified as a driver of a particular revenue line, the revenue forecast will only be improved insofar as the forecast of the factor itself transpires to be accurate.

Use of benchmarking

7.43 We have stated in previous determinations that benchmarking can be a useful tool to help us identify scope for efficiencies by comparing performance indicators across various peer airports. Previously, such as in 2019, we have used benchmarking analysis more as a sense check to validate econometric forecasts.

7.44 We may once again use benchmarking as a sense check against our forecasts for both the base year and the rest of the period. This may include benchmarking against other airports and/or benchmarking against Dublin Airport's own performance over time. The availability of relevant data may also determine the extent to which we benchmark Dublin Airport's performance against other airports. As suggested in the benchmarking annex, we think that factors such as the extent to which different airport operators outsource the provision of commercial services risk undermining such analyses.

Forecast based on airport business plans

7.45 We expect to receive Dublin Airport's projections of its Commercial Revenues in its regulatory proposition ahead of the Draft Decision. While we will have regard to these in any event, another potential approach is to base our forecast on Dublin Airport's projections, either as provided by Dublin Airport or else with amendments to inputs where we consider appropriate. It must be noted that, as outlined above and in previous papers, Dublin Airport's previous projections have underestimated Commercial Revenues to a very large extent.

7.46 We note that, previously, the UK CAA has used Heathrow Airport (HAL)'s business plan as a starting point for its forecasts. In its Method Statement for H8, the UK CAA has now said that it plans to work with consultants to develop an independent assessment of Commercial Revenues at London Heathrow, but will also assess the information provided to it by HAL in its business plan, including, where practicable, the use of benchmarking and targeted bottom-up analysis.[81] For H7, the UK CAA engaged CEPA and Tailor Airey who conducted a

[81] H8 method statement and business plan guidance

base-step-trend approach to forecasting Opex and Commercial Revenues.[82] The CAA intends to widen the evidence base for H8 to inform its forecasting by including further consideration of international benchmarking and targeted bottom-up analysis.

Other considerations for 2026 Determination

7.47 We will also need to have regard to certain factors which are specific to Dublin Airport in the 2026 Determination period.

New lines of Commercial Revenues

7.48 A new hotel near to T2 is due to open by the end of 2026, which will generate a new source of Commercial Revenues relative to historic levels. The developer for this project is the Arora Group, a franchise partner of Accor in the UK and the owner of both the Sofitel London Heathrow Airport and the Sofitel London Gatwick Airport.[83] We will have to consider the most appropriate method to estimate revenues from the hotel, which Dublin Airport will address in its Regulatory Proposition in the first instance.

Incentives for revenue maximisation

7.49 Users have previously argued there is no benefit in incentivising Dublin Airport to improve certain categories of commercial revenues. This has specifically been argued in relation to commercial services which Dublin Airport offers to airlines where no alternative option is available, for example in the case of Access to Installations (ATI) fees.[84] Since 2009, we have set ATI fee caps in order to address concerns from Users about 'double counting' associated costs. which lie within the single till. Dublin Airport is thus de-risked in respect of ATI fee revenue. We expect to continue this established approach in the 2026 Determination.

Interaction between Commercial Revenues and other building blocks

7.50 Another issue for the 2026 Determination is the interactions between Commercial Revenues and other building blocks; in particular, Opex and Capex, and passenger forecasts should be internally consistent with the Commercial Revenue forecasts.

Aeronautical versus Commercial Revenue classifications

7.51 Airport Charges, from which Dublin Airport collects aeronautical revenues, are defined in line with the definition of Airport Charges in the ACD, as *'levies collected for the benefit of the airport managing body and paid by the airport users for the use of facilities and services, which are exclusively provided by the airport managing body and which are related to landing, take-off, lighting and parking of aircraft, and processing of passengers and freight'*.[85]

7.52 Under the single till structure, all revenues earned by Dublin Airport must be reported as either commercial or aeronautical revenues, unless they have been till-exited. Often, the distinction between Airport Charges and Commercial Revenues is clear, but in some instances, due to the nature of a particular service, it is less than clear.

7.53 Stakeholders have previously put forward varying views in relation to the regulatory treatment of the US Preclearance revenues. Some airlines were of the view that the US

[82] Review of H7 Opex and Commercial Revenues: Final Assessment and Forecasts (Commercial and Cargo)
[83] https://www.dublinairport.com/latest-news/2024/11/06/ground-breaking-ceremony-takes-place-for-new-412-room-hotel-at-dublin-airport
[84] Statutory Instruments No. 505 of 1998 mandates us to determine whether Dublin Airport's ATI fees are relevant, objective, transparent, and non-discriminatory
[85] LexUriServ.do

Preclearance facility should come under the schedule of aeronautical charges and thus be subject to price cap regulation. If this approach was taken, then Dublin Airport would not be incentivised/permitted to maximise revenues from this service. It would otherwise be cost neutral in itself, as, while the price cap would be somewhat higher, all else equal, the same US Preclearance Revenues would have to be included as aeronautical revenues for price cap compliance purposes too.

7.54 Previously, Dublin Airport has opposed treating the US Preclearance service as aeronautical. It has taken the position that it does not carry out any passenger processing in the US Preclearance facility, meaning it could therefore not be considered an airport charge under the ACD. Dublin Airport has also said it could not be considered the monopoly provider of such services, given that Shannon Airport also offers US Preclearance.

7.55 The treatment of US Preclearance is a question of legal interpretation. If respondents think that we should consider this question further, they should outline their positions in that regard in response to this paper rather than at a later point in the process.

7.56 The current FastTrack facility at Dublin Airport currently has a bespoke regulatory accounting treatment, given that a portion of revenue earned from each sale is treated as Commercial Revenues, and a further portion treated as aeronautical revenue. Unlike the provision of other aeronautical services, Dublin Airport also has a role in selling FastTrack services directly to passengers. Again, if respondents think that we should consider this question further, they should outline their positions in that regard in response to this paper, rather than at a later point in the process.

Risk allocation

7.57 As outlined in Section 4, there is a question as to whether we should make any changes to the allocation of Commercial Revenues risk relative to the status quo, whereby risk is allocated to Dublin Airport (with the minor exception of ATI fees). As set out in that section, and also for the reasons set out in the previous section in relation to Opex, we do not propose to make any changes. We consider that any changes in Commercial Revenues risk allocation would have to be accompanied by corresponding changes in Opex risk allocation.

Consultation questions

- What factors, in your view, have driven the outperformance in the period from 2023 to date?
- What approach(es) should we adopt to forecasting Commercial Revenues? What considerations do you think should be accounted for?
- How should we ensure that the forecast balances challenge with achievability?
- Do you see any benefit from further disaggregation of the Commercial Revenues forecasting categories, relative to the 2022 Review Decision?
- Should we consider a broader range of drivers? If so, which drivers?
- What data should we rely on? Given the varied trends over time, should we continue to place weight on significantly dated data (such as pre-2010 data)? Or, like is done commonly in relation to cost of capital analysis, should we place more or exclusive weight on more recent data?
- Should we continue to use rolling schemes in some or all categories? If so, should we retain a cap on total outperformance of the rolling schemes? Does 10% remain appropriate?
- Do you think we should make any changes to the regulatory accounting treatment of any revenue lines as between commercial and aeronautical revenues?

- Do you agree that we should not make any changes to the allocation of Commercial Revenue risk?

8. Cost of Capital

8.1 In this section, we discuss the Cost of Capital, which is the estimated efficient rate of return for the Dublin Airport regulated entity on its assets. As explained above, this rate of return is combined with value of the RAB to generate the return on capital to be included for each year. Here we describe in detail the approach taken in the 2022 Review Decision, which (at a high level) was largely in line with the Original 2019 Determination. We also lay out some key considerations for the 2026 Determination.

8.2 The Cost of Capital should be estimated such that it would enable Dublin Airport to remunerate shareholders and holders of debt for the required capital to support the development of efficient infrastructure. It should, therefore, balance rewarding existing investors appropriately (which enables investment, in the interests of Users), and protecting the interests of Users from excessive levels of profit being extracted by Dublin Airport.

2022 Review Decision

8.3 In 2022, Swiss Economics supported the IAA in estimating the efficient Cost of Capital for Dublin Airport. Most aspects of the methodology remained in line with the Original 2019 Determination. In both decisions, we took account of the 2016 recommendations of the Thessaloniki Forum of Airport Charges Regulators, regulatory precedent in different sectors and countries, along with recent regulatory decisions.[86] Although the cost of capital may vary between different regulated sectors, there are some generic market-based components which ought to be similar, if decisions are made at a similar time.

8.4 As in previous determinations, the efficient rate of return was estimated in real terms, using the Weighted Average Cost of Capital (WACC) approach. This methodology involves estimating the cost of equity, and estimating the cost of debt, and then assigning a weighting to each of those estimates using the estimated efficient level of gearing. The pre-tax WACC is estimated using the following formula:

$$\mathbf{WACC} = \mathbf{g} \times \mathbf{Rd} + \frac{\mathbf{1}}{(\mathbf{1}-\boldsymbol{t})}(\mathbf{Re})(\mathbf{1}-\mathbf{g})$$

where:

Gearing = $g = \frac{Total\ Debt}{Total\ Debt + Total\ Equity}$ Rd = Pre-tax Cost of Debt

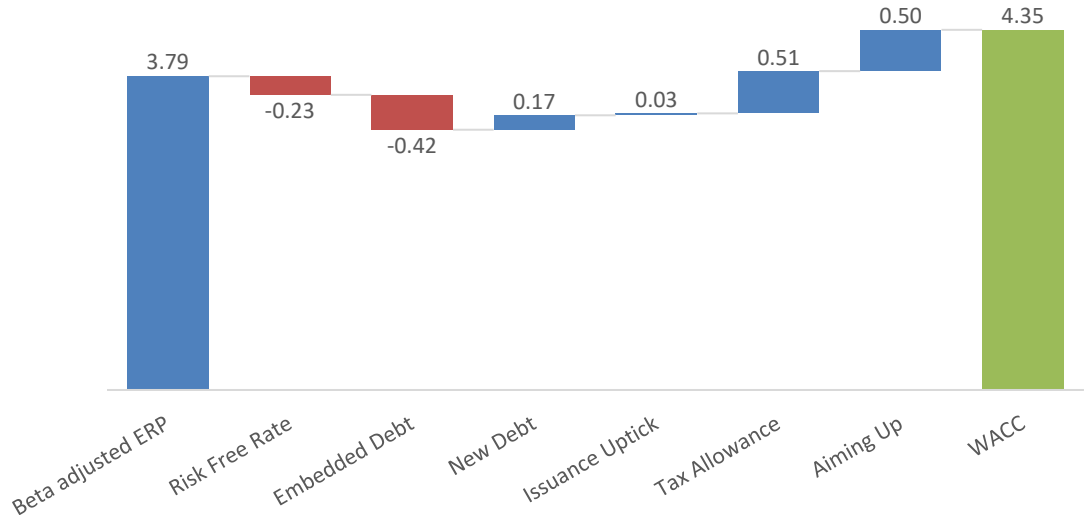
Re = Post-tax Cost of Equity t = Corporate Tax Rate

8.5 The components of the WACC include both macroeconomic variables, and airport-specific estimates. For example, the risk-free rate was estimated based on general market data, whereas the equity beta and cost of debt were estimated with specific reference to Dublin Airport.

8.6 A range was estimated for each component of the WACC. The midpoint of each range was taken as a point estimate, and then an explicit 'aiming up' component was added, resulting in a pre-tax WACC of 4.35%. The contribution of various components is outlined in Chart 8.1 below.

[86] thessaloniki-forum-wacc-dec-16.pdf

Chart 8.1: Contribution of components to the current real WACC, percentage points



Source: 2022 Review Decision, IAA Calculations

8.7 As noted above, these components are in real terms, which means that forecast inflation was deducted from them.[87] As appears from the chart, the largest component of the real WACC was the equity risk premium, as adjusted using the asset beta we estimated for Dublin Airport. This is essentially the additional profit allowance above the level of the profit that would be required to fund a risk-free entity.

Cost of Equity

8.8 The cost of equity is the rate of return expected by equity investors (shareholders) in the company to compensate them for the risk they bear by investing in the company. In the case of a non-listed company such as Dublin Airport, it cannot be observed directly, and so must be inferred from available evidence. This theoretical estimate can be conceptualised as a profit allowance for the regulated entity, which can be returned to shareholders as either retained earnings (increasing the value of their shareholding) or dividends. In the 2022 Review Decision, the real post-tax cost of equity was estimated at 7.13%. The cost of equity was estimated using the Capital Assets Pricing Model (CAPM), which is given by the following formula:

$$\mathbf{Re = Rf + \beta_e \times (Rm - Rf)}$$

Re = Post-Tax Cost of Equity Rf = Risk-Free Rate

β_e = Equity Beta Rm = Total Market Return

$(Rm - Rf)$ = Equity Risk Premium

Risk-Free Rate

8.9 The risk-free rate is the theoretical rate of return on an investment with zero risk. The level of the risk-free rate can be assessed using a benchmark security as a proxy for an asset with zero risk. Theoretically, this proxy should have:

- No variance, i.e. a guaranteed fixed return;

[87] The RAB is indexed to inflation, so a real WACC is required to avoid double counting inflation.

- No liquidity or reinvestment risk;
- No currency risk; and
- No risk in connection to inflation.

8.10 In 2022, as in 2019, we derived the risk-free rate from a combination of historic averages of Irish and German government bond yields, and forward rates which indicate market expectations on future yields and inflation. German bonds are typically considered close to risk free, and appropriate to use where Dublin Airport can raise funds in European markets. However, we also used Irish government bonds as a benchmark, in line with the Thessaloniki Forum recommendations.

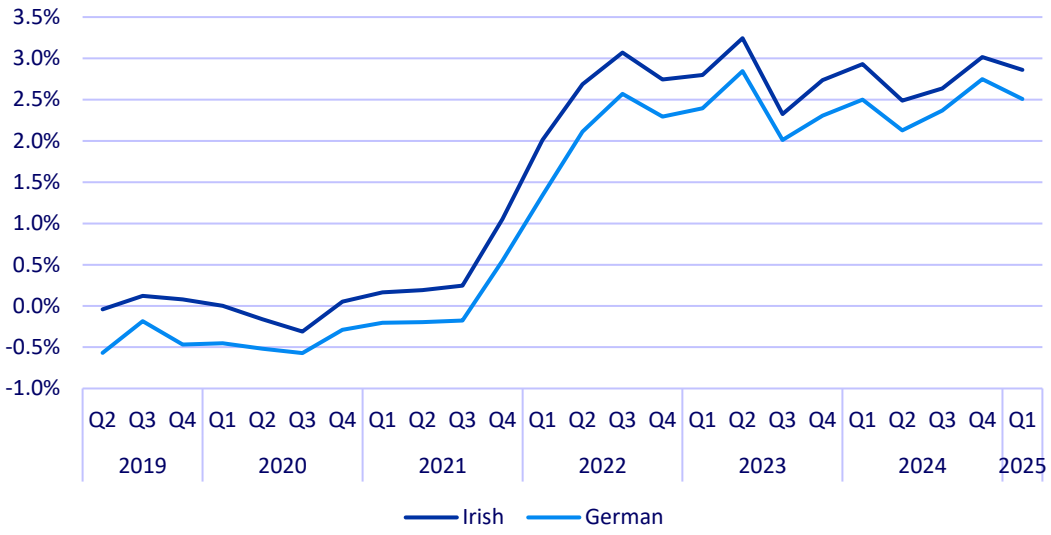
8.11 Relative to 2019, we amended the methodology by using a shorter averaging period of 6 months to estimate the upper and lower bound of the risk-free rate, to account for an observed transition to a higher inflationary period, which raised doubts over the predictive power of long-run historical averages. We allowed a real risk-free rate of minus 0.45%.

8.12 The use of a shorter 6-month averaging period in 2022 was to account for the observed transition to a period of higher than target inflation. This trend now appears to have come to an end, with inflation back around the ECB's target of 2%, but with interest rates remaining relatively elevated. The use of a short averaging period for the 2026 Determination could risk over-stating the risk-free rate if the yields on government bonds are to fall in the coming years, while taking a more longer-term averaging period could risk understating the risk-free rate if bond yields remain elevated, or indeed, begin to climb again.

8.13 In our Final Decision on the RP4 draft Performance Plan for air navigation services (the 'RP4 Decision'), of October 2024, we observed that nominal bond yields for both Ireland and Germany have increased in recent years as the ECB carried out a cycle of interest rate increases.[88] Notwithstanding that the current cycle has come to an end, yields remain elevated. Our initial belief is therefore that for this upcoming determination, it is likely that the risk-free rate will increase relative to the 2022 estimate. Notwithstanding some methodological differences, this is in line with a report prepared for the UK Civil Aviation Authority (CAA'), and published on 1 November 2024, for the purpose of reviewing the methodology for determining the WACC for Heathrow Airport in the next price control period, which estimates a real risk-free rate of 1.29% when using updated market data and the same H7 methodology, compared to the H7 estimate of 0.59%.[89]

[88] rp4-final-decision_final.pdf
[89] Cost of Capital Strategy for H8. RPI-deflated.

Chart 8.2: Nominal 10-Year Bond Yields



Source: MarketWatch and IAA Calculations. End-of-quarter average.

Beta

8.14 Within the CAPM formula, the company-specific beta coefficient captures the extent of systematic and undiversifiable risk related to holding the equity in question. In essence, it measures the degree of correlation between (hypothetical) returns of Dublin Airport equity and returns of a market portfolio. The unlevered beta (or asset beta) isolates the risk solely due to an entity's assets, removing the impact of debt. The asset beta can then be re-levered based on the level of gearing and tax rates to calculate the equity beta within the CAPM formula. The higher the equity beta, the greater the exposure to systematic risk, and consequently, the higher the return expected by investors.

8.15 In 2022 (as in 2019), the asset beta was estimated primarily based on estimates of nine exchange-listed comparator airports, which were retrieved using regression analysis of stock price movements. In each case, information on how closely each comparator airport's regulatory environment, demand structure, and business structure aligned with Dublin Airport was then used to weight the empirical observation within our estimate for Dublin Airport. This resulted in an asset beta estimate of 0.6, which was a significant increase on our 2019 estimate of 0.5. The asset beta was re-levered using the notional gearing ratio and the effective corporate tax rate, leading to an equity beta estimate of 1.13.

8.16 In contrast to the circumstances pertaining in 2022, the period impacted by the Covid-19 pandemic has now substantially passed, with any longer-term changes now observable. The pandemic resulted in a sharp but short-lived increase in the systematic risk airports were perceived to be exposed to, as reflected in asset betas in 2020. Analysis carried out by FTI Consulting for the UK CAA in 2024 suggests that although betas remain, on average, somewhat higher than pre-pandemic, they have fallen from the highs initially observed.[90] This is in line with our assessment in respect of the asset beta for AirNav Ireland for RP4, where we found post-pandemic aviation infrastructure betas to be close to pre-pandemic (2019) levels, but remaining slightly elevated.

8.17 In 2022, we used 1-year, 2-year, and 5-year betas, consistent with the methodology of the 2019 Determination, but within that did not place weight on data from 2020, for various

[90] Cost of Capital Strategy for H8

reasons as outlined in the 2022 Review Decision. We expect that sufficient time has now elapsed to assess the asset beta with the benefit of a significant amount of post-pandemic data which is not impacted by the temporary spikes during, in particular, 2020.

8.18 We note that, in its assessment for the UK CAA, FTI Consulting included rolling averages of 1-, 2-year, and 9.5-year betas. No weight was given to 5-year beta values as the proportion of observations affected by the pandemic relative to total observations was c.50%. The use of a 9.5-year beta allowed for a more longer-term view of the risks faced by investors when investing in airports (both prior to, during, and post-pandemic).

8.19 In the RP4 Decision, we set an asset beta of 0.55 for AirNav Ireland, reflecting an increase of 0.05 on our 2021 estimate. This uplift reflected the corresponding general increase in comparator betas which has been observed since the pre-pandemic period.

Table 8.1: European Aviation Infrastructure Asset Betas

Estimate Type	Name	Entity Type	Decision Year	Lower Bound	Upper Bound	Point-Estimate
Based on market data	ADP	Airport, France	2023	0.54	0.56	0.55
	Fraport	Airport, Germany	2023	0.49	0.54	0.52
	AENA	Airport(s), Spain	2023	0.56	0.69	0.63
	ENAV	ANSP, Italy	2023	0.62	0.76	0.69
Early view	Heathrow	Airport, UK	2024	0.44	0.61	-
Regulatory decision	AirNav Ireland	ANSP, Ireland	2024	0.50	0.60	0.55
	Heathrow	Airport, UK	2023	0.44	0.62	0.53
	Dublin Airport	Airport, Ireland	2022	0.59	0.61	0.60
	NERL	ANSP, UK	2023	0.52	0.70	0.61

Source: UK CAA, IAA

Equity Risk Premium – Total Market Returns

8.20 The CAPM framework predicts that investors will require a premium for holding equity in assets which are inherently risky, as opposed to assets which are not (e.g. government bonds). This is referred to as the Equity Risk Premium (ERP). It is the excess return earned by investors above the risk-free rate. Typically, the ERP is expressed as the difference between expected returns of the market portfolio (Total Market Returns -TMR) and the risk-free rate.

8.21 Irish regulatory precedent has historically looked at the ERP as an isolated and stable component of financial markets. However, as we set out in 2019, evidence suggests that the ERP is counter-cyclical, with deviations from the long-term average of the ERP during a relatively short regulatory period having a substantial impact on the estimated WACC. The TMR is generally considered to be more stable over time compared to its individual components, and therefore potentially better suited for estimating the ERP.

8.22 In 2022, we estimated the TMR based on a combination of Dimson, Marsh and Staunton's historical data from 1900 to the present for Ireland, along with forward-looking evidence from a Dividend Discount Model, to reach a final estimate of 6.25%. The ERP was then derived as the difference between the TMR and the risk-free rate.

8.23 In the RP4 Decision, we noted that recent regulatory decisions have broadly demonstrated the TMR to be relatively stable over time. The UK Regulators Network ('UKRN') also recommends the use of the TMR to estimate the ERP for this reason.[91] In that context, and in the interest of regulatory consistency, absent any strong reason to do otherwise, our current thinking is to follow this approach again for the 2026 Determination, rather than estimating the ERP in isolation.

Table 8.2: TMR Assumptions in Regulatory Decisions

Decision	Year	Low	High
CRU – Irish Water	2019	6.30%	6.75%
Comreg – Telecoms	2020	6.65%	6.65%
CRU – ESB & Eirgrid	2020	5.70%	6.75%
IAA – AirNav Ireland	2021	6.00%	7.00%
IAA – Dublin Airport	2022	5.70%	6.81%
CAA – Heathrow Airport	2023	5.20%	6.50%
CAA – NERL	2023	5.20%	6.50%
IAA – AirNav Ireland	2024	5.82%	6.71%

Source: CRU 2019, Comreg 2020, CRU 2020, IAA 2022, CAA 2023, IAA 2024,

Cost of Debt

8.24 Irish regulators have traditionally used a debt premium approach to estimate the cost of debt. This involves assessing the spread which creditors require to lend to the regulated entity rather than investing in a risk-free asset with a guaranteed return at the level of the risk-free rate. Accordingly, the cost of debt under this approach is the sum of the risk-free rate (as addressed above) and a debt premium.

8.25 Prior to 2019, we focused on the cost of new debt exclusively, in line with the debt premium approach, believing that the actual cost of embedded debt may contain inefficiencies that should not be considered. However, in 2019, the cost of debt was derived using weighted estimates of embedded debt and new debt, recognising that the cost of debt estimate should imply an efficiency target that is achievable within the regulatory period. In making this methodological change, we believed that without the possibility of refinancing inefficiently raised embedded debt (if any), the scope for achieving efficiencies in respect of embedded debt was limited.

8.26 The cost of embedded debt was calculated based on the cost of existing debt and a forecast of how existing debt agreements would be drawn down over the 2023 – 2026 period. In real terms, we thus estimated a cost of embedded debt of between -0.41% and –0.33%, with a point estimate of -0.37%. In 2022, the methodology remained unchanged from that of the Original 2019 Determination, with the point estimate for embedded debt falling by 92 basis points in 2022 due to a decline in nominal interest rates and higher expected inflation rates compared to 2019.[92]

8.27 For the cost of new debt for the Original 2019 Determination, we used a notional investment horizon of 10-years, but given continued evidence that the average time to maturity at issuance of Dublin Airport's debt was approximately 15-years, in 2022 we used a notional lender investment horizon of 15-years for the calculation of the cost of new debt. This meant that we focused entirely on bond yields of an index for corporate (non-financial) bonds with

[91] CoC-guidance_22.03.23.pdf
[92] The real cost of embedded debt is primarily driven by inflation forecasts.

a remaining maturity of more than 10-years and a BBB investment grade rating as a benchmark. In order to transform this evidence to BBB+, we also considered yields from an A-rated non-financial corporate bond index. The average remaining time to maturity of the bonds included in these indices was approximately 14-years.

8.28 Noting the transition to a higher inflationary period which raised doubts over the predictive power of long-run historical averages, we deemed it reasonable to reduce the averaging period for the estimation of the cost of new debt to 6-months, instead of relying on 1-, 2-, and 5-year averages.

8.29 Based on this amended methodology, the allowed real Cost of New Debt ranged from between 1.20% and 1.39%, with a point-estimate of 1.29%.

8.30 We also included an issuance costs uptick. The calculation of the uptick was based on the actual issuance cost incurred on embedded debt, as well as the average of forecast embedded debt over the 2023-2026 regulatory period. The issuance cost uptick was then calculated by dividing the total annual issuance cost write-off with the average forecast embedded debt capital, leading to an issuance cost uptick of 5 basis points.

8.31 In estimating the weighting between the cost of embedded debt and the cost of new debt, we used our forecast of the debt structure of Dublin Airport, leading to a 27% share for new debt and 73% for embedded debt. The final estimate of the real cost of debt was -0.45%.

8.32 For the 2026 Determination, it may be appropriate to continue to take both embedded and future debt into consideration, along with issuance costs. However, there are some potential benefits to the notional debt premium approach:

- The debt premium can be set on the basis of an assessment of an efficient financing scenario. There is therefore an assumption that any embedded debt which may have been financed inefficiently is not passed on to Users, and the regulated entity is more incentivised to achieve efficient financing arrangements as a result.
- Estimating the cost of issuing new debt using the yield rates of comparable companies can provide reassurance that efficient financing arrangements are being sought and achieved.
- The debt premium approach is a simpler, easily understood approach in comparison to forecasting future debt levels and market conditions.

8.33 However, there are also corresponding downsides to the debt premium approach:

- If there are inefficiencies in the financing arrangements of embedded debt, the debt premium approach assumes it is possible for the regulated entity to re-finance this debt, which may not be the case.
- The debt premium approach, although simpler, is notional, and may not reflect the actual situation faced by a specific company. This may lead to or exacerbate any financing challenge which would need to be addressed in the context of financial viability in any case.
- The debt premium approach may not properly reflect the actual cost of borrowing faced during volatile periods like the Covid-19 pandemic.
- Using a standardized approach, there is potential for over- or under- compensation depending on the actual debt structure of a regulated entity.

8.34 Another possibility is to deploy a combination of the two approaches, by assessing the cost of debt from both perspectives before deciding what weight (if any) should be applied to each.

Gearing

8.35 In 2022, the cost of debt and cost of equity were weighted based on a notional capital structure of 50% gearing. We used a notional capital structure, which is a theoretical efficient value, rather than the actual financial structure of Dublin Airport. The gearing remained unchanged from the Original 2019 Determination as we did not see any compelling reasons to change the methodology.

8.36 We also note that the effect of the gearing assumption on the resulting WACC is typically small, because it affects two different components of the WACC in an offsetting manner. Whereas a higher gearing assumption leads to a higher equity beta and, hence, to a higher cost of equity, higher gearing, by definition, also reduces the weighting of the (more expensive) cost of equity relative to the cost of debt in the WACC calculation.

Aiming-Up Allowance and Summary

8.37 In 2022, we included an aiming-up allowance of 0.5 percentage points, as also included in the Original 2019 Determination. The reasoning remained unchanged from the 2019 Determination:

- Risk of measurement errors in the WACC components;
- Asymmetric economic effects of underinvestment relative to overinvestment, since underinvestment is likely to have asymmetric dynamic effects on welfare;
- No implicit aiming-up was included in the other WACC components.

8.38 The inclusion of an aiming up allowance in the past has also been linked to decisions in other building blocks, such as Capex and financeability. We currently remain of the view that the possible effects of underestimating the WACC would have more serious risks than overestimation. Underestimation of the WACC can lead to disincentives to invest. Long-term effects of underinvestment are likely to have a greater overall impact on the interests of Users than those of safeguarding for estimation errors by including an aiming-up allowance. The scale and timing of Dublin Airport's CIP may be relevant in this regard for the 2026 Determination.

8.39 Underestimation of the WACC, which can be mitigated through the inclusion of an aiming-up allowance, may also risk allowing potential underperformance in other Building Blocks to impact the operational performance of the airport. An aiming-up allowance provides mitigation against this risk by providing a buffer, meaning that even significant financial underperformance has the effect only of reducing profit, rather than impacting service provision. Therefore, although borne by Users, an aiming up allowance can safeguard against unsatisfactory performance over the regulatory period as well as support the delivery of necessary infrastructure.

8.40 There may, or may not, be a basis for increasing Dublin Airport's regulated revenue stream, as a result of financeability analysis. As discussed in Section 3, although enabling Dublin Airport to operate and develop in a financially viable manner is no longer one of our explicit statutory objectives, it remains an implicit requirement in our other objectives. There are several ways to increase Dublin Airport's regulated revenue stream, with the inclusion of an aiming-up allowance one such means. In 2019 and 2022, the effect of the aiming-up allowance was not to increase charges in the short-term, but rather to reduce the extent of required pre-funding. This topic is addressed further in Section 10.

Summary

8.41 Table 8.3 summarises the results of the analysis outlined above, and the resulting WACC estimate.

Table 8.3: WACC Components from the 2022 Review Decision

Component	Range	Estimate
Gearing	45% - 55%	50%
Tax Rate	-	12.50%
Risk-free Rate	-0.85% - -0.06%	-0.45%
Total Market Return	5.70% - 6.81%	6.25%
Equity Risk Premium	6.15% - 7.26%	6.71%
Asset Beta	0.59 - 0.61	0.60
Equity Beta	1.11 - 1.15	1.13
Cost of Equity	5.99% - 8.29%	7.13%
Cost of Embedded Debt	-1.19% - -1.13%	-1.16%
Cost of New Debt	1.20% - 1.39%	1.29%
Issuance Cost Uptick	-	0.05%
Share Embedded/New Debt	-	73%
Cost of Debt (at BBB+)	-0.50% - -0.40%	-0.45%
Aiming Up	-	0.50%
Pre-tax WACC	**4.04% - 4.54%**	**4.35%**

Source: 2022 Review Decision

8.42 We note that the FTI Consulting report providing an early view of the WACC for HAL ahead of H8, using the H7 methodology but updating for new data and the expected shift from RPI to CPI/CPIH, calculates HAL's overall WACC as 4.62%, an increase of 53 basis points from H7.[93]

Considerations for the 2026 Determination

8.43 We expect to again use the WACC methodology to estimate the Cost of Capital, and within that, the CAPM formula to estimate the cost of equity. At a minimum, it will be necessary to update the parameters appropriately for new data. Further, certain aspects of the detailed application of the methodology (such as the time horizons/averaging periods) were quite specific to the circumstances pertaining in 2022. Where those circumstances may now have changed, it will be necessary to re-consider such points.

8.44 We are also cognisant of the importance of maintaining regulatory consistency. In that regard, there may be merit in an approach where we effectively start from the 2022 methodology, and consider what (if any) methodological changes should be made. This should not, however, preclude amending a methodological approach where warranted, particularly where new evidence or a persuasive rationale has been provided.

Consultation questions

- To what extent we should rely on 'rolling forward' the 2019 and/or 2022 methodology into the 2026 Determination? Are there WACC components where we should now take a different approach, and if so, which ones and why?

[93] Midpoint estimate. CPI/CPIH-deflated.

- What data sources should we use, for each component?
- To what extent should we rely primarily or exclusively on recent data versus data over a longer time horizon; should this vary by component and why?
- In calculating the RfR, what is the most appropriate averaging period to use, and does the use of both Irish and German government bonds remain appropriate?
- How should we estimate Dublin Airport's asset beta?
- Does it remain appropriate to estimate the ERP using the TMR, or are there any compelling reasons to estimate the ERP in isolation?
- With respect to the cost of debt, is it appropriate to continue to use the 2022 methodology, or is there merit to returning to a debt-premium approach, or a combination of both?
- Are there any compelling reasons to change the notional gearing approach?
- In what circumstances (if any) should we include an 'aiming up' allowance?
- What cross-checks or sense checks should we carry out in relation to the WACC components and/or the overall WACC?

9. Capital Expenditure

9.1 In this section, we explore the key issues relating to capital expenditure (Capex). We review the approach to reconciling outturn Capex against allowances, provide an analysis of Dublin Airport's Capex in the current regulatory period, and outline how we propose to address Capex in the 2026 Determination in a number of key respects. We note again that cost figures are in April 2025 prices, unless stated otherwise.

9.2 In estimating the level of Capex for a determination period, the IAA seeks to provide allowances for projects which meet the needs of Users, or otherwise are aligned with our Statutory Objectives. We aim to set efficient allowances for such projects, i.e. an allowance which is not higher than necessary to deliver the required outcome. Unlike other building blocks, decisions in relation to Capex, and also the projects delivered by Dublin Airport, continue to directly drive outcomes for Users across multiple regulatory periods; expenditure is not necessarily linked to short term trends. This poses a particular challenge in terms of risk allocation and balancing the following considerations:

- Efficiency incentives, and reasonably protecting the interests of Users from the risk of remunerating inefficient expenditure.
- Flexibility to adjust plans within the period.
- Providing certainty to Dublin Airport in respect of the remuneration of efficient expenditure.

9.3 While our approach to forecasting the efficient level of Capex involves an assessment of each individual project presented by Dublin Airport, we consider that a level of flexibility within the overall capital allowance is a necessity. Within the regulatory period, Dublin Airport may need to adjust its capital expenditure plans to meet unforeseen needs or react to a changing environment. This flexibility must also be combined with regulatory certainty over the remuneration of efficient costs incurred in the delivery of such projects.

9.4 Under the ACD, Dublin Airport is required to be transparent and consult Users on its investment plans.[94] Below, we discuss how Dublin Airport has previously conducted consultations on its investment plans, and the regulatory requirements in relation to monitoring and reporting.

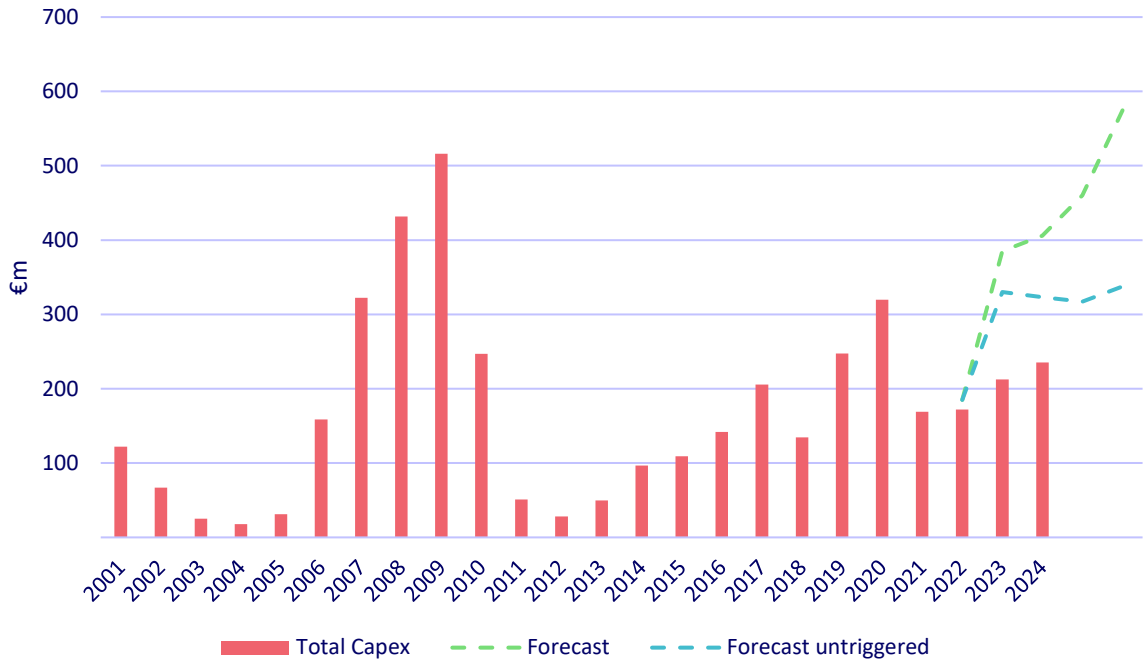
Historic Capex Trends

9.5 Chart 9.1 illustrates the cyclical nature of capital expenditure at Dublin Airport over the period 2001-2024. Following a peak owing to the construction of Terminal 2 in the late 2000s, total Capex decreased substantially between 2010-2013. Spending increased again from 2014 and, with the exception of 2018, shows consistent year on year growth until 2021, when annual Capex was 47% lower than the 2020 level.

9.6 As also shown below, expenditure has overall been well below the forecast/allowance in the 2022 Review Decision. The triggers have largely not been met, given that the major capacity/passenger experience enhancing projects are currently held up in the planning process as part of Dublin Airport's Infrastructure Application. Nonetheless, as shown below, expenditure even on untriggered projects (such as asset care, sustainability, and commercial) is also materially below the assumptions from 2022.

[94] 2011 SI, ACD

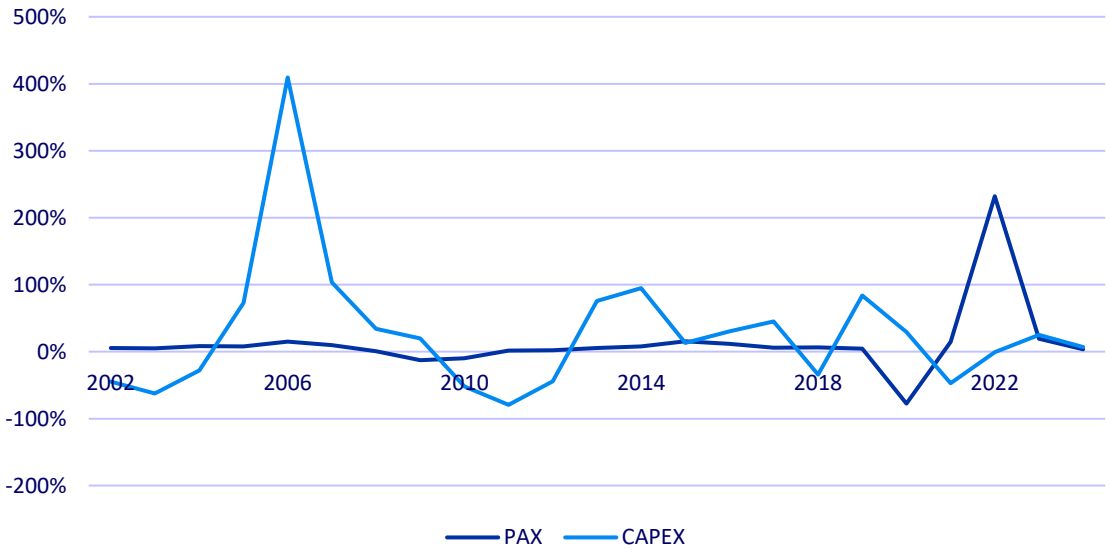
Chart 9.1: Outturn Capital Expenditure 2001-2024, and forecast 2022-2026



Source: Dublin Airport, IAA calculations

9.7 Chart 9.2 below reflects the independence of annual Capex and passenger numbers. Unlike other building blocks such as Commercial Revenues and Opex, annual Capex is not linked to passenger numbers in the same year.

Chart 9.2: Capex and Passenger Year on Year Growth Rates



Source: daa regulatory accounts, IAA calculations

Approach to Capital Costs

RAB-based approach

9.8 To date, we have followed a Regulatory Asset Base (RAB) approach to estimating the capital costs. The RAB is the stock of capital investments for which we intend to make ongoing

provision in determinations. Capital costs include the return on capital, and the return of capital (depreciation). Depreciation is included in the price cap as the RAB depreciates according to the depreciation profiles of the assets in the RAB. The return on capital is calculated by multiplying the estimated WACC by the average RAB. We propose to continue to use the RAB-based approach in the 2026 Determination.

Depreciation profiles

9.9 The level of depreciation is determined by the asset life and the depreciation profile assigned to the asset. In recent determinations, we have chosen to depreciate the RAB by means of annuities, rather than straight-line depreciation. The depreciation profile is scaled such that when the depreciation amount is combined with the allowed return on capital, the capital cost allowance for Dublin Airport is the same for each year of the asset life of a given project. The aim of this approach is that Users pay the same amount for the asset until the asset is life expired. If we were to use straight-line depreciation, then Users would pay the same amount in depreciation costs, but the return on capital would decrease over time. We propose to continue to use annuitized depreciation profiles in the 2026 Determination.

9.10 In previous determinations, we have reviewed Dublin Airport's suggested asset lives and adopted them except where we consider that it does not reflect the likely full useful life of the asset. We have also taken the approach that in general, infrastructure should not be prefunded, except where required for financeability purposes. Instead, the depreciation profile should be linked to the timing of delivery of the project.

Efficient allowances

9.11 Our intention is to make provision for efficient allowances for CIP27 projects which are in the interests of current and future airport Users. The meaning of an efficient allowance is the minimum cost of delivering a required or desirable project outcome. The aim is to incentivise Dublin Airport to deliver each project to the optimal cost/quality balance which maximises the value the project provides for current and future airport Users.

9.12 In the 2026 Draft Determination, we intend to address the question of the need for or desirability of the projects, including in respect of the timing. Where this is agreed by stakeholders within Dublin Airport-led consultation process, we expect to give effect to that agreement. Where there is disagreement, we will consider the weight of opposing arguments with regard to our objectives, in particular our objective to further the interests of current and future Users.

9.13 As part of the 2026 Determination, we intend to engage the Independent Fund Surveyor to assess the projects proposed by Dublin Airport in terms of scope and cost efficiency. We also expect to carry out airfield/airspace and terminal building analysis (such as simulation modelling) to assess/validate Dublin Airport's proposed CIP in terms of capacity and service standards.

Trigger projects

9.14 Triggered capital cost allowances enter the price cap during a regulatory period, in a manner which is specified in the regulatory formulae, if a given event occurs or condition is met. The trigger amount for a particular project is calculated on the basis of some or all of the capital costs of the project. Such events/conditions fall into two categories:

- Demand/Outcome based triggers, intended to address uncertainty in relation to the need for the project. The trigger event is linked to a particular level of demand (such as passenger volumes) or the crystallisation of a requirement (e.g. a regulatory decision).
- Profiling/Reprofiling triggers, intended to address uncertainty in relation to when the project will be delivered rather than the need for the project. The trigger event is linked to the completion of the project, and/or potentially also to earlier delivery phases to assist with financing, where necessary.

9.15 In 2022, we included eight new triggered capital allowances (profiling tiggers). To assist with financing, based on the circumstances as they stood at the time, we decided that 80% of the capital costs would enter the price cap once the relevant project was on-site and had obtained full planning permission, with the balance to enter once the project was operational. Rolling forward this approach into the 2026 Determination may see the extent of any required prefunding change, or potentially fall away.

9.16 We consider that there may be merit in making extensive use of profiling triggers in the 2026 Determination, particularly in the context of the uncertain timelines for delivering major projects at Dublin Airport, particularly due to the current planning process. This allows the determination to remain fully fit-for-purpose both in a scenario where the project is progressing, but also where it is delayed (as the trigger mechanism delays the remuneration accordingly). On the other hand, demand or outcome-based triggers have led to some difficulties and unintended consequences, and even a requirement to carry out an interim review in one case in order to undo those consequences. We did not include any new ones in the 2019 Determination; our current thinking is that we are unlikely to do so in the 2026 Determination either, unless there is a particular reason for doing so in a particular case.

Flexibility and Ongoing Oversight

9.17 As noted above, we aim to strike an appropriate balance between setting efficient allowances, while affording within-period flexibility to adapt the programme or projects but maintaining appropriate oversight and consultation. The main flexibility mechanisms are:

- The StageGate process.
- Grouped allowances.

9.18 Each project in the CIP is assigned to either enter the StageGate process, or to sit within one of the grouped allowances. If it sits within the grouped allowances, it is designated as either 'Flexible' or 'Deliverable', as explained below. In the 2022 Review Decision, projects making up 66.7% of the total allowed investment plan (by value) were included in the StageGate process. Flexible projects made up 20.7% of the value, while 12.7% was designated as Deliverable.

StageGate

9.19 The StageGate process was introduced as part of the Original 2019 Determination for certain large-scale projects. The process involves Dublin Airport, Users, the IAA, and an Independent Fund Surveyor (IFS) to continue to assess cost developments of the projects across their development and construction phases. The output from the process then feeds through to the IAA's final decision on cost allowances for the projects, which will be made after they are complete. It should be noted that the StageGate process does not change the price caps within the determination period. The process runs on a regular cycle, up to four times per

year, following which the IAA issues a decision report on the cycle.[95] StageGate projects pass through three stages:

- The StageGate 0 allowance is based on the initial cost and scope assessment, undertaken in relation to all projects as part of making the determination. Depending on the level of design development, this assessment may be relatively high level, based on an outline design. These cost estimates are included in the price cap calculations as the *ex-ante* allowance.
- The StageGate 1 allowance is based on a detailed scheme design and costing, undertaken at the appropriate time within the regulatory period and submitted to the IAA and IFS as part of the regular quarterly cycle. All StageGate projects must go through StageGate 1.
- Following the re-estimation of the allowance at StageGate 1, StageGate 2 provides a forum for ongoing flexibility and consultation in relation to potential cost and/or scope changes, until the project is complete. Again, submissions in relation to any projects at the StageGate 2 phase may be made to the IAA and IFS as part of the regular quarterly cycle.

9.20 Dublin Airport decides when to advance a project to StageGate 1. Ideally, this should occur at the point where the proposal is underpinned by a good degree of cost certainty, but where there still remains scope to change the project based on consultation and/or IFS feedback. This implies a time window near the end of technical design, equating to when a project is between RIBA stages 4 (Technical Design) and 5 (Construction).[96] The IFS requires Dublin Airport to demonstrate that it has tried to maximise value and has properly considered available options to address a particular need.

9.21 In the 2019 Final Determination report, we set out five permutations (labelled 'A' to 'E') which address the various possible scenarios of agreement/disagreement between Dublin Airport, Users, and the IFS at the StageGate 1 phase. These govern our approach to the project when rolling forward the RAB into the next determination period.[97] They have been applied in the current regulatory period, and will underpin the roll-forward of the RAB in the 2026 Determination in relation to StageGate projects.

9.22 Our current thinking is that the StageGate process has been largely successful in achieving its aim of providing flexibility while maintaining proportionate oversight. We expect to continue the process into the 2026 Determination period. We do not propose to make major changes. In respect of the structure of the process and decision-making permutations, we think that the process could benefit from enhanced clarity over the likely remuneration of projects in certain circumstances under permutations 'A', 'D', and 'E'. In certain cases, where, for example, a given User objects to a project at StageGate 1, the current permutations involve the IAA issuing a decision report which acknowledges the objection, but leaves over the resolution until the next determination. Similarly, at StageGate 2, the IAA's concluding report does not include a decision on the IAA's likely treatment of the allowance at the next determination.

9.23 The IAA is not permitted improperly to fetter its discretion, or to make a determination on the maximum level of airport charges other than through the process outlined by Section 32(2) of the 2001 Act (or to amend that determination other than through Section 32(14)). However, such decisions within the StageGate process do not involve making a determination on the maximum level of Airport Charges; instead, the outcome from the StageGate process generates likely consequences for Airport Charges in subsequent regulatory periods. The High Court has previously confirmed that '*there is nothing*

[95] https://www.iaa.ie/commercial-aviation/economic-regulation/airport-charges/stagegate
[96] https://www.architecture.com/knowledge-and-resources/resources-landing-page/riba-plan-of-work?srsltid=AfmBOopSmRa4p9axsWpXWRoEbMMcwZA7NMuCUz2GlSs_qeocAQpNYoJu
[97] https://www.iaa.ie/docs/default-source/car-documents/2019-determination/final-determination/2020-2024-determination.pdf?Status=Master&sfvrsn=1fcb14f3_0 , Figure 9.3, page 113.

inappropriate in the making of an immediate decision as to the inclusion…of assets into the RAB even though the effect of such inclusion… may have its principal, or indeed only, practical consequence for user charges during some subsequent regulatory period.' [98]

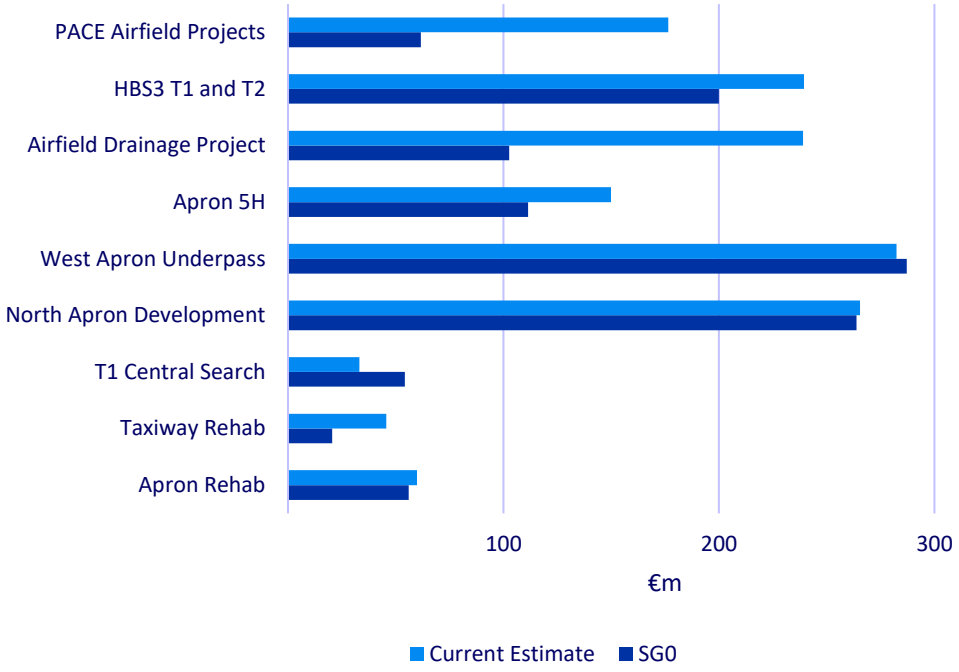
9.24 A decision on the IAA's expected treatment of the allowance within the subsequent determination (which will remain, as it must, subject to further consultation within that process) does not pre-determine that determination any more than do the decisions in relation to the RAB in earlier determinations. A decision on the likely approach in these regards does not preclude a different approach ultimately being taken if there are exceptional changed circumstances which warrant it. Further, all of this is predicated on the broader assumption that the current regulatory building blocks model remains in place. If the IAA were to decide to move away from that model in the subsequent determination, then the entire question would fall away.

9.25 Consequently, we propose that for the 2026 Determination period, and subject to the foregoing, the IAA's concluding reports would include a decision on our likely treatment of the allowance within the subsequent determination(s), in respect of projects at either the StageGate 1 or StageGate 2 phases. This would also remove the potential need for a further supplementary Capex process, as referenced under permutation 'D'. As is the case currently, we would publish this report following hearing from interested parties, and affording them the opportunity to make submissions in relation to the projects in question as part of the relevant cycle.

9.26 In relation to observed trends within the current period, we note that, with the exception of the West Apron Vehicle Underpass and T1 Central Search, projects which Dublin Airport brought to StageGate 1 were assessed by the IFS to have an efficient allowance (StageGate 1) higher than the initial StageGate 0 allowance. In the case of a limited number of projects, Dublin Airport submitted StageGate 2 applications for allowances in excess of the StageGate 1 allowance set by the IFS. In Chart 9.3 we reflect the current efficient estimate of the StageGate projects which have been progressed by Dublin Airport.[99]

[98] Ryanair Ltd v Commission for Aviation Regulation [2008] IEHC 148
[99] We note that some of the SG1 allowances were not agreed by all airlines. The efficient allowance refers to the IFS' most recent estimate (including SG2 allowances where relevant).

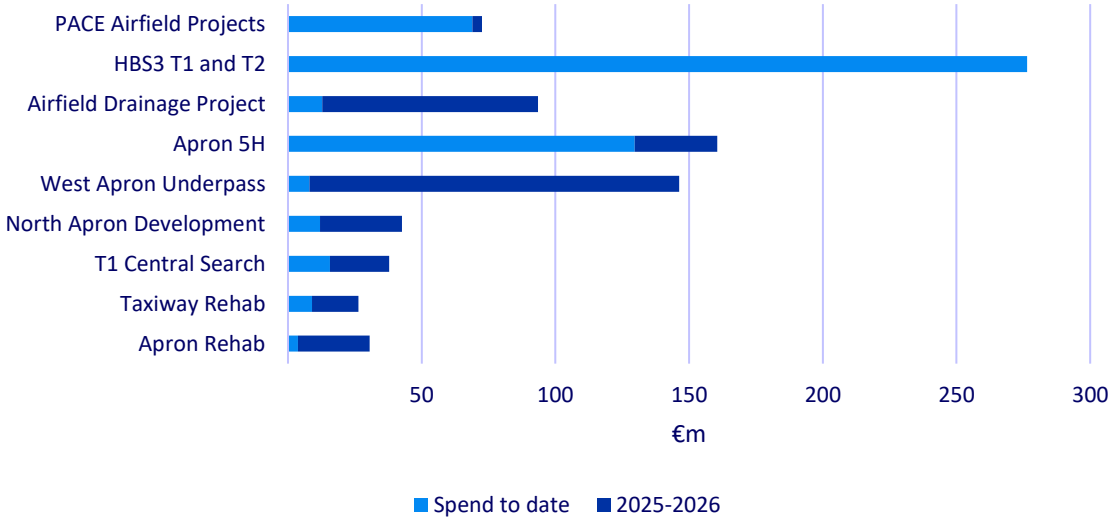
Chart 9.3: StageGate 0 versus latest allowances



Source: Dublin Airport, 2022 Review Decision, IAA calculations. Nominal Allowances for reconciliation purposes.

9.27 The StageGate projects have collectively accounted for the largest share of expenditure compared to any other category over the 2019 Determination period to date. In nominal terms, expenditure on StageGate projects accounted for 58%, 55% and 40% of total spending in 2022-2024 respectively.[100] In 2025 and 2026, expenditure on StageGate projects is expected to be 48% and 64% of total spending.

Chart 9.4: Expenditure on StageGate Projects to date and 2025-2026 Forecasts



Source: Dublin Airport, IAA calculations. Forecasts for 2025-2026 are latest from Dublin Airport.

[100] StageGate expenditure includes spending on PACE projects where the initial allowance was subsequently used as a StageGate project, for example the Critical Taxiways projects.

Grouped allowances

9.28 For projects which are smaller, or the StageGate process would otherwise be disproportionate, Dublin Airport is afforded a degree of flexibility through the grouped allowance reconciliation approach. In the 2022 Review Decision, we grouped the Capex allowances as follows: Asset Care, Capacity, Commercial, IT, Security, Sustainability and Other.

9.29 By reconciling expenditure at the group level, Dublin Airport has the flexibility to reallocate funds to other projects which would fall under that grouping. The reallocation mechanism is not limited to projects which were included in the original CIP; that is, new projects can be added and/or original projects can be dropped. Deliverables are projects which must be delivered, or else its associated efficient allowance is deducted from the overall group allowance. On the other hand, if a Flexible project is not delivered, the grouped allowance does not change.

9.30 Thus, the group allowance is revised down for undelivered Deliverables (if any). Outturn expenditure is compared to that allowance, and either actual expenditure or the allowance (whichever is lower) is the relevant figure for the opening RAB for the subsequent determination.[101] Like StageGate projects, the reconciliation is done in nominal terms before being converted to real terms in the RAB. Table 9.1 below provides a worked example of reconciling a grouped allowance under a number of scenarios.

Table 9.1: Sample Reconciliations of a Grouped Allowance

	Scenario 1	Scenario 2	Scenario 3
Group Allowance	€100m	€100m	€100m
Value of Deliverable(s)	€20m	€20m	€20m
Deliverable(s) delivered?	Y	Y	N
Adjusted Group Allowance	€100m	€100m	€80m
Outturn Expenditure	€110m	€98m	€81m
Enters RAB	**€100m**	**€98m**	**€80m**

Source: IAA. Note that Scenarios 1 and 3 assume that no Interim Consultation on increasing the allowance took place.

9.31 Previously, we have not applied strict criteria when designating a project as Deliverable, but rather considered projects on a case-by-case basis. Most projects within the grouped allowances have been classified as Flexible. Factors which we have previously taken into consideration when classifying a project as Deliverable include:

- Projects with a very specific output that cannot be substituted by a different project.
- A project where the output is necessary to fulfil legal or regulatory requirements.
- A relatively larger-scale project.
- Projects which span regulatory periods.
- A project which has previously received an allowance but was then deferred or dropped.

9.32 Where, within the regulatory period, Dublin Airport considers that it is necessary or beneficial to spend more than the grouped allowance, it must hold a consultation on the proposed increase to the group allowance. In doing so, it must outline the group projects which it has already delivered, any reallocations and new or dropped projects, and why, based on that

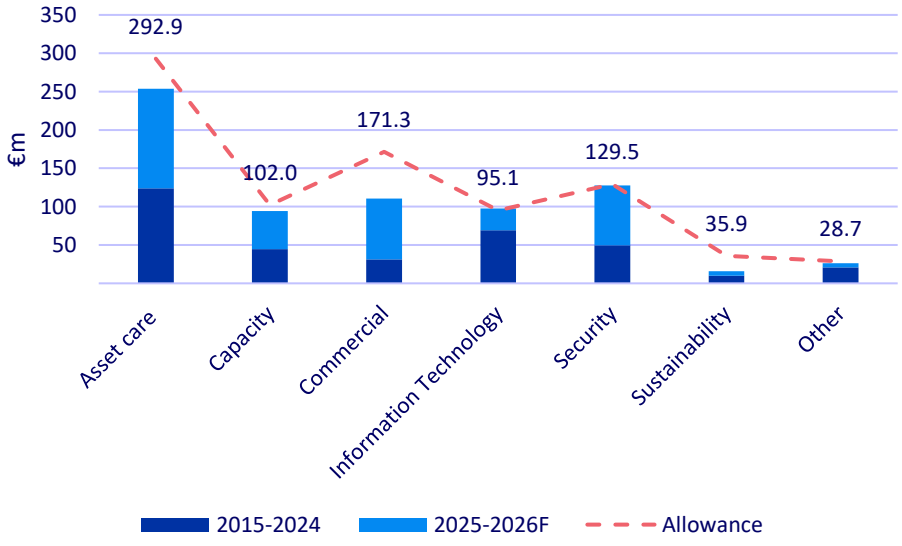
[101] 'Outturn' expenditure may include short-term/committed ongoing expenditure, where appropriate.

analysis, the group allowance is insufficient to deliver all of the necessary or beneficial projects. Dublin Airport must take account of any views expressed by consultees. Any group overspend without such consultation is likely to mean that there is no basis to allow the overspend. Like StageGate, an interim consultation does not change the determined price caps, but rather feeds into the subsequent determination.

9.33 Our current thinking is to continue with the grouped allowance approach in the 2026 Determination, broadly in line with the current approach. Similar to the StageGate projects, we consider that, where Dublin Airport holds an Interim Consultation on increasing the allowance, a subsequent short decision from the IAA on whether the IAA is likely to apply the increased allowance in the subsequent determination would be helpful. This would mitigate the risk of continuing uncertainty, which could undermine Dublin Airport's ability to deliver the projects. It would also improve the level of comfort over setting potentially lower grouped allowances initially, where those could be increased, where appropriate, without significant delay, leading to a reduction in the level of clawback relative to what might arise due to underspends in the current period. This approach is possible for the same reason outlined above in respect of our StageGate concluding reports. We consider that this approach, combined with StageGate, will likely mean that the previous Supplementary Capex Process will no longer be required.[102]

9.34 In the 2022 Review Decision, three out of seven grouped allowances included at least one Deliverable project. This means that should Dublin Airport not deliver such a project (s), when reconciling outturn expenditure we will reduce the group allowance by the value of the undelivered Deliverable. Chart 9.5 illustrates the level of expenditure by each grouped allowance to end 2024, and the forecast level for 2025-2026 relative to the allowance set in the 2022 Review Decision. If Dublin Airport's forecast level of expenditure in 2025-2026 materialises, then it will have spent just 44% and 64% of its allowance on Sustainability and Commercial projects respectively.

Chart 9.5: Grouped Allowance expenditure to end 2024, and 2025-2026 forecast relative to allowance

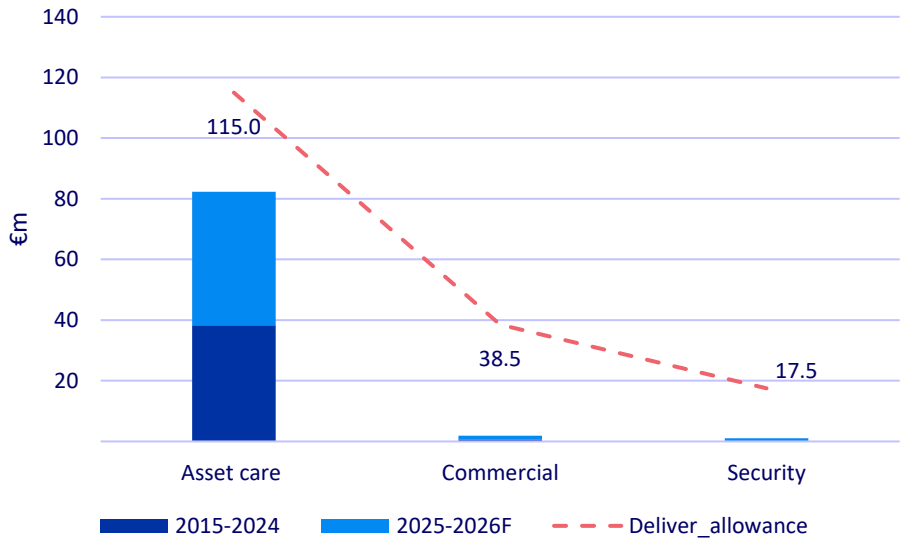


Source: Dublin Airport, IAA Calculations.[103]

[102] https://www.iaa.ie/docs/default-source/car-documents/supplementary-capex-decision/2016-12-09-decision-on-process-for-supplementary-capex-allowances.pdf?Status=Master&sfvrsn=1bac14f3_0
[103] Security allowance and forecast expenditure is inclusive of the additional €20m consulted on and not objected to by Users.

9.35 Chart 9.6 illustrates Dublin Airport's spending on Deliverables for the Asset Care, Commercial and Security Groups. Based on outturn and planned expenditure in the Commercial and Security groups in particular, it appears that Dublin Airport may not deliver the designated projects. If this is the case, in the 2026 Determination we will reduce the grouped allowance accordingly, as set out in the 2022 Review Decision.

Chart 9.6: Deliverables Expenditure v Allowance



Source: Dublin Airport, IAA Calculations, 2022 Interim Determination

Proposed Approach to 2026 Determination

9.36 Overall, as reflected above, we are not proposing any major methodological changes relative to the 2019 Determination, as amended. In summary:

- We do not propose to change the RAB-based approach, and will derive the 2027 opening RAB based on drawing together and updating the various elements of Capex, in line with our previous decisions and commitments. This will include adjusting the opening RAB for any underspend of capital costs already remunerated, offset by any allowed overspend from StageGate projects or interim consultations.
- We do not propose to change the approach to modelling capital costs through annuitized depreciation profiles, nor how we determine or validate the associated input assumptions.
- We propose to engage the IFS to carry out an efficiency assessment of Dublin Airport's Capital Investment Programme for the regulatory period (CIP27).
- We propose to assess/validate CIP27 from the capacity and service standards perspective, likely through simulation modelling.
- We propose that the IAA will assess the projects in terms of need and/or alignment with our Statutory Objectives, as well as regulatory treatment in terms of flexibility mechanisms, and time profiling/deliverability.
- We do not propose to make major changes to the flexibility mechanisms (StageGate and grouped allowances), other than the proposal that the IAA would publish its expected decision in relation to future allowances following each StageGate cycle, and following an interim consultation on increasing a grouped allowance (if any).
- We expect to make significant use of profiling triggers, but are unlikely to adopt new demand/outcome based triggers.

CIP27

9.37 The key substantive aspect of Capex for the 2026 Determination will be the assessment and treatment of CIP27. The formal Capex consultation process, led by Dublin Airport, will commence in 2025. We expect that the consultation approach will be similar to the 2019 Determination, which we considered to be an effective and well-run consultation process, which ultimately resulted in a significantly improved level of consensus relative to previous investment programmes. We expect that, in particular, the following will be addressed in relation to each project:

- An update on delivery in the current regulatory period and the approach to CIP27.
- The need for/merit of the project, underpinned by a capacity analysis and/or other evidence (such as business cases) where appropriate.
- The cost estimate and the basis upon which costs have been estimated (with more detailed information to be provided to the IAA/IFS, and potentially to consultees subject to NDA).
- The planned delivery timeline and underlying assumptions (including taking into account phasing, and the relevant planning stream).
- Proposed regulatory treatment, including asset life, flexibility mechanism (i.e. whether StageGate, Flexible, or Deliverable), and whether the capital costs should be triggered or not.

9.38 Given the extension to which the current CIP has been delayed, we expect that significant elements may be substantively rolled forward into CIP27, potentially with some adjustment to scope and/or cost. Notwithstanding the planning delays, and the pandemic, there has been a number of significant projects delivered during the 2019 Determination period; in particular, the North Runway, Apron 5H and various taxiway improvements, standard 3 Hold Baggage Screening in both terminals, and the transition of the security processors to C3 cabin baggage screening combined with security scanners. Going into the 2026 Determination, these areas and in particular the airfield, are likely to be less constrained than in 2019, meaning that the capacity constraint has shifted to gates and contact stands. The inability to deliver these in a timely manner is likely to continue to lead to reduced quality outcomes for Users, in terms of increased bussing and towing of aircraft off and on stand.

9.39 Dublin Airport's various Capex programmes are currently underpinned by and in line with a rolling Masterplan. Each new Capital Investment Plan (CIP) should continue to be guided by this long-term plan as this will ensure that the airport is developed in a coherent and structured way. We note that there are a number of important strategic decisions which may arise during the 2026 Determination; for example, the medium/long term approach to T1 and whether it should be comprehensively refurbished or alternatively replaced, and whether the crosswind runway 16-34 should be retained as an operational runway.

9.40 The IAA will attend the Capex consultations, and any workshops organised by Dublin Airport. We expect Users to engage in a comprehensive and constructive manner with the Dublin Airport-led process, and we expect Dublin Airport to take careful account of any such submissions and explain why particular feedback was or was not reflected in the final CIP. It is important that Users engage fully with the Dublin Airport-led process rather than waiting for the IAA's Draft Determination. We would not generally expect to receive new submissions in relation to the CIP27 projects where those submissions were not made to Dublin Airport, unless there is a good reason for failing to raise it initially.

Supporting Net Zero

9.41 The ANTA, as discussed, sets out that in making a determination the IAA must seek to '*take*

account of the policies of the Government on aviation, climate change and sustainable development'.

9.42 Dublin Airport has committed to reducing its direct emissions (Scope 1 and 2) by 51% by 2030 in line with the public sector targets set as part of the National Climate Action Plan and is ultimately working towards achieving net zero carbon emissions by 2050 at the latest. [104][105]

9.43 In the 2022 Review Decision, we introduced a 'Sustainability' Capex grouping comprised of €425m in sustainability related capital projects, the majority of which were included in the StageGate process.[106] The primary purpose of this category of expenditure was to enable Dublin Airport to meet its sustainability requirements and obligations, which aligns with our objective in relation to government policy described in Section 3.

9.44 In CIP27, we expect Dublin Airport to again submit a number of projects with a sustainability focus. While we will want to ensure that the determination provides for efficient and necessary expenditure to support Dublin Airport in meeting its environmental obligations, we expect to receive robust business cases which explain how the proposed investment supports Dublin Airport's commitment to achieving net zero by 2050. The business case should describe how the project will facilitate Dublin Airport in reaching its long-term environmental targets in a cost-efficient way.

9.45 The UK CAA previously proposed to introduce a reputational sustainability incentive for London Heathrow (HAL). The reputational incentive would not involve any financial implications for HAL for its performance against this measure, but its performance would be published to inform consumers and airport stakeholders about operations at the airport and their wider environmental impact. Ahead of H8, the UK CAA is proposing to adopt HAL's current carbon measure as the basis for its reputational incentive. [107]

Consultation and reporting requirements

9.46 We currently require Dublin Airport to report regularly on the delivery of capital projects against its CIP timelines. The updates follow a RAG delivery scale, and the reports are published on the IAA website. We intend to impose similar requirements on the reporting of capital project delivery relative to the CIP27 timeline in the next determination.

Consultation questions

- Do you agree with our proposed approach to modelling capital costs, and assessing CIP27? If not, what do you think we should do differently and why?
- Do you agree with our proposed approach to flexibility, in respect of the StageGate process and grouped allowances, with the minor modifications outlined above? If not, what do you think we should do differently and why?
- If we retain the current flexible/deliverable/StageGate approach, what factors should we consider when designating a project as Deliverable?
- If we allow for a flexible delivery approach within a group, would you be in favour of more or fewer groups? Fewer groups would afford Dublin Airport more flexibility by allowing it to

[104] https://www.dublinairport.com/latest-news/2025/04/07/20-of-dublin-airport-s-electricity-to-come-from-renewable-solar-by-2030
[105] Climate Action Plan
[106] €425m nominal
[107] The Greenhouse Gas ("GHG") Protocol requires HAL to report as follows: Scope 1 – all direct GHG emissions from activities at Heathrow Airport under its direct control (such as HAL's own vehicles, fuel required to heat terminals, etc); Scope 2 – all indirect GHG emissions from the electricity purchased for HAL's owned and operated activities; and Scope 3 – all other indirect GHG emissions from activities in relation to Heathrow Airport, occurring from sources that HAL do not own or control.

reallocate the allowance to a larger number of projects while more groups would restrict the allowance to a smaller number of related projects.

- What threshold(s) or criteria should lead to a project being designated as StageGate? Should a project's inclusion in StageGate be purely cost based?
- Do you have any feedback on the interim capex consultation process? Are there any changes you think are needed/ what worked well?
- Do you support the continued use of triggers in relation to certain capital projects? Do you propose any modification to the current approach to triggers?
- What factors should we consider when deciding if a trigger should be applied to a project?
- Given the importance of Dublin Airport delivering capital projects which will support it in achieving its climate targets, do you think the IAA has a role in incentivising Dublin Airport to deliver the sustainability-related projects in a bespoke manner? E.g. by designating more sustainability projects as Deliverables and/or through incentive mechanisms?
- More broadly, would you support the introduction of a sustainability reputational incentive as part of the Quality of Service system? Do you think it would be appropriate to set a target and/or financial incentive for this type of metric, alongside the other service quality metrics?

10. Financing and Financial Viability

10.1 In this section, we discuss financing and financial viability, in the context of the 2026 Determination. Financial viability refers to the ability to meet all financial obligations as they fall due, whereas financeability is related to raising capital. As outlined in Section 3, while we are no longer expressly mandated to do so, we intend to again assess the financeability of the 2026 Determination, because doing so aligns with our express Statutory Objectives. A regulatory settlement should not only enable the financial viability of the regulated entity, but it should also enable the regulated entity to raise any required debt or equity, at reasonable cost, which is necessary to fund the allowed Capex. For Dublin Airport, raising new equity is not an option.

10.2 In that regard, our current thinking is that we should again aim to determine a set of regulatory settlements which strike a balance between:

- Enabling Dublin Airport to generate cash flows from Airport Charges and, as necessary, to raise investment grade debt, to maintain and develop the airport infrastructure in an efficient manner in the interests of Users; and
- Protecting Users against upward pressure on the price cap in a way which, all else equal, over-rewards investors in Dublin Airport, or shields them from general business risk, or that serves to cross-subsidise the financial risk of daa group as a whole.

Statutory Objectives

10.3 From 2004 until 2022, we had as a primary statutory objective to enable daa to operate and develop Dublin Airport in a sustainable and financially viable manner. Although on enactment of the ANTA, as described in Section 3, we are no longer statutorily required to enable daa to operate Dublin Airport in a financially viable way, we intend to again consider the question of financeability. Should there be a practical challenge in raising the level of debt implicit in the regulatory settlements, Dublin Airport's ability to progress the planned investment programme would be reduced. This would lead to a situation where the interests of Users may be harmed due to the non-progression of projects which we have assessed as being in their interests. Further, increased risk may mean that a higher Cost of Capital is passed on to users through Airport Charges.

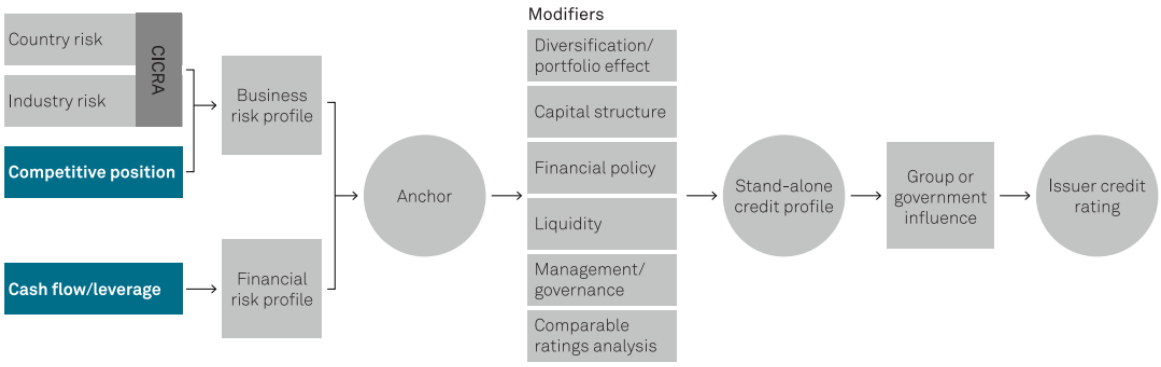
10.4 We aim to enable financeability by checking that, when all of the building blocks are taken together, debt can be raised at an investment grade credit rating. Prior to 2014, we conducted this analysis on the entire daa group. Since 2014, we have changed our focus to Dublin Airport only. We propose to continue this approach for the 2026 Determination.

Assessment of Financeability

10.5 In previous determinations, the core of the financeability assessment has been to forecast key financial risk profile metrics under our Building Block assumptions. We then check whether they meet or exceed a minimum threshold. Prior to 2019, we set these minimum thresholds consistent with maintaining an investment grade credit rating (BBB), based on the credit rating methodology of S&P Global Ratings ('S&P'), which rates daa. In the Original 2019 Determination, we ultimately decided to target thresholds consistent with retaining at least a BBB+ rating in all years.

10.6 Chart 10.1 shows the broader S&P rating methodology when rating companies such as Dublin Airport.

Chart 10.1: S&P Global Corporate Ratings Methodology



Source: S&P Global Ratings

10.7 The Anchor rating is driven by a combination of:

- the business risk profile
- the financial risk profile

10.8 The business risk profile is based on an assessment of qualitative and quantitative information to assess an issuer's ability to generate cashflows, with reference to the industry and country in which it operates. The business risk profile assesses the following factors:

- The transparency and predictability of the regulatory framework;
- The concession or contract under which the company operates;
- The potential for changes to regulatory policy and/or to government intervention; and
- The demand risk, which refers to the size and attractiveness of the catchment area, including factors such as; location, population served, wealth, economic strength and growth potential, and contribution to the regional development.

10.9 With regard to airports, S&P's business risk profile assessment takes account of the till structure in place. S&P considers that a single till approach provides more certainty to returns and earnings and is generally considered as more credit protective by reducing volatility, lowering downside but also limiting upside.[108] Additionally, S&P assesses the independence and predictability of the regulatory framework, and in particular, the ability to adjust tariffs and recover costs in a timely manner, as well as earn a reasonable return supporting access to markets.

10.10 Following this, the financial risk profile is assessed, which consists of a quantitative assessment of a company's cashflow and leverage, and ultimately its potential to meet its financial obligations, as well as service its debt.

10.11 The next block, modifiers, includes 6 additional factors: diversification/portfolio effect, capital structure, financial policy, liquidity, management/governance and comparable analysis. As these factors are not already captured in the business risk profile or financial risk profiles, they have the capability of raising or lowering the anchor by one notch. This leads to the stand-alone credit profile which looks at the creditworthiness of a company before accounting for any external support framework or potential extraordinary assistance, such as government support. Then, Government Related Entities block considers the possible

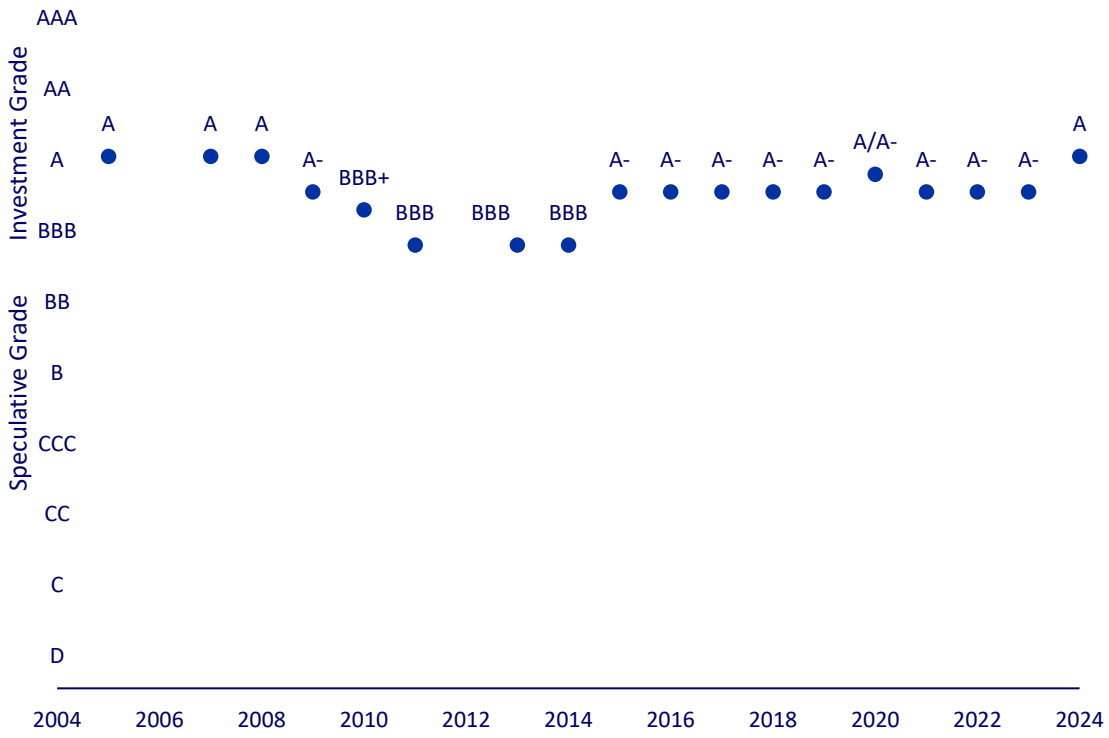
[108] https://www.spglobal.com/ratings/en/regulatory/delegate/getPDF?articleId=3401056&type=COMMENTS&subType=CRITERIA&defaultFormat=PDF, 4 April 2024, page 185

benefits of an external support framework, during periods of crisis or financial distress, available to the company.

10.12 These blocks feed into the final credit rating, which provides an overall view of the company's creditworthiness, after accounting for any external support frameworks such as from government related entities.

10.13 Based on the above methodology, S&P assigns credit ratings from a scale of AAA to D, which indicates the degree of investment risk associated with a company. Chart 10.2 displays the S&P credit ratings for daa group for 2005-2024. Since 2005, daa group has been able to maintain a minimum credit rating of at least BBB, despite significant changes in the economic environment and the industry's performance. Since 2015, daa group has achieved a credit rating of at least A-. In 2020, daa group's credit rating was increased to A, however this was brought back down to A- shortly after, as a result of the impact of the COVID-19 pandemic. In 2024, daa group's credit rating was upgraded to A, notwithstanding S&P's assumption that daa would reduce passenger traffic to comply with the 32mppa Conditions in 2025.

Chart 10.2: S&P ratings of daa, 2005-2024



Source: S&P Global

10.14 It should be noted that the trend in Dublin Airport's credit rating has closely followed the trend in Ireland's sovereign rating. Thus, the fall in daa's credit rating over 2010-2014 was closely linked to the fall in the sovereign rating during the financial crisis of the same period.

2022 Financeability Assessment

10.15 For the 2022 Review Decision, we commissioned Centrus to advise on financeability, by reviewing the initial building block pricing outcome and, if warranted, suggesting adjustments to enhance the financeability of the price control. Centrus's approach to assessing financeability was as follows:

- Assessing the ratings methodologies and credit rating reports from S&P and other ratings agencies.
- Considering the impact of events which have taken place since the Original 2019 Determination, such as the Covid-19 pandemic, the global energy crisis, and other major macro events.
- Assessing the likely impact of various downsides on the forecast financials and key financial ratios of the regulated entity.
- Examining market data and funding conditions for debt issuance.

10.16 A key aspect of the financeability analysis was therefore to forecast ratios for the regulated entity under the proposed regulatory settlements to assess the forecast financial risk profile. We forecast the following ratios based on both real and nominal calculations:

- FFO/Net Debt: Measures whether the entity has the capacity to service debt within a prudent timeframe based on funds from operations.
- Net Debt/EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization): Indicates how long it would take a company to pay off all of its debt, while operating at its current level. Higher ratio outcomes indicate that a company will be unable to repay its existing debt obligations in the short term.
- FFO/Cash Interest: Assesses a company's ability to meet interest payments from operational cash flows. A higher ratio indicates a greater ability to meet these obligations as they fall due.
- EBITDA/Interest: Assesses a company's ability to cover its interest payments using its operating earnings. A higher ratio indicates a greater ability to meet these payments.
- Free Operating Cash Flow/Debt: Allows us to gain additional insight into the cash flow available to meet Capex requirements and other obligations.
- EBITDA margin: Assessment of profitability, consisting of measuring a company's operating profit based on its earnings before interest, tax, depreciation and amortisation as a percentage of its revenue.

10.17 We used nominal prices for this analysis, as this is how ratings agencies and investors would assess the financials and key ratios. Table 10.1 summarises the categorisation of cash flow/leverage analysis for low volatility companies.

Table 10.1: Coverage Ratios and thresholds

	FFO/net debt (%)	Net debt /EBITDA (x)	FFO/cash interest (x)	EBITDA/ interest (x)
Minimal	**35+**	**Less than 2**	**More than 8**	**More than 13**
Modest	**23 - 35**	**2 - 3**	**5 - 8**	**7 - 13**
Intermediate	**13 - 23**	**3 - 4**	**3 - 5**	**4 - 7**
Significant	**9 - 13**	**4 - 5**	**2 -3**	**2.5 - 4**
Aggressive	**6 - 9**	**5 - 6**	**1.5 - 2**	**1.5 - 2.5**
Highly Leveraged	**Less than 6**	**Greater than 6**	**Less than 1.5**	**Less than 1.5**

Source: S&P

10.18 In particular, the FFO to Net Debt ratio is a core coverage ratio for infrastructure companies such as airports. Consequently, this ratio was considered in the first instance in assessing the financial risk profile. We also considered the forecast Net Debt/EBITDA metric, as a secondary measure of forecast leverage. FFO/Cash Interest and EBITDA/Cash Interest are interest ratios which are also typically considered by funders as an illustration of an entity's ability to meet debt obligations.

10.19 Dublin Airport proposed a very large CIP, which we assessed to be largely aligned with the interests of Users. We assessed that, if all of that investment were to progress to the planned timeline, the financial metrics generated by our building blocks approach would likely be consistent with retaining a rating of BBB+ as well as being sufficient to access debt markets (i.e. FFO/Net Debt remained in the mid-teens and Net Debt/EBITDA less than 6.0x). But given Centrus' advice, consistent with the Original 2019 Determination approach, we aimed to enable a path to Dublin Airport achieving an FFO/Net Debt ratio above 15%, and a Net Debt/EBITDA ratio of less than 5.0x. This would support the delivery of necessary projects while mitigating immediate pressure on Dublin Airport's key financial metrics, reducing the risk of surpassing the thresholds required to maintain its S&P credit rating.

10.20 In doing so, we took account of the National Aviation Policy and dividend policy, assuming 30% of Profit After Tax would be paid to the shareholder in the base case. The National Aviation Policy was published in 2015. Chapter 5 of the policy states that it is government policy that profitable commercial state companies should pay a financial dividend to the state, with a guideline figure of 30% of after-tax profits, dependent on circumstances. The government expects the state aviation companies to have a clearly stated dividend policy to take account of their current financial circumstances and future plans. However, we note that the policy recognises that the dividend paid may be more or less than the 30% guideline depending on circumstances, and that the state-owned aviation companies return a non-financial dividend to the State in the form of wider socioeconomic benefits through trade and tourism facilitation, regional development, aviation safety etc.

10.21 We first assessed a centreline scenario with dividends paid and expected that Dublin Airport should be able to access the debt markets to raise the required level of debt while also paying dividends. In this scenario, the FFO/Net Debt ratio was in the mid-teens and Net Debt/EBITDA was less than 6.0x.

10.22 As noted by Centrus, there was a risk of company specific downsides which, if they were to materialise, may have prevented Dublin Airport from achieving the above ratios. We considered the sensitivity of the ratios to a number of different downsides, and how robust they are where we instead target Net Debt/EBITDA of less than 5. It was also important to consider the likelihood of such an event materialising, and the degree to which it is within the control of Dublin Airport and/or the effectiveness with which Dublin Airport could respond to it.

10.23 We tested the following downsides:

- Passenger numbers overforecast
- Opex underforecast
- Commercial Revenue overforecast
- Capex overspend
- Cost of new debt increase

10.24 Of these downsides, we considered that passenger numbers not materialising as forecast was the most significant, with reference to impact, likelihood, and ability of Dublin Airport to control and/or respond. In assessing this scenario, we concluded that the immediate need for some of the projects in the CIP would reduce, thus reducing the debt requirement and improving the ratios. In assessing downsides relating to Opex or Commercial Revenues, we predicted that they would have a similar impact to the passenger traffic scenario, however, we considered these downside scenarios to be both less likely and more within the control of Dublin Airport.

10.25 As we considered there to be some uncertainty in relation to the planned timelines, as noted in Section 9 we used triggers for a number of projects, rather than include them directly in the base price cap. That is, as per the centreline scenario, if the projects progressed to the planned timeline, the price cap would increase due to the associated triggered allowances. We thus further considered those downsides under two Capex delivery scenarios:

- A 'triggered' scenario where, as in the centreline scenario, the triggered projects progressed to the planned timeline and Capex totalled €1.8bn in real terms (February 2022 prices).
- An 'untriggered' scenario, where the new triggered projects were delayed and Capex was correspondingly lower at c€1.3bn in real terms (February 2022 prices).

10.26 The major trigger projects were not expected to be delivered until 2026-2029, with much of the expenditure not expected to occur until after the regulatory period. However, particularly for major projects, a significant proportion of the expenditure would be required during the regulatory period if the projects were to progress to the planned timelines.

10.27 The 'triggered' scenario showed the net debt/EBITDA ratio coming under pressure relative to Centrus' advice, exceeding 5x and thus entering the 'Aggressive' leverage category. We decided to deal with this largely through pre-funding linked to the project obtaining planning permission, getting on site, and being delivered. We concluded that an adjustment to the regulatory settlement was necessary to enhance financeability. We therefore included a combination of 80% of the capital costs of triggered projects entering the price cap the year after construction commenced, and accelerated depreciation of ultimately just €2.2m in 2024, which brought Net Debt/EBITDA to 4.9 or less in each year in both the 'Triggered' and the 'Untriggered' scenarios.

10.28 The primary reason for this approach was to provide an additional level of comfort on the ability of Dublin Airport to plan for the largest ever investment programme over a five-year period. We facilitated the renumeration of the CIP by allowing an efficient cost of capital and ensuring that the price cap enabled the financial viability of the airport, by providing for a significant degree of pre-funding of the allowed trigger projects, while accelerating a small amount of future depreciation.

10.29 Where the scale of the proposed CIP is broadly in line with the entire value of the current RAB, investment at that level, if realised, will generate significant negative cash flow which puts such pressure on the financial coverage ratios. As it has transpired, the 'untriggered' scenario has largely materialised, as the major capacity enhancing projects remain stuck in the planning process. Consequently, most of the associate Capex has not yet materialised, nor have the triggered price cap increases linked to that Capex.

Recent Financial Performance

10.30 This section provides an overview of Dublin Airport's performance over 2019 to 2024 in respect of the above metrics, compared to those forecast for 2022 to 2024 in the 2022 Review Decision. It should be noted that these metrics relate to Dublin Airport only, rather than the broader daa Group as rated by S&P.

10.31 Chart 10.3 on the left shows that Dublin Airport has significantly outperformed on the key FFO/Net Debt ratio. This is a result of higher than forecast FFO, driven by higher than forecast revenue, combined with lower than forecast net debt, which is linked to less Capex and higher revenues, which is outlined in previous sections. Chart 10.4 on the right shows that the ratio of debt to EBITDA reached a value below the maximum of 4.90 throughout the determination period. Net Debt/EBITDA outperformed for similar reasons, as did FFO/Cash

Interest and EBITDA/Interest, which are further discussed below.

Chart 10.3: FFO: Net Debt

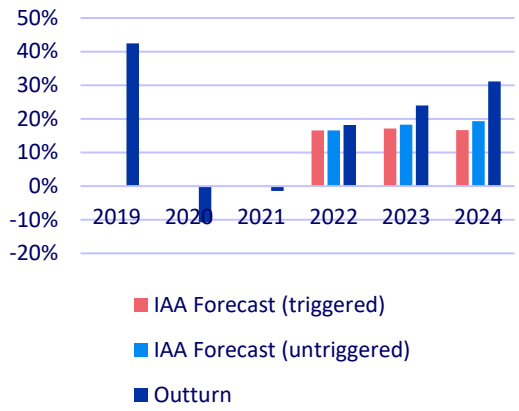
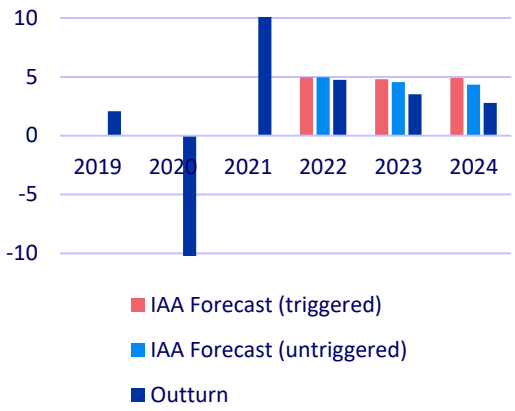


Chart 10.4: Net Debt: EBITDA



Source: 2022 Review Decision, Dublin Airport Regulatory Accounts, IAA calculations

10.32 Charts 10.4 and 10.5 show that the ratios of Funds from Operation and EBITDA to cash interest diverged from forecasted values during the period of 2019 to 2022, which can be attributed to the pandemic, having since begun to return closer to pre pandemic levels. Additionally, the 2023 FFO figure has been adjusted to exclude a historic tax outlay unrelated to the 2023 period, as S&P has also done in its report of October 2024.

Chart 10.5: FFO: Cash Interest

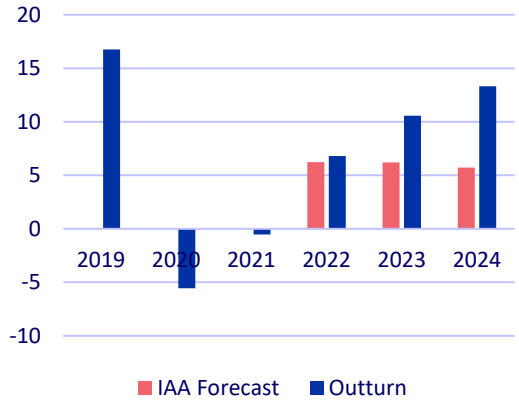
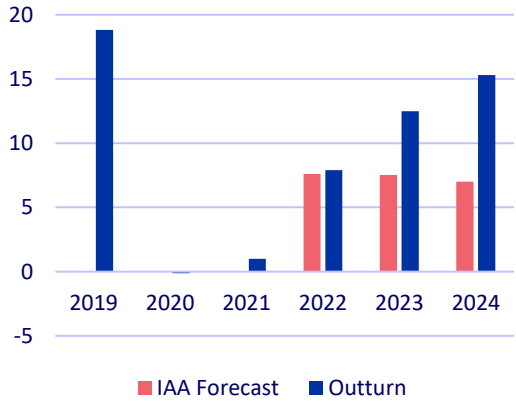


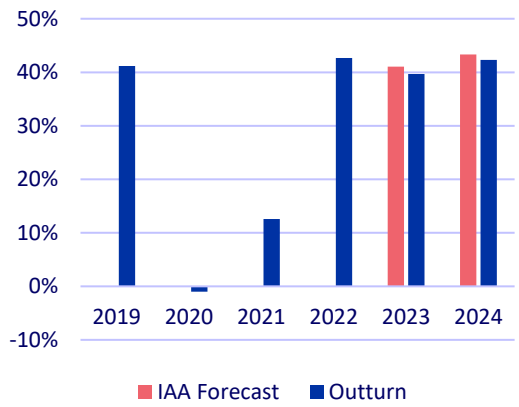
Chart 10.6: EBITDA: Cash Interest



Source: 2022 Review Decision, Dublin Airport Regulatory Accounts, IAA calculations

10.33 Chart 10.7 shows the EBITDA margin forecast and outturn figures from 2019 to present, measuring Dublin Airport's operating performance by calculating its EBITDA as a percentage of total revenue. EBITDA margin was close to our forecast, as the increased revenues and increased EBITDA broadly offset each other.

Chart 10.7: EBITDA Margin



Source: 2022 Review Decision, Dublin Airport Regulatory Accounts, IAA calculations

What to do if we identify a Financeability Issue?

10.34 For Dublin Airport to achieve the financial performance suggested by our regulatory settlement under the centreline scenario, it needs to achieve the targets we set for the Passenger Forecasts, Opex, Capex, and Commercial Revenues building blocks, albeit on a net basis. For example, outperformance in relation to Commercial Revenues could be used to fund underperformance in Opex, and vice versa. Overall, we look to set challenging but achievable targets. Within a determination period, Dublin Airport is expected to adjust its plans according to the evolution of the economic environment, responding optimally to unfolding events, as shown in Section 4.

10.35 However, under certain circumstances the price cap derived from the building blocks may not be sufficient to enable delivery of the regulatory settlement. For example, there may be a mismatch in the short term between cash flow and the expectations of investors. There are two main reasons for this in relation to Dublin Airport. First, airport investment can be lumpy in nature, so there are peaks and troughs in the debt requirements, whereby, during an expansionary phase there may be a short or medium term impact on the financial metrics. Second, Dublin Airport cannot make a call on equity due to its ownership structure and must rely on retained earnings and debt to fund investments. The result is that the actual gearing may be higher than the optimal gearing at times.

10.36 In those circumstances, there are a number of options available to improve the financial ratios implicit in the determination:

- Amendments which reduce the debt requirement by reducing or re-profiling forward the capital investment programme.
- Amendments which increase the price cap at no cost to the airport, such as adjusting the WACC (for example, including or increasing an 'aiming up' allowance).
- Amendments which reprofile revenues from future periods into the current regulatory period, for example by reprofiling/accelerating depreciation, or prefunding of projects which amounts to the same thing (such as the 'A' triggers in 2022). These adjustments are net present value neutral.

Proposed Approach to Financeability Assessment

10.37 Our current thinking is that we should apply a similar overall methodology as in 2022. Of course, the specific application of that methodology (i.e. which options are optimal to resolve

a particular financing challenge) will depend on the results of the analysis and the weight to be assigned to potentially conflicting objectives in all of the applicable circumstances.

Consultation questions

- Do you agree with our overall approach and methodology? Why or why not, and how should we otherwise assess this issue?
- Without prejudice to the first question, do you agree with the detailed application of this approach as applied in 2022? In what way (if any) should the detail of the approach be amended for the 2026 Determination?
- What reasonable downside scenarios should we model, and how?
- In what circumstances (if any) should we look to reduce or re-profile Capex allowances on the basis of identifying a financeability issue?

11. Quality of Service

11.1 A Quality of Service (QoS) system at Dublin Airport was first added to price regulation in 2009 to incentivise the delivery of high-quality airport services, and to ensure that any cost efficiencies at the airport are not made at the expense of the service standards experienced by Users. As noted in Section 3, in this context, *'User'* is defined by the 2001 Act as any person:

- *'For whom any services or facilities the subject of airport charges are provided at Dublin Airport,*
- *using any of the services for the carriage by air of passengers or cargo provided at Dublin Airport, or*
- *otherwise providing goods or services at Dublin Airport.'*

11.2 The concept of an effective QoS system is fully consistent with our Statutory Objectives. The QoS system *'protects and promotes the reasonable interests of current and prospective users of Dublin Airport'*, while also promoting *'high-quality and cost-effective airport services'*.

11.3 In this section, we discuss the current QoS system, and Dublin Airport's performance in 2023 to present. We then provide an overview of our proposed approach to QoS for the 2026 Determination.

11.4 In this determination, we intend to assess what changes, if any, are warranted, relative to the current QoS scheme. The quality level expected by airport users may have changed, or there may be new areas of service which are important to users which could be addressed by the QoS system. Similarly, some aspects may be less relevant due to changes since the 2022 Interim Review.

2019 Determination and 2022 Review Decision

11.5 As part of the Original 2019 Determination, we reviewed the extant 12 metrics, to assess whether they were still in line with User requirements. A key development was the establishment of a Passenger Advisory Group (PAG), consisting of members from a range of organisations, spanning the diversity of passengers at Dublin Airport. The PAG consisted of 13 organisations that represented leisure passengers, older passengers, passengers with disabilities or reduced mobility, and business passengers. In circumstances where we get in-depth engagement from Dublin Airport and airlines but not directly from passengers, the PAG was treated as a consultee, allowing us to gain a better understanding of passenger experiences and priorities. Feedback from the PAG was used to refine the existing measures in 2019 and to introduce 10 new metrics, all of which had been identified by the PAG of being of importance to the passenger experience.

11.6 Following the onset of Covid-19, we suspended financial adjustments associated with not meeting service quality targets in 2020 and 2021. For 2022, a limited scope financial adjustment system was reintroduced. As part of the 2022 Review Decision, we reviewed all QoS measures to ensure that they were still in line with passenger requirements. We continued to engage with the PAG as part of the process leading to the final decision, holding three meetings of the PAG to discuss our thinking on the QoS system to apply for 2023-2026. A broader QoS scheme was reinstated from 2023, drawing on the scheme outlined in the 2019 Determination, and adjusted where appropriate for developments following the pandemic.

Security Queue Times

11.7 Several targets are defined in relation to security queue times:

- All measured queue times should be less than 30 minutes, with the price cap adjustment increasing where passengers waited for more than 45 minutes;
- At least 70% of passengers should queue for less than 20 minutes.

11.8 We assessed that security queue times have a significant impact on passenger experience at the airport for most passengers. For that reason, the security queue time metric was afforded the most significant weight in terms of the associated price cap adjustments, and also made applicable daily. For example, if the queue time exceeds 30 minutes on 21 or more days, this would lead to a price cap adjustment of €0.21. In a year where there were 35m annual passengers at the airport, that equates to a potential revenue reduction of circa €7.5m for Dublin Airport.

11.9 To measure the security queue times experienced, passenger electronic devices (e.g. mobile phones) are tracked by sensors, through Bluetooth or Wi-Fi, from when they start queuing (wherever that may occur) to when they pass through the security scanner (or WTMD). No deduction is made for unimpeded walkthrough or processing time, so the targets above are inclusive of the same.

11.10 The measurement system leads to a degree of measurement error due to the technical capabilities of the sensors, and/or passengers' devices, and/or passenger behaviour. The system has filters in place which are designed to filter out spurious readings. The first is a route filter, which removes invalid observations from individuals who have not followed the security route (and so do not represent individuals who have passed through security). The other is a three-stage filter which omits inactive queueing areas. Finally, a median filter is used which assumes that in each sample, measured every minute over a 15-minute rolling window, observations above the median (50%) are considered as outliers. The highest median measure within the day is considered to reflect the highest true queue time. Any proposals to amend or adjust the measurement and/or process requires prior approval by the IAA.

Table 11.1: Maximum Security Queue Time Targets for 2023 - 2026

Target	Price Cap at Risk Daily
Breach if the security queue is:	
less than 20 minutes for less than 70% of the time but less than 30 minutes 100% of the time	-€0.005
equal to or greater than 30 minutes but less than 45 minutes, at any time	-€0.01
equal to or greater than 45 minutes, at any time	-€0.02

Source: 2022 Review Decision

11.11 Ahead of the Original 2019 Determination, we carried out an audit of the security queue time measurement system. This involved a walk-through test to check the suitability of the filters, and the collection of manual queue times to test the appropriateness of the median filter. This audit highlighted the inherent difficulty in accurately establishing maximum queue times, and the necessity of the filters to remove inaccurate queue time observations due to measurement error. The overall conclusion was that the methods used produce reasonable estimates of passenger queue times.

11.12 Further detail on this audit can be found in Appendix 4 of the 2018 Issues Paper.[109] The recommendation of the audit was that the detail of the measurement system and any costs associated with changing it should be made clear to stakeholders during consultations on

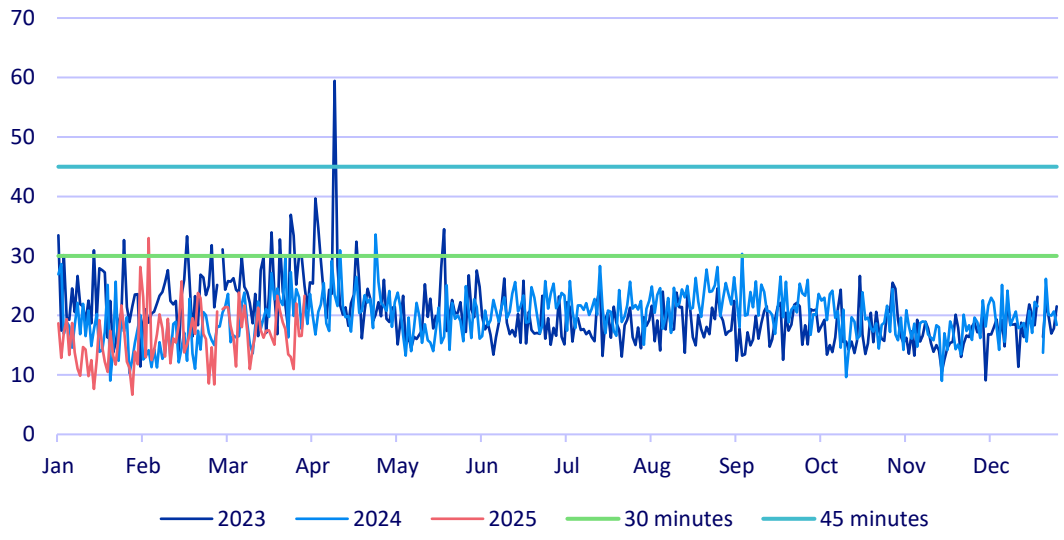
[109] Issues Paper

QoS, so that they may have the appropriate information to decide whether they are satisfied with the current system.

Overview of recent performance

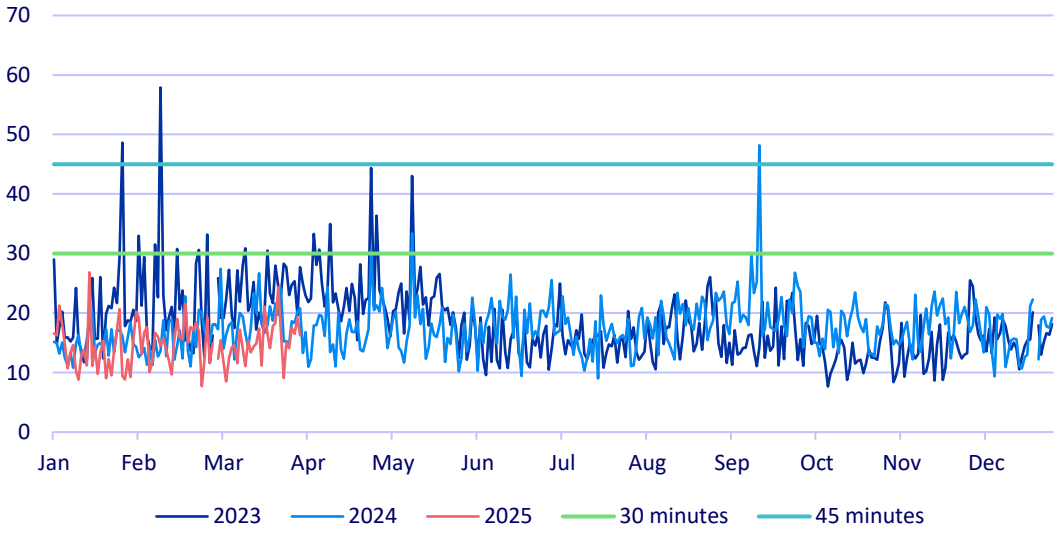
11.13 The daily maximum security queue times from 2023 to April 2025 are presented in charts 11.1 and 11.2. Dublin Airport experienced challenges in the first half of 2023 (dark blue) across both terminals, as passenger traffic recovered strongly from the impacts of Covid-19. However, by the latter half of the year performance improved, and queue times remained below 30 minutes. Performance remained strong throughout 2024, with just five days missing the target compared with 20 in 2023, and just one instance of a queue time greater than 45 minutes. This has continued in the early months of 2025, with no overages thus far.[110]

Chart 11.1: Maximum Daily Security Queue Times in Terminal 1, minutes



Source: Dublin Airport, IAA Calculations

Chart 11.2: Maximum Daily Security Queue Times in Terminal 2, minutes



Source: Dublin Airport, IAA Calculations

[110] Exceedance of the 30-minute threshold in Terminal 1 in early February 2025 was due to a BlipTrack 'false positive', which Dublin Airport clarified and was assessed by the IAA. As a result, this is not classed as a breach event.

Wait Times for Passengers with Reduced Mobility (PRMs)

11.14 In the Original 2019 Determination, we introduced a number of targets in relation to the experience of passengers with reduced mobility (PRM), who avail of additional assistance at the airport. This included a target that all passengers who have pre-advised the airport of the assistance they will require, are assisted from the terminal reception point within 20 minutes of their arrival. Additional targets were introduced to incentivise the airport to ensure that all pre-advised arriving passengers are assisted from the aircraft within 15 minutes of their arrival. Both targets were introduced on a rebate-only basis. New targets relating to the facilities available for passengers requiring additional assistance, were also added to the suite of passenger satisfaction measures.

11.15 In the 2022 Review Decision, we adjusted the targets for pre-advised and non-pre-advised departing and arriving passengers to align with the targets defined in the Service Level Agreement (SLA) in place with the service provider. In addition, we split the arriving and departing metrics into separate price cap adjustments to maintain independent incentives in the event of underperformance on either one. We also adjusted the departing metric to encompass both assistance from the terminal reception point (as was currently in place), and assistance from an external point on campus to the terminal reception point. For this target, we implemented a minimum sample size of 0.1%, noting that a very small proportion of overall PRM use this service. We included a secondary backstop target for pre-advised departing passengers to account for underperformance observed in 2022 relative to the SLA. This provided a secondary, escalated incentive to keep performance in line with 2022 levels in the event that the SLA target continued to prove challenging.

11.16 We also included annual incentives specific to PRM across some passenger satisfaction metrics (which are discussed in the subsection below). On an annual basis, Dublin Airport can achieve bonuses of €0.01 per passenger if PRM satisfaction thresholds are met.

Table 11.2: Maximum wait time for assistance for 2023 - 2026

Target	Pre-Advised	Non-Pre-Advised	Price Cap at Risk
If a passenger presents for assistance at an external point within the airport campus, they should be assisted to the appropriate terminal reception point as follows:	98% within 10 min	98% within 20 min	**Annually** -€0.01
Breach if the percentage of passengers assisted from the terminal reception point is lower than the targets as follows:	95% within 15 min 98% within 20 min	95% within 20 min 98% within 30 min	
Breach is the percentage of passengers that are assisted from aircraft to terminal holding point onwards is lower than the targets as follows:	93% within 10 min 98% within 15 min	93% within 15 min 98% within 20 min	**Annually** -€0.01
Backstop Target			
Breach if the percentage of passengers assisted from the terminal reception point is lower than the targets as follows:	90% within 15 minutes 91% within 20 minutes	None	**Annually** -€0.02

Source: 2022 Review Decision

Overview of recent performance

11.17 All assistance wait time targets with respect to PRMs were met in both 2023 and 2024. These are reported annually to the IAA.

Passenger Satisfaction Surveys

11.18 These surveys encompass elements of the passenger experience at the airport including overall satisfaction, courtesy and helpfulness of both general airport and specifically security staff, cleanliness of washrooms, ease of movement, flight information screens, and information on public transport on arrival.

11.19 In the Original 2019 Determination, for the passenger satisfaction surveys, we changed the source of the survey from the Airport's Council International (ACI) survey to Dublin Airport's Customer Service Monitor (CSM). Compared to the ACI survey, we assessed that the CSM had two main advantages:

- The CSM sample size is much larger than that of the ACI survey.
- The CSM surveys different types of passengers (i.e., departing, arriving, transferring, and those 'on my way'[111]) whereas the ACI survey only gathers responses from departing passengers.

11.20 The main disadvantage is that it is more difficult to benchmark Dublin Airport's performance, because the ACI survey is common across a large sample of airports. Nonetheless, we decided to switch to the CSM.

11.21 Under the CSM, a comprehensive questionnaire has been designed between Dublin Airport and Red C, with Red C having ownership of the sampling and surveying, but supplemented by input from Dublin Airport. With respect to departing and arriving passengers, surveying occurs on a face-to-face basis using a computer assisted personal interviewing (CAPI) approach whereby questions are answered via a tablet. Surveying of 'on my way' passengers is supplemented by an online survey to account for difficulties in conducting face-to-face interviewing.

11.22 5,500 departing passengers are surveyed annually, which includes 90 PRM and 370 transferring passengers. Surveying occurs at the departure gates and consists of a proportional sample based on scheduled flights. Similarly, 2,700 arriving passengers are surveyed in the baggage halls, including 15 PRM. For 'on my way' passengers, a sample of 2,300 passengers is surveyed, with 1,500 surveyed face-to-face, and 800 online. Face-to-face surveys are collected at each public transport area, while the online survey targets Irish residents who arrived through Dublin Airport in the previous 2 months and travelled via public transport.

11.23 Satisfaction is based on a scale from 1 to 10, with 1 indicating not at all satisfied, and 10 indicating extremely satisfied. In general, results are reported quarterly, with PRM specific results reported annually due to smaller sampling sizes. Any changes to the CSM, including the choice of survey questions and the metrics used for the QoS targets, must be agreed with the IAA.

11.24 In comparison to the CSM, the ACI survey only gathers responses from departing passengers, with an overall smaller sample size of 3,140. The survey questionnaire is designed by ACI, which also conducts the sampling and reporting. Respondents self-complete the survey via

[111] 'On my way' refers to arriving passengers who take public transport (bus and taxis).

a tablet, and are surveyed at the departure gates.

11.25 Although the results of the CSM are currently the sole input to Dublin Airport's QoS performance for the purposes of bonuses and rebates (discussed below), ACI survey responses are also gathered at Dublin Airport, with the results allowing for benchmarking of Dublin Airport against comparator airports due to the uniformity of the survey questions.

11.26 Survey based measures are an important element of the QoS system. Dublin Airport can pay a rebate for not meeting a minimum score, and can achieve a bonus if a bonus threshold indicating exceptional performance is met. Prior to the 2022 Review Decision, the passenger satisfaction measures were solely rebate- based.

11.27 In 2022, we aimed to set bonus targets at a challenging level, premised on significant improvement over historical performance if Dublin Airport was to achieve bonus thresholds. This was supported by the PAG. We therefore considered that the inclusion of a combination of upward and downward adjustments could make a valuable addition to the QoS system.

Table 11.3: Passenger Satisfaction Measures – Bonus and Rebate Thresholds

Metric	Departing	Departing with Assist.	Arriving	Transfer	Target	Bonus Target
Passenger Care						
Additional Assistance		✓			9.0	9.5
Helpfulness of Security Staff	✓	✓			8.5	9.3
Helpfulness of Airport Staff	✓	✓			8.5	9.3
Cleanliness of Terminal	✓	✓	✓		8.5	9.2
Overall Satisfaction	✓	✓	✓	✓	8.5	9.3
Cleanliness of Toilets	✓	✓	✓		8.5	9.2
Departure Gates	✓	✓			8.0	9.0
Walking Distance	✓	✓	✓		8.0	9.0
Passenger Information						
Finding your Way Around	✓	✓	✓	✓	8.5	9.0
Flight Information Screens	✓	✓		✓	8.5	9.0
Ground Transport Information on Arrival			✓		8.5	9.0
Passenger Facilities and Services						
Facilities for Passengers who Require Additional Assistance		✓			9.0	9.5
Availability of Trolleys	✓	✓	✓		8.5	9.0
Satisfaction with Wi-Fi	✓	✓	✓		8.5	9.0

Source: 2022 Review Decision

11.28 The overall cap on the survey metric financial adjustment is currently €0.15. This includes PRM specific satisfaction results, which can be achieved on an annual basis as described in the previous section. This is sub-divided as follows:

- Up to €0.07 for Passenger Care

- Up to €0.04 for Passenger Information
- Up to €0.04 for Passenger Facilities and Services

Overview of recent performance

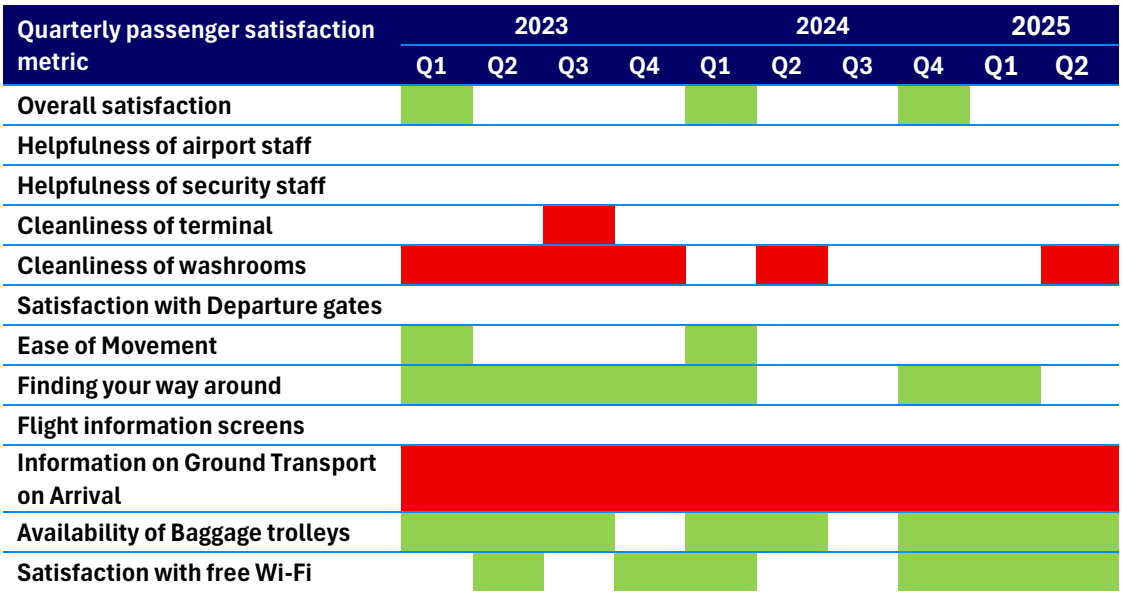
11.29 As previously discussed, the bonus targets we set for Dublin Airport in 2022 with respect to the passenger satisfaction metrics were challenging, with an expectation that significant improvement would be required to reach bonus thresholds. Nonetheless, Dublin Airport has out-performed across certain passenger satisfaction metrics even since 2023, with this out-performance continuing into 2024 and 2025.

11.30 For passenger satisfaction with 'finding your way around' Dublin Airport achieved a bonus in each quarter of 2023, two quarters of 2024, and has achieved a bonus in the first quarter of 2025. Similarly, availability of baggage trolleys, satisfaction with the free Wi-Fi, and overall passenger satisfaction have also performed to, or above, bonus thresholds across several quarters.

11.31 On the other hand, Dublin Airport has failed to meet minimum service quality levels in certain instances. Notably, minimum satisfaction levels with Information on Ground Transport on Arrival have proven challenging for Dublin Airport to achieve, as has overall satisfaction with the Cleanliness of the Washrooms, although to a lesser extent. We note, however, that results in both categories have improved, most notably with respect to the Cleanliness of the Washrooms, which is discussed in further detail below, and provides evidence of the QoS system being effective in practice, i.e. incentivising a better user experience.

11.32 The results are displayed in Chart 11.3 below. Green indicates that the bonus threshold was met, Red indicates that performance fell below the rebate threshold, and no colour is where performance was in line with expectations between the thresholds, and neither a bonus nor a rebate was accrued.

Chart 11.3: Passenger Satisfaction Performance, 2023 to present



*Source: Dublin Airport. Note, bonus and rebate results are based on an arrival **or** departure passenger basis.*

Asset Availability and Baggage Handling

11.33 For baggage, targets were set such that before the Hold Baggage Screening Standard 3 (HBS3) project was completed, outbound and inbound baggage belts in each terminal should be available 100% of the time within 30 minutes of the airline's request. Now that HBS3 has been fully implemented across both terminals, the metric is outcome based. As this measure is not based purely on asset availability and allows for alternative methods of delivering baggage within the timeframe, a 100% target is currently in place.

Table 11.4: Availability of Baggage Belt and IT Systems

Baggage	Target	Price Cap at Risk
Outbound	**(Before the Implementation of HBS3)** Access to belts is available within 30 minutes of request	**Per event** -€0.01
	Outcome of delivering departing bags: available within 30 minutes of request	
Inbound	**(Before the Implementation of HBS3)** Access to belts is available within 30 minutes of request	**Per event** -€0.01
	Outcome of delivering departing bags: available within 30 minutes of request	

Source: 2022 Review Decision

11.34 Targets were also introduced in relation to asset availability in 2019 such that Self-service check-in kiosks (SSKs) and bag drop machines should be available, on average across units, 99% of the time on a quarterly basis. The target of 99% was retained in the 2022 Review Decision.

11.35 From 2021, passenger-facing lifts, escalators and travellators were to be available, on average across units, 98% quarterly, and 99% from 2022. In the 2022 Review Decision, the target of 98% quarterly was extended until the end of Q2 2023, with the target increasing to 99% from Q3 2023.

11.36 From 2021, targets were set such that Fixed Electric Ground Power (FEGP) and Advanced Visual Docking Guidance System (A-VDGS) were required to be available, on average across

units, 99% of the time monthly (and 93.5% for new units to account for 'snagging' issues). In the 2022 Review Decision, we delayed the introduction of a 99% target for FEGP until Q3 2023, while the A-VDGS target remained unchanged.

Table 11.5: Asset Availability Targets

Availability of:	Final Target	Price Cap at Risk
Fixed Electrical Ground Power (FEGP)	For new units, 93.5% available on average in the first year. For all other units, target of 98% until Q3 2023, target of 99% from Q3 2023	<98%: Monthly -€0.01 From Q1 2023 >=98% but <99%: Monthly -€0.005 From Q3 2023
Advanced Docking Guidance System (AVDGS)	For new units, 93.5% available on average in the first year. For all other units, target of 99%	<98%: Monthly -€0.01 >=98% but <99%: Monthly -€0.005 From Q1 2023
Passenger-facing escalators, travellators and lifts in T2	98% average across units until Q3 2023 99% average across units from Q3 2023	<98%: Quarterly -€0.01 From Q1 2023 >=98% but <99%: Quarterly -€0.005 From Q3 2023
Self-service check-in kiosks and bag drop machines	Average of 99% availability across units	<98%: Quarterly -€0.01 >=98% but <99%: Quarterly -€0.005 All from Q1 2023

Source: 2022 Review Decision

Overview of recent performance

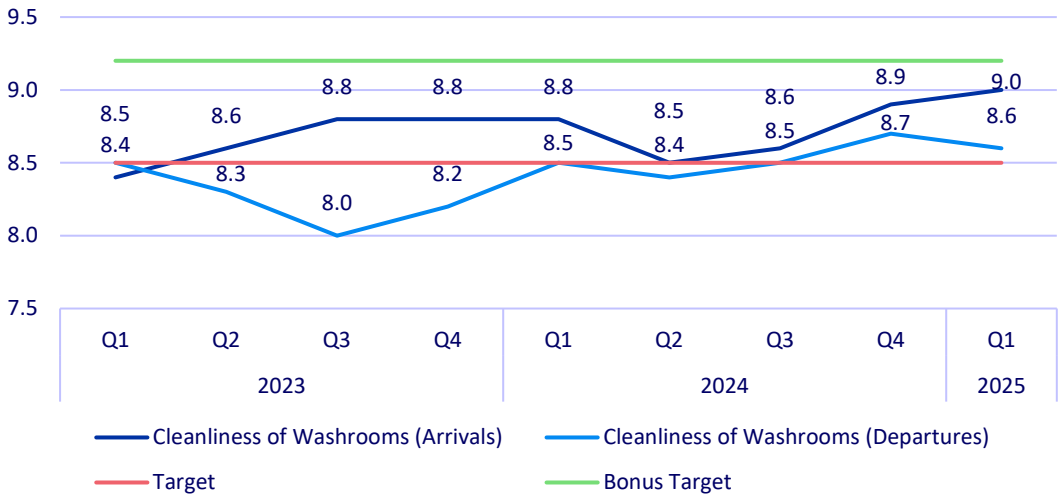
11.37 A high standard of asset availability has been maintained at Dublin Airport over both 2023 and 2024, with performance remaining strong into 2025. Across FEGP, A-VDGS, inbound and outbound baggage, passenger facing escalators and lifts, and self-service kiosks, all targets were met.

The QoS System in Practice – Case Study

11.38 As discussed, the QoS system is in place to ensure that there is a balance between providing airport services at an efficient cost and meeting a suitable service quality for airport users. The QoS system is also a means to incentivise better service provision and to disincentivise a level of service which is below that expected by airport users

11.39 Dublin Airport struggled to meet minimum QoS targets with respect to the Cleanliness of the Washrooms in 2023, incurring a rebate of €0.01 per passenger in each quarter due to poor satisfaction of departing passengers. Despite falling below target once more in Q2 2024, performance has broadly improved to the extent that no rebate has been incurred since, and Dublin Airport has now come close to achieving bonus thresholds, reaching a score of 9.0 in Q1 2025 (bonus threshold is 9.2).

Chart 11.4: Satisfaction with Cleanliness of the Washrooms

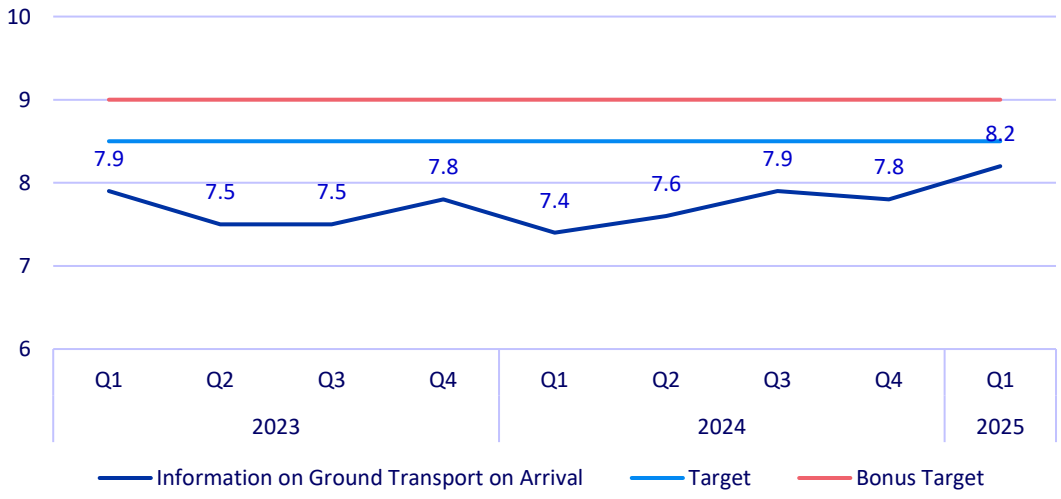


Source: Dublin Airport

11.40 Achieving minimum service level standards has also proven challenging with respect to Passenger satisfaction with Information on Ground Transport on Arrival. However, despite Dublin Airport continuously failing to meet targets since Q1 2023, from Q1 2024, when a low point of 7.4 was observed, satisfaction results have broadly been trending upwards, with Dublin Airport achieving its highest result in Q1 2025 of 8.2.

11.41 Given historic poor satisfaction with Information on Ground Transport on Arrival, Dublin Airport has enhanced signage and information in the arrivals halls, providing information on the modes of transport available, routes servicing the airport, and times of service. We consider that the evidence suggests that, in respect of the survey metrics, penalising poor performance, while providing financial incentives to outperform minimum standard levels, has been successful in providing an appropriate balance to achieve positive outcomes.

Chart 11.5: Satisfaction with Information on Ground Transport on Arrival



Source: Dublin Airport

Proposed Approach to 2026 Determination

11.42 At a high level, our proposed approach is to start from the existing QoS scheme as outlined above, and consider what changes may be appropriate. This will take into consideration the

responses we receive and feedback from the PAG, an assessment of the interlinkage between the QoS system and other building blocks (especially Opex), and the overall performance of Dublin Airport since 2022.

Data sources

11.43 As discussed, we currently use the Dublin Airport CSM survey for the passenger satisfaction metrics. Although this does not allow for like-for-like benchmarking against peer airports, we remain of the view that the larger sample size and the surveying of arriving and 'on my way' passengers in addition to departing passengers, as well as the ability to tailor the survey specifically to Dublin Airport, warrant the continued use of the CSM for this purpose. Similarly, we remain confident of the ability of the automated BlipTrack system to reasonably reflect the security queue time experienced by passengers.

Metrics

11.44 We invite views from stakeholders on the suite of metrics which are currently measured as part of the QoS system, and whether any changes are required for the upcoming determination.

11.45 Particularly where there is an associated financial incentive, metrics should preferably be:

- Reflective of the interests of Users, and/or otherwise aligned with our statutory objectives.
- Feasible to collect in large samples and in a cost-effective way, which is robust to noise
- Verifiable/auditable.
- Largely within the control of Dublin Airport.

11.46 We will be guided by engagement with the PAG in determining key metrics of importance to passengers, and also by the views of stakeholders on those which they believe should be included, or which current metrics they believe should be removed. A full list of the CSM survey 'touch points' (i.e. metrics) is included in the Appendix for reference. For example, historically we have not included metrics relating to Car Parks, nor have we included performance related to Dublin Airport's food and beverage offerings. If desired and provided with reasoned justification for inclusion in the QoS system, the system could be broadened to such (or similar) effect.

11.47 We also note that, in 2022, Dublin Airport carried out regression analysis to determine which aspects of passenger experience have the greatest impact on overall satisfaction and Dublin Airport's resulting relative performance on each metric. In determining the most suitable QoS system for the upcoming determination, we would welcome such an approach again as part of Dublin Airport's consultation on its regulatory proposal to help inform us on the metrics which most influence the overall passenger experience at Dublin Airport.

11.48 We also intend to review the construction of the metrics in the price cap formula, such as in relation to applicability across different passenger types, to assess whether any adjustments would be beneficial.

Trade-offs and interactions

11.49 It may be necessary to consider the cost-benefit trade-off of achieving particular performance levels in respect of (existing or new) metrics, with particular emphasis on the trade-off with the Opex building block. Forecast costs can differ with the quality of the services provided. Consequently, significant changes which require an improvement relative

to current performance (or which would be permissive of a diminution of current performance) would need to be taken into account in other Building Blocks to maintain the internal consistency of the decision.

11.50 Although this interaction can be less pronounced with respect to certain metrics (for example, '*finding your way around*' can be improved by improved by additional once-off signage), adjustments to other targets can have more of an impact on Opex. For example, any changes to the security queue targets could have a significant impact on the Opex forecast. Further, given the link between such service quality and Commercial Revenues (such as retail), we may need to consider impacts of any such changes in respect of Commercial Revenues.

11.51 We invite views on whether the balance between Opex and QoS is currently appropriate, or if the marginal utility from more ambitious targets outweighs the additional costs or vice versa.

Passenger Advisory Group (PAG)

11.52 We intend to engage again with the PAG as part of the upcoming determination. This will assist us in understanding the extent to which passenger priorities may, or may not, have changed, and to identify any potential new metrics which are of importance to passengers. We propose the following timeline:

- A meeting between Dublin Airport and the PAG to consult on its Regulatory Proposition in early 2026 (likely January), with particular focus on its service quality and investment proposals.
- A meeting between the IAA and the PAG in Q2 2026 to consult on the Draft Determination.
- A final meeting between the IAA and the PAG in Q3 2026 to consult on the Final Determination.

Nature of incentives

11.53 We will consider the most appropriate form of incentives, both for potential new metrics, and existing metrics which are continuing into the 2026 Determination. Prior to the 2022 Review Decision, the QoS system operated on a purely rebate basis. However, as demonstrated in the case study above, we consider that the prospect of bonuses to incentivise improved QoS performance, where appropriate, has been effective (e.g. in the case of Cleanliness of the Washrooms which has continued to improve significantly over the period, coming close to the bonus threshold of 9.2 in Q1 2025).

11.54 Our current thinking is to maintain the current approach whereby the objective metrics are rebate-only, but the subjective metrics (surveys) include bonus thresholds:

- Bonus schemes can incentivise continuous improvement and outperformance, where appropriate and proportionate, whereas a QoS system with no possibility of bonuses for exceptional performance may just achieve the minimum service requirement.
- Coupled with a rebate scheme, a bonus system can mimic the impact of operating under a competitive environment. For example, an airport with a high QoS performance could be expected to earn a premium under competitive market conditions, for a certain time period.
- As addressed further below, provided that bonuses are set on the basis of improvement relative to/outperformance of our cost assumptions, they do generate an internal inconsistency or 'double payment'. Further provided that they do not incentivise disproportionate expenditure, we consider them to align with the interests of Users.

- In respect of objective measures, we consider the case for bonuses to be weaker, given that performance should already be set at the optimal level, taking account of any cost trade-off. For example, in 2022, we found that a bonus threshold of 100% asset uptime may incentivise expenditure to eliminate the prospect of any downtime, a level of performance which Users did not require given the associated incremental cost.

11.55 We note that it is also possible to set targets and/or report performance against other metrics with no associated financial incentive, where appropriate.

Targets

11.56 In respect of the objective metrics, we expect to consider firstly whether overall performance should be maintained at existing levels, or alternatively should be increased or decreased. Secondly, we can consider whether the way the target is constructed is optimal. For example, in relation to security queue times, in 2019 we suggested that the 100% target could be replaced with a lower target (e.g. 99%) provided that this was matched with a corresponding reduction in the queue time target, such that overall performance would require to be maintained at broadly the same level. However, stakeholders such as Dublin Airport did not support this change.

11.57 In the 2022 Review Decision, we aimed to set challenging bonus thresholds which would require a considerable amount of work to achieve, potentially over a significant period. Notwithstanding this, across certain passenger satisfaction metrics, Dublin Airport began to achieve bonuses in certain metrics in 2023. This could potentially indicate that bonus thresholds were not ambitious enough, but could also indicate the commitment of more resources by Dublin Airport and/or that Dublin Airport has successfully outperformed reasonable expectations, which is to be encouraged.

11.58 Nonetheless, consistent with the principles outlined above and in 2022 that bonus thresholds should reflect improvement on current or baseline performance, it appears likely to be necessary to revise upwards (some of) the bonus thresholds in the 2026 Determination. Similarly, where a rebate target has consistently not been met despite reasonable efforts to do so, it is appropriate to consider whether the targets should be revised downwards for the 2026 Determination.

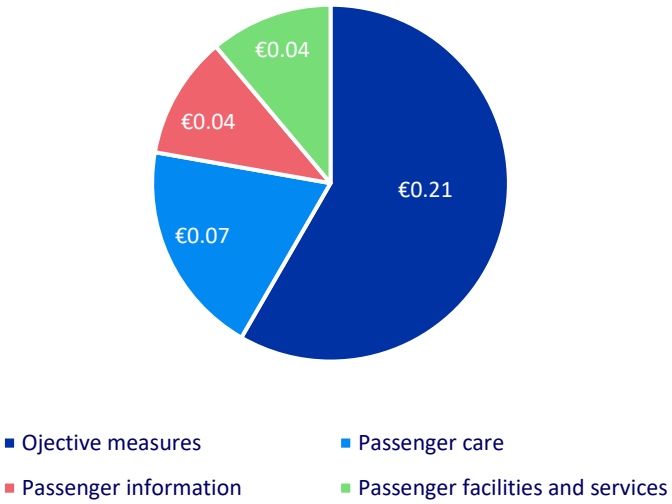
11.59 We expect to set targets based significantly on views as to whether current service standards should be maintained, or alternatively improved, or alternatively reduced in some respects (if any party takes such a view). We also expect to assess how any facility improvements from capital investment might reasonably be expected to enhance service quality, all else equal.

Magnitude of incentives

11.60 The current determination places approximately 5% of the (untriggered) price cap at risk if minimum performance thresholds are not met, while the limit on bonuses amounts to roughly 2%. Greater weight has been given to those QoS metrics which are objective, with €0.21 at risk.[112] The price cap at risk related to subjective measures is €0.15 and consists of the results of the CSM, with questions grouped into three categories – those which measure satisfaction with passenger care metrics, those which measure satisfaction with passenger information metrics, and those which measure satisfaction with passenger facilities and services metrics.

[112] Objective measures consist of: Security queue targets, targets for wait times of PRM, and asset availability.

Chart 11.6: Price Cap at Risk



Source: 2022 Review Decision

11.61 The price cap at risk should be proportionate in terms of:

- Reasonably reflecting the relative importance of the metric to Users and the range of Users impacted by the performance.
- Sufficiently weighty to generate an effective incentive, which is dissuasive in terms of eliminating any incentive to sacrifice service quality, but without going too far beyond that such that it is punitive and/or might materially impact financeability.

11.62 We note that if the rebate and bonus incentives attached to each metric, and the overall price cap at risk, were simply rolled forward to the 2026 Determination, this would in fact reduce the real magnitude of the incentive once the determination price base is updated. As an example, between February 2022 and April 2025, there was inflation of c.16%. If held constant, the value of both rebates and bonuses would therefore diminish relative to the 2019 Determination as amended.

11.63 Our current thinking is that it may be appropriate to increase the total price cap at risk and/or the price cap adjustment associated with the individual metrics somewhat, to maintain their real value and to enable the incentives to operate over a broader range of performance levels before the limits on out/underperformance are reached.

Exemptions

11.64 In 2022, as in 2019, we specified that if Dublin Airport does not meet a target, we will consider any evidence of extenuating circumstances, or measurement error, which Dublin Airport may provide. The burden of proof lies with Dublin Airport in such instances, i.e. the presumption is that where a target is not met, the price cap adjustment will apply, unless the existence of extenuating circumstances outside of the control of Dublin Airport can be demonstrated. In such a case, the IAA will directly correspond with Dublin Airport on the circumstances and the rationale as to why the circumstances are considered extenuating and outside of its control. For the 2026 Determination, our current thinking is to maintain this approach.

Consultation questions

- Overall, is Dublin Airport's current service quality appropriate? Are there areas where improvement is required, and if so which areas and in what respect?
- In the case of airport Users, can you indicate specifically in what areas (if any) you would be willing to pay more for specifically higher service standards, and, all else equal, how much more? Equally, can you indicate specifically any areas where you would prefer to pay less for a lower service standard, and if so, what standard would be sufficient and how much of a price reduction (all else equal) would be required to make the lower standard equate to improved value?
- Do you agree with the proposal to continue using the same data sources?
- Should we add any new performance metrics or drop any existing ones? Which metrics and why?
- What, for each metric, is the most appropriate reporting frequency and target setting horizon (e.g. daily, weekly, monthly, quarterly or annual)?
- Do you agree with the proposals in relation to the nature of incentives, and the proposed approach to setting targets?
- Is the current magnitude of the QoS scheme, both in terms of revenue at risk and bonuses which Dublin Airport may achieve, appropriate for the 2026 Determination or are changes needed?
- Do you agree that the approach in respect of exemptions should continue as per the current determination?

12. Other Issues

12.1 In this section, we address a number of issues which do not naturally fit into one of the other sections. This includes inflation adjustments to the price cap formulae, the treatment of incentive schemes, and mechanisms relating to under/over collection relative to the price cap.

Inflation

12.2 The 2022 Review Decision was completed in an environment of high and volatile inflation. In that context, previously immaterial aspects of the previous approach to inflation adjustments became material, and so the price cap formulae for 2023-2026 include an amended *ex-ante* inflation adjustment, and introduced an *ex-post* inflation adjustment. Here, we consider whether the adjustment mechanisms in their current form, or in new or amended forms, should be included in the 2026 Determination.

Ex Ante inflation adjustment

12.3 The price caps for each year 2023-2026 were set in real February 2022 prices, with provision to be updated ahead of each year based on forecast inflation for that year. This approach to the *ex-ante* inflation adjustment represented a change from the previous method of calculating the nominal price cap for year *n*. Previously, we applied the October year-to-date CPI (as a proxy for the annual CPI, where same would not yet be available) in year *n-1,* to the real price cap for year *n*.

12.4 Under the previous method, to set the nominal price cap for 2023, we would adjust for inflation up to October 2022 when publishing the provisional price cap in late 2022, shortly before Dublin Airport sets its aeronautical charges for 2023. In the 2022 Review Decision process, Dublin Airport expressed concern that this methodology generates certain internal inconsistencies, and is not adequate when inflation is high and unpredictable. We accepted this representation.

12.5 The current approach to calculating the nominal price cap in year *n* therefore involves applying the following *ex ante* adjustments to the real price caps (which, for 2023-2026, were set in a February 2022 price base):

- To bring the price level up to year n-1, as with our previous approach, we apply the change in Consumer Price Index (CPI) from February 2022 to October year n-1, as a proxy for the change in CPI from February 2022 to year n-1.
- To bring the price level up to year n, we then apply the forecast Year-on-Year inflation from year n-1 to year n, based on the most recent IMF forecast.

12.6 Since 2022, the inflation trend in Ireland has been on a downward trajectory. The annual average rate of inflation in 2024 was +2.1%. This compares to a rate of 6.3% for 2023 and 7.8% for 2022.[113] The CPI rose by 2% between March 2024 and March 2025, up from an annual increase of 1.8% in the 12 months to February 2025. The trend suggests that the inflationary environment in Ireland is stabilising relative to the volatility experienced in the lead up to the 2022 Review Decision.

12.7 The price cap formula for 2025 is as follows:

[113] Consumer Price Index December 2024 - Central Statistics Office

P_{2025} = (€7.48 + $Trigger_{2025}$ - QS_{2025}) * (1+$CPI_{HISTORIC}$) * (1+$CPI_{FORECAST}$) + w_{2025} + Y_{2025} + k_{2025} + Z_{2025}

12.8 $CPI_{HISTORIC}$ is the percentage change (whether positive or negative) in the consumer price index between February 2022 and October 2024. $CPI_{FORECAST}$ is the projected percentage change (whether positive or negative) in the consumer price index from 2024 full-year to 2025 full-year based on the most recent projection produced by the International Monetary Fund.

12.9 With the stabilisation of inflation rates, the difference between the new approach adopted in 2022, and the approach taken previously, has again become less material, as reflected in Table 12.1 below.

Table 12.1: Annual Average and October CPI, 2017-2024

	2017	2018	2019	2020	2021	2022	2023	2024
October	83.10	83.90	84.50	83.30	87.40	95.50	100.30	101.00
Annual	83.10	83.50	84.30	84.00	86.00	92.70	98.60	100.70
Difference	0.00	0.40	0.20	-0.70	1.40	2.80	1.70	0.30
Variation	0.00%	0.48%	0.24%	-0.84%	1.60%	2.93%	1.69%	0.30%

Source: cso.ie, (base Dec 2023=100)

12.10 The difference of 0.30% between the annual average and October CPI observed in 2024 is in line with the trend observed prior to the 2021-2023 period. With the exception of 2020, in the years 2017-2024 the October proxy has either overestimated or exactly matched the annual CPI. In this period, use of the October CPI as an *ex-ante* proxy resulted in annual average CPI over-estimation of 0.80%.

12.11 As part of its most recent appeal of the 2019 Determination, Dublin Airport suggested that the *ex-ante* inflation adjustment for year *n* be based on the average CPI in the 10 months from January to October in year n-1 (the '10-Month Proxy'), rather than the October point estimate, as this would provide a better proxy. Table 12.2 illustrates the overall minor underestimation of annual inflation by the 10-Month Proxy, relative to outturn CPI, in the years 2017-2024.

Table 12.2: Annual Average CPI and 10-Month Proxy, 2017-2024

	2017	2018	2019	2020	2021	2022	2023	2024
10-month	83.2	83.5	84.3	84.1	85.6	92.1	98.3	100.6
Annual	83.1	83.5	84.3	84.0	86.0	92.7	98.6	100.7
Difference	0.07	0.04	-0.02	0.12	-0.43	-0.56	-0.26	-0.10
Variation	0.08%	0.05%	-0.02%	0.14%	-0.50%	0.61%	0.26%	-0.10%
Improvement?	N	Y	Y	Y	Y	Y	Y	Y

Source: cso.ie (base 2023=100)

12.12 Compared to the October proxy, the 10-month proxy indeed shows significantly less variance relative to the annual CPI over the period 2017-2024. The October proxy had an average annual variance with actual CPI of +0.76, whereas the 10-month proxy shows an underestimation of approximately -0.14 on average. Relative to outturn annual inflation, the 10-Month Proxy underestimated CPI by an average of 0.15% each year between 2017-2024.

12.13 Given the analysis above, our current thinking is that the 10-month proxy should be preferred to the October proxy. The second step, i.e. applying the forecast year-on-year inflation from

year n-1 to year n, would remain unchanged in that scenario.

Ex post true up mechanism (Z Factor)

12.14 The Z-factor was first introduced in the 2022 Review Decision. As shown above, it is likely that outturn inflation in year *n* will diverge somewhat from the level forecast in the *ex ante* adjustment. The *ex post* mechanism (Z factor) consequently adjusts for any such divergence based on the difference between forecast and outturn inflation in year *n*. The Z factor adjusts the price cap in year *n+2* to correct for the difference between the nominal price cap set, based on the CPI forecast for year *n*, and the nominal price cap that would have been set had outturn CPI been known.

12.15 For example, the difference between forecast inflation (as used in the *ex-ante* adjustment when the nominal price cap was calculated) and outturn inflation in 2023 generates an adjustment to the price cap for 2025. Dublin Airport has noted that the current Z-factor formula may result in a slight over-correction for inflation where there is a large difference between outturn inflation, and forecast inflation as used in the *ex-ante* adjustment. The current formula is:

$$Z_{2025} =$$

$$(P_{2023}) * ((CPI_{2023outturn} - CPI_{2023}) + (CPI_{historicoutturn} - CPI_{historic})) * (1 + I_{2023}) * (1 + I_{2024}) * (PAX_{2023}/PAX_{2025})$$

12.16 I_t is the average daily three-month interest rate between 1 November in year t-1 and 1 November in year t using the Euribor rate or some other suitable measure.

12.17 If the *ex-ante* mechanism is amended to be based on the 10-Month Proxy, as described above, it is likely to slightly understate outturn inflation on average, as it has historically done.

Table 12.3: Impact of 10-Month Proxy, 2025 Z-Factor

	October Proxy	10-Month Proxy
Base Price Cap year n (2023)	7.59	7.59
Year n (2023) price cap	€8.16	€7.88
Outturn inflation based price cap year n (2023)	€7.94	€7.94
Perfect adjustment	-€0.22	€0.07
Z-factor adjustment	-€0.24	€0.07
Variance from perfect adjustment (overcorrection)	**-€0.02**	**€0.00**

Source: cso.ie, IMF, ECB, Dublin Airport regulatory accounts

12.18 As demonstrated above, where the *ex-ante* adjustment underestimates outturn inflation, the z-factor will be positive- as is the case with the 10-Month Proxy in Table 12.3. On the other hand, where the *ex-ante* adjustment over-estimates inflation in year *n*, this is corrected for through a negative z-factor in year *n+2*. This is the case with the October Proxy example. The inflation adjustments relate to the timing of remuneration rather than the quantum of remuneration, save for the slight overcorrection referenced by Dublin Airport.

12.19 We consider the above evidence to suggest that, notwithstanding the possibility of a slight overcorrection, the current construction of the z-factor is adequate in the extent that it materially corrects for inflation outturns, even in a year where the *ex-ante* adjustment was uniquely inaccurate compared to any other year (where inflation for 2023 was overforecast by more than 3%). If we use the 10-Month Proxy as suggested above, the over-correction is very likely to fall away entirely. The same result is seen in relation to the z-factor for 2026.

12.20 Consequently, we could retain the current z-Factor construction, combined with the 10-Month Proxy instead of the October Proxy.

Alternative approach

12.21 Alternatively, we could consider changing the $CPI_{HISTORIC}$ term in both the *ex-post* and *ex-ante* adjustments. The term currently uses the known percentage change (whether positive or negative) in the consumer price index between the determination price base, and October in year *n-1*.

12.22 The current *ex-post* adjustment for year n ($CPI_{historicoutturn} - CPI_{historic}$) corrects for the difference in the outturn percentage change in the consumer price index between February 2022 to October year *n-1* and the outturn percentage change in the consumer price index between February 2022 and the full year *n* index. The construction of this adjustment is different from the other inflation correction term in the Z-factor formula which adjusts for the difference in outturn percentage change in the consumer price index in year *n* relative to the forecast percentage change in the consumer price index.

12.23 An alternative is to amend the $CPI_{historic}$ term in the *ex-ante* adjustment for year *n* to the forecast percentage change (whether positive or negative) in the consumer price index between February 2022 (which is known) and the most recently available forecast of full year CPI in year *n,* most likely the October IMF inflation forecast in year *n-1*. The benefit to this approach is that the October forecast will take account of up-to-date macroeconomic conditions which are not likely to change substantially to the end of the year. The impact of this approach compared to the current z-factor using outturn 2023 data is show below.

Table 12.4: Current approach and potential alternative, using outturn 2023 data

	Current Approach	Alternative Approach
Base Price-cap	7.59	7.59
Inflated Price Cap applied	8.69	8.55
Outturn-based Price Cap	8.43	8.43
Outturn CPI Growth: Year 2023	6.36%	6.36%
Forecast CPI Growth: Year 2023	6.50%	6.50%
Outturn CPI - Feb '22 to (Oct of Year n-1) *	7.55%	5.74%
Outturn CPI - Feb '22 to (Full-Year n-1)	4.39%	4.39%
Interest Rate 2023	3.10%	3.10%
Interest Rate 2024	3.70%	3.70%
PAX 2023 (m)	31.7	31.7
PAX 2025 (m)	34.7	34.7
Perfect ex post adjustment	-0.27	-0.12
Z-factor	-0.28	-0.12
Difference	**-0.02**	**0.00****

* In the proposed approach this term refers to the % change in CPI between February 2022 and the most recent full year n-1 forecast. The forecast for 2022 in the above is taken from October 2022.[114]

**Rounding to two decimal places (-0.004 using three decimal places).

Source: IMF, cso.ie, ECB, Dublin Airport Regulatory accounts, IAA calculations

12.24 Should stakeholders consider that an alternative construction of inflation formulae (or the price cap formulae more generally) is preferable, they should detail that suggestion in

[114] World Economic Outlook, October 2022: Countering the Cost-of-Living Crisis

response to this paper.

Choice of inflation measure

12.25 The Consumer Price Index (CPI) represents a weighted basket of goods which reflects price changes across the entire economy for an average household.[115] Stakeholders have previously noted this means the measure may not be fully reflective of changes to costs and revenues for Dublin Airport.

12.26 However, in the absence of an inflation index which has a clearer relationship with Dublin Airport's operating costs and revenues, we assess that using a measure other than CPI, which is the primary measure of inflation in Ireland, would likely create uncertainty around the level of the price cap and reduce regulatory stability and predictability for stakeholders. In 2022, we reviewed various measures and found none with such a clearer relationship. We note that the CPI is also the measure of inflation mandated by Commission Implementing Regulation (EU) 2019/317 for the Single European Sky (SES) Performance and Charging Scheme.[116]

Incentive Schemes

12.27 The incentive schemes which Dublin Airport offers can be categorised as rebate-based schemes and discount/waiver-based schemes. For rebate schemes, aeronautical revenue is collected as per the menu of Airport Charges and, if conditions of the schemes are fulfilled, rebates are issued. In the case of discounts or waivers, Dublin Airport does not collect the associated revenue. How any such schemes are designed is a matter for Dublin Airport, subject to compliance with the relevant articles of the ACD.

Environmental incentive schemes and sub-caps

12.28 In response to the Timeline Consultation, Dublin Airport asks us to again address the question of environmental modulations as part of the Issues Paper for the 2026 Determination.

12.29 As part of the 2024 schedule of Airport Charges, Dublin Airport introduced the Low Emissions Aircraft Discount (LEAD) scheme which Dublin Airport said aimed to '*achieve sustainable growth by promoting connectivity and capacity while rewarding lower emissions*'. The scheme offered a discount to a specified number of qualifying aircraft based on the aircraft's Maximum Take-off Weight (MTOW) and LTO Fuel Burn relative to other similar sized aircraft. The LEAD incentive scheme was the subject of a complaint by Ryanair under Section 45B of the ANTA which the IAA ultimately largely upheld.[117] A complaint in relation to a Nitrogen Monoxide scheme was also upheld.

12.30 We consider that the prospect of environmental modulation of Airport Charges is primarily relevant to the annual charges setting process rather than to the determination. It would appear to only be relevant to the determination insofar as we might decide to adopt sub-caps which would mandate differential charging based on some emissions driver. Sub-caps in various forms have previously been included in determinations but, other than to address a specific set of circumstances in 2020, were largely not successful:

- The 2001 Determination introduced off-peak runway charges where a lower price cap for users operating at off-peak times was specified within the determination.[118] The sub-cap was not

[115] What is the CPI - CSO - Central Statistics Office
[116] COMMISSION IMPLEMENTING REGULATION (EU) 2019/ 317 - of 11 February 2019 - laying down a performance and charging scheme in the single European sky and repealing Implementing Regulations (EU) No 390 / 2013 and (EU) No 391 / 2013
[117] https://www.iaa.ie/docs/default-source/1c-economic-regulation/ryanair-final-decision_final.pdf?sfvrsn=38c2ecf3_1
[118] 2001 Determination

retained as part of the 2005 Determination as there was no longer considered to be periods of under-utilisation of the runways and the peak may not stay the same throughout the period.[119]

- Both the 2001 and 2005 determinations contained sub-caps on charges that Dublin Airport could levy on cargo users. The cargo sub-cap was not included as part of the 2009 Determination, a matter on which there was broad agreement, including from Dublin Airport who stated that *'the application of sub caps restricts [its] ability to use the structure of airport charges to maximise economic efficiency'*.[120]
- The appeals panel in respect of the 2009 Determination referred a Ryanair point of appeal in respect of mandating differential charges between Terminal 1 and Terminal 2 (which was opposed by Dublin Airport and other airlines). The determination was not varied on this point.

12.31 The challenges associated with implementing sub-caps as part of a price cap determination were detailed in the 2013 Issues Paper.[121] In particular, we would have to carefully consider the unintended consequences of introducing such caps and how best to estimate the quantum of the differential. As outlined in Section 3, we must have due regard to imposing the minimum restrictions on Dublin Airport consistent with the functions of the IAA. We do not currently see the sub-cap approach as likely to impose 'minimum restrictions' on Dublin Airport consistent with the functions of the IAA.

Accounting approach

12.32 The current accounting practice for the purposes of price cap compliance is that rebates or discounts on airport charges liability accrued in a given year by Dublin Airport, which relate to schemes which have been consulted on and published, may be netted off against aeronautical revenues for that year. Compliance with the price cap is assessed based on the net aeronautical revenues (collected after deducting rebates). Therefore, gross aeronautical revenue per passenger in a year may exceed the price cap, provided that when rebates are deducted, it does not exceed the cap. Price cap compliance must be measured on an accruals rather than cash-flow basis.

12.33 It is our intention to continue with the current regulatory treatment of incentive schemes where rebates or discounts on airport charges arising from such schemes can be netted off against aeronautical revenues for the purpose of price cap compliance. This remains in line with the 2018 Thessaloniki Forum paper 'Non-Discrimination under the Airport Charges Directive', which finds that incentive schemes which typically take the form of discounts or rebates should be considered as part of the overall 'charging strategy' and not be treated as distinct from the menu of airport charges.

Over and Under-Collection

12.34 Dublin Airport cannot set Airport Charges so as to hit the price cap perfectly, as outturns will always diverge from the underlying forecast assumptions to a certain extent. Consequently, it is necessary to have in place mechanisms for where Dublin Airport over-collects or under-collects relative to the price cap. These are set out below; we do not propose to make any changes to those mechanisms as part of the 2026 Determination.

Over-collection

12.35 Should Dublin Airport collect more than permitted, it shall arrange to rebate users within 90 days of the year ending a sum sufficiently large such that revenues collected, net of this sum,

[119] 2005 Determination
[120] 2009 Determination
[121] 2013 Issues Paper

on a per passenger basis, do not exceed the maximum permitted yield per passenger.

Under-collection

12.36 The K Factor adjusts the price cap in a given year to account for under-collection from two years previously, capped at 5% of the price cap in the year in which the under-collection occurred. In its current form, the K Factor is adjusted by the interest accrued in the 2 years elapsed since the under collection, and also by the difference in forecast passengers between these two years.

12.37 In 2019, we amended the K Factor formula to set a provisional K Factor based on outturn passenger numbers and an updated forecast for passenger numbers ahead of the year in question. This would then be adjusted based on final outturns when the final price cap is calculated in the following year. The change in approach was necessary to address the impact of volume risk on the accuracy of the K Factor.

12.38 The K Factor in its current form works similarly to the adjustments for Quality of Service and removes the volume risk from the K Factor, ensuring perfect recovery up to the limit on the K Factor.

12.39 We propose to retain the K Factor to continue to allow for imperfect pricing by Dublin Airport. We intend to maintain the limit on the K Factor at 5% of the price cap. We consider that a higher limit would allow for significant reprofiling of revenues out of one year and into others. The 5% limit allows for imperfect annual revenue forecasting by Dublin Airport, without allowing for a higher level of re-profiling which, in our view, would disproportionately erode the 'user pays' principle and the annual accruals basis of the price cap calculations and inputs.

Consultation questions

- Which approach(es) to inflation adjustments should we use? Do you have an alternative specific proposal for the construction of the inflation adjustment terms?
- Do you think that there is any merit in setting sub-caps as part of the 2026 Determination? If so, what sort of sub-caps and why?
- Do you agree with the proposal to retain the current approaches to under-collection and over-collection?

Appendix: List of Service Quality Metrics

As referred to in Section 11, below is the full list of current SQM metrics, and an indication of which are in use currently.

Table A.1: Table of SQMs

Category	Target Metric	Included in current QoS system (Yes/No)
General	Public transport	N
	Availability of baggage trolleys	Y
	Overall cleanliness of the airport terminal	Y
	Overall value for money	N
	Sense of security	N
	Sense of safety for my health	N
	Courtesy and helpfulness of airport staff	Y
	Overall walking distances to departure gate	N
	Ease of movement through the airport	Y
	Finding your way around	Y
	Flight information screens in general	Y
	Signs to the departure gates	N
	Ease of locating facilities in departure area	N
	Assistance from airport staff	N
	Information on flight delays	N
	Food Outlets	N
	Bars	N
	Comfort of Wait for Gate Area	N
	Dublin Airport App	N
	Dublin Airport Website	N
Car Parks	Courtesy/helpfulness of car park staff	N
	Ease of finding car park	N
	Value for money	N
	Security of car park	N
	Ease of finding a space	N
	Shuttle bus from the car parks	N
	Walking distance from car park to terminal	N
Check in (Manned)	Ease of finding check-in desk for your flight	N
	Waiting time at check-in	N
	Courtesy & helpfulness of check-in staff	N
	Overall satisfaction with check-in experience today	N
Check in (Self service)	Ease of using automated check-in for your flight	N
	Length of time queueing at machines	N
	Number of SSK machines available	N
	Ease of finding bag & tag/ABD	N
	Length of time queueing at bag & tag/ABD	N
	Overall satisfaction with check-in experience for this flight	N
Security General Stream	Ease of locating	N
	Waiting time at security	N
	Courtesy & helpfulness of security staff	Y
	Layout of the security search area	N
	Amount of space provided at the security search area	N
	Overall satisfaction with security search / passenger screening today	N
Security fast track	Satisfaction with fast track	N
	Satisfaction with fast track on VFM	N
Lounge	Overall satisfaction with Dublin Airport Lounge(s)	N

US pre-clearance	Waiting time at US Pre Clearance	N
	Overall US Security experience	N
Departure gates	Ease of finding a seat	N
	Ease of finding departure gate	N
	Eating/drinking facilities	N
	Standard of decoration	N
	Cleanliness of the departure gate	N
	Comfort of seating	N
	Overall satisfaction with departure gate experience	Y
	Availability of sockets to charge electronic devices	N
Washrooms	Ease of finding toilets/washrooms	N
	Cleanliness of toilets/washrooms	Y
	Queuing time to use toilet/washroom facilities	N
	Placement of toilets/washrooms throughout the airport	N
	Signposting of toilets/washrooms	N
	Location of toilets/washrooms	N
	Length of time it took to get to toilets/washrooms	N
	Provision of supplies in the toilets/washrooms (e.g. toilet roll, soap)	N
	Overall satisfaction with toilets/washrooms	N
Overall satisfaction	Overall Satisfaction (Prompted as 'Departures' experience for departing passengers, and as 'Arrivals' experience for those surveyed as part of the arrivals or on my way surveys). 'On my Way' respondents were additionally asked to rate their overall satisfaction with their experience of their chosen mode of transport)	Y
Free airport WIFI (Asked to those who accessed it)	Satisfaction with Wi-Fi	Y
Assistance (For those who required it themselves or for a member of their party)	Satisfaction with assistance received	Y
	Facilities for passengers with reduced mobility	Y
Baggage reclaim	Walking distance from the plane to the baggage reclaim area	N
	Ease of finding the baggage carousel for your flight *(used for arrivals response to 'Finding your way around' metric)*	Y
	Ease of finding a trolley	Y
	Speed of your baggage delivery from the time of arriving at the baggage carousel	N
	Overall satisfaction with your baggage delivery today at Dublin Airport	N
Immigration/passport control (Manned booth)	Length of time you had to queue	N
	Courtesy of passport control staff	N
	Efficiency of passport control staff	N
	Efficiency of queue movement to the immigration booths	N
	Sufficient number of booths open to facilitate passengers	N
	Overall satisfaction with passport control experience	N
Immigration/Passport control (E-Gate)	Length of time you had to queue	N
	Efficiency of queue movement	N
	Sufficient number of machines scanners open to facilitate passengers	N
	Ease of using the machine scanner	N
	Effectiveness of machine scanner (i.e. you only had to scan it once to be recognised)	N
	Overall satisfaction with passport control experience	N

Bus transfer from plane to terminal	Satisfaction with bus journey	N
Locating transport	Ease of finding the location to pick up your transport	N
	Signage to your transport	N
	Quality of information provided	N
	Information provided by Dublin Airport on arrival about public transport	Y
Public transport	Courtesy and helpfulness of staff	N
	Frequency of service/Availability of service	N
	Layout of the queue system	N
	Amount of space provided in waiting area	N
	Shelter provided in the waiting area	N
	General waiting area	N
	WiFi services available in the waiting area	N
	Facilities available in the waiting area	N
	Cleanliness of the waiting/queueing area	N
Tickets/leapcards	Ease of finding where to purchase a ticket/leap card	N
	Price of ticket/leap card	N
	Ease of purchasing ticket/leap card	N
	Length of the queue for tickets	N

Source: Dublin Airport