# Decision on

# Application for Access to Installation (ATI) Fee Approval

# CUPPS – Dublin Airport

Commission Paper 2/2016

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Commission for Aviation Regulation

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# 1. Executive Summary

1.1 On 22 December 2015 the Commission for Aviation Regulation received an application from Dublin Airport (daa) for approval of a fee for the use of the CUPPS (Common User Passenger Processing System) equipment at the airport. This fee would be charged by the airport to ground handlers to use the common IT system to check-in passengers and to board passengers at the gate.

1.2 Under Regulation 14(3) of Statutory Instrument 505 of 1998, Dublin Airport must seek approval in advance from the Commission where it collects a fee in respect of an airport installation.[1]

1.3 On 15 January 2016 the Commission published a consultation on the proposed CUPPS fee. We received three responses; from Dublin Airport, Ryanair, and Aer Lingus. Responses are published on the Commission's website.[2]

1.4 The Commission has examined the proposed fee under the required four criteria; relevance, objectivity, transparency and non-discrimination. We reviewed the costs submitted by Dublin Airport and the above criteria are met only from January 2020 to November 2020. Prior to January 2020 the costs are covered by airport charges via an operating cost allowance set in the 2014 Determination. The contract between daa and the CUPPS provider ends in November 2020, therefore, after this date the costs considered here are no longer relevant.

1.5 The Commission approves a fee of €0.077[3] per departing passenger applicable from January 2020 to November 2020 only.

1.6 While the fee will not apply until 2020, we are giving approval in advance as the costs associated with the project are known up to November 2020 (the costs are based on a fixed price tender). The fee will be adjusted for 2020 to take account of outturn passenger numbers in 2019 and the capital cost remuneration part of the fee will be adjusted for inflation. Section 3 gives the equation for how these adjustments will be applied.

# 2. Assessment of the Proposed Fee

2.1 Regulation 14(3) of Statutory Instrument 505 of 1998 requires the Commission to consider an application for approval of access fees for airport installations on the basis that they should be relevant, objective, transparent and non-discriminatory.

2.2 The Commission's interpretation of each of these criteria, as set out in CP8/2004, is set out below, followed by an assessment of whether this application meets that criterion.[4]

[1] Statutory Instrument 505/1998 "The European Communities (Access to the Groundhandling Market at Community Airports) Regulations 1998"

[2] http://www.aviationreg.ie/Documents/Default.150.html

[3] All prices quoted are in 2015 price level.

[4] http://www.aviationreg.ie/_fileupload/Image/CP8_2004.pdf

## Relevant

2.3 To meet the criteria of relevance the fee should be directly connected to the subject matter to which it is applied and should not be inclusive of extraneous items or costs which cannot be regarded as being reasonably related to that item of infrastructure or equipment or to the activity in question.

2.4 In its application to the Commission Dublin Airport identified €5,258,990 of costs attributable to CUPPS over a five-year period, or €1,051,798 per annum. Having examined these costs, we are satisfied that they are directly attributable to the installation in question. Most costs arise from a competitive tender conducted by Dublin Airport. The requirements of the tender were consulted on with users. Users also identified the quantity of hardware which would be required.

**Table 2.1: Analysis of Cost of CUPPS**

| Annual Costs, € | Dublin Airport Submission |
|---|---|
| **Capital Costs** | |
| Depreciation (Return of Capital) | 313,488 |
| Return on Capital | 56,594 |
| **Operating Costs** | |
| Engineering, software, and hardware support | 681,715 |
| | |
| **Total Cost per Annum** | **1,051,798** |

2.5 Capital costs comprise depreciation and return on capital for a set of assets which are essential to the provision of CUPPS. Depreciation is akin to an annuity spread equally throughout the period. Return on capital is calculated using the 5.8% regulated rate of return allowed by the Commission in the 2014 Determination. The cost of capital applied to airport charges will likely change in 2020 as new price control begins, however, we do not propose changing the cost of capital for this fee as approval for a new fee will need to be sought in 2020.

2.6 Operating costs consist of the ongoing costs of operating the CUPPS system; these are directly derived from the competitive tender.

2.7 The total costs are directly related to the provision of the installation. However, the 2014 Determination has allowed some €1m per year in operating costs relating to the provision of CUPPs type service (CUTE). The determination did not assume any collection of revenue for this service.

2.8 Therefore, this fee is not relevant for the period in which costs are being recovered via airport charges. From 1 January 2020 a new price determination will apply and the revenue from this fee will likely be included in the commercial revenue forecasts. At this time the costs and fee become relevant and the airport can start collecting it from ground handlers.

2.9 The costs are only relevant during the period of the tender. Therefore, in November 2020 when the contract arising from the tender expires the costs will no longer be relevant.

2.10 In conclusion, the relevancy criteria is only met from January to November 2020.

2.11 The approved fee has been rounded to the nearest one tenth of a cent.

## Objective

2.12 To meet the objective criteria the fee must be set in a fair and balanced way and without motivation on the part of Dublin Airport other than that expected of a commercial entity having statutory responsibilities to meet its financial obligations, conduct its affairs in a cost-effective manner and make a reasonable profit.

2.13 The cost estimation used above to assess the relevancy criteria includes both recovery of costs incurred and a reasonable profit for Dublin Airport via the return on capital. The proposed fee allows full cost recovery. The Commission finds that it is objectively set, for the period January 2020 to November 2020.

## Transparent

2.14 To meet the transparency criteria, the basis used to derive the fee must be clear and evident to all. The fee must bear scrutiny in all its elements and the application of the fee must be understandable to payees and interested parties.

2.15 Prior to submitting its application to the Commission, Dublin Airport held a consultation with users on the proposed fee. Interested parties were invited to attend a consultation meeting on 27 November 2015. The Commission was represented at the meeting. One airport user attended. Written comments were invited by Dublin Airport.

2.16 At no point did a user raise a concern with the Commission relating to the level of information made available.

2.17 Dublin Airport provided high level information on costs to users and more detailed information to the Commission.

2.18 Having regard for the level of information shared directly with users and the consultation process used, the Commission is satisfied that this fee was arrived at in a transparent way.

## Non-discrimination

2.19 To meet this criteria, the fee must be applied in an equitable manner to all and comparable situations are treated the same.

2.20 The Commission has found no evidence of discrimination in the proposed fee. In addition, the Commission understands that should a user wish to install and use its own passenger processing system at Dublin Airport it can do so.

## 3. Decision

3.1 The Commission approves a fee of €0.077 per departing passenger with the following conditions:

- The approval only applies for January 2020 to December 2020
- The fee will be adjusted for 2020 to take account of outturn passenger numbers in 2019
- Only the remuneration of capital expenditure fee will be adjusted for inflation. The operating costs are based on a fixed cost tender which has no adjustments for inflation.

The fee should be adjusted according to the following equation.[5]

$$Fee_{2020} = 0.077 * \left(\frac{14{,}057{,}515}{PAX\ Outturn_{2019}}\right) * \left(1 + \left(\left(\frac{CPI_{Oct\ 2019}}{CPI_{2015}} - 1\right) * 0.35\right)\right)$$

[5] CPI is the consumer price index as defined and reported by the CSO. Note that the ratio of capital costs to total costs is 0.35:1. Departing passenger forecast for 2019 is 14,057,515. As the fee will be set in November 2019, an up-to-date forecast for November and December 2019 can be used to calculate *Departing PAX Outturns* $_{2019}$ .
This formula was edited in October 2017 to correct an error.