

Application to CAR for ATI Fee Approval of Amended CUPPS Usage Charge – Cork Airport

1. Application for ATI fee approval

In compliance with Section 14(3) of S.I. 505 of 1998¹ daa wishes to apply to the CAR for approval of an amended ATI fee for CUPPS usage at Cork Airport. This document should be considered as constituting formal application for approval of an ATI fee for CUPPS usage of 13c per departing passenger. This application follows completion of a consultation with users on the CUPPS usage charge at Cork Airport which is discussed in Section 3 of this document.

2. Requirements for the Setting of Charges for ATI fees as per EU Directive 96/67/EC

The following criteria are set out in the 1996 EU Ground-handling Directive for the setting of fees ‘where access to airport installations gives rise to the collection of a fee’; relevance, objectivity, transparency and non-discrimination.

- **Relevance** – the fees are logically connected to what is being provided in consideration of the fee. In this case, the fee is being charged for CUPPS equipment (including maintenance and support over the 5 year contract period) to which access is being granted. The fee does not include any extraneous items or costs which are not reasonably and directly related to CUPPS infrastructure.
- **Objectivity** - the fee is set in a fair and balanced manner undistorted by any prejudice on the part of daa. The current fee level, proposed for the CAR’s approval, is consistent with daa’s statutory responsibilities to meet its financial obligations, conduct its affairs in a cost-effective manner and make a reasonable profit.
- **Transparency** – the criteria on which the fee is based has been made available and explained to users and a detailed WACC calculation for Cork Airport was supplied to CAR on 11 November 2015. The precepts underpinning the charging policy have been set out clearly, the proposed fee has been notified to users and the final fee will be published (subject to the approval of the CAR) on the Cork Airport website.
- **Non-discrimination** - identical or comparable situations must not be treated differently. In this regard, all airlines will be charged the same per departing passenger charge for use of the CUPPS infrastructure.

We contend that the CUPPS usage fee proposed by daa in this application meets all of the criteria set out in 96/67/EC.

¹ Implementing the European Council Directive 97/67/EC

3. CUPPS Charge Consultation

On 11 November 2015, daa issued a consultation paper (attached as Appendix 1) to airport users on the proposal to submit an application to CAR for ATI fee approval of an amended CUPPS usage fee at Cork Airport (charge to be amended from 24c per departing passenger to 13c per departing passenger). Details contained in the consultation paper included:

1. The reason for consultation regarding the proposed amendment of the ATI fee for CUPPS at Cork Airport
2. Clarification on how the setting of the CUPPS ATI fee meets the criteria of relevance, objectivity, transparency and non-discrimination
3. A breakdown of costs associated with the provision of CUPPS equipment, maintenance and support at Cork Airport under the new contract for CUPPS provision in place with ARINC which underpins the amended fee proposed.

daa allowed until 25 November 2015 for airport users to submit written comments in relation to the consultation following a request for an extension to the original 20 November 2015 deadline. Two users submitted a written response to this consultation and these user responses are attached as Appendix 2 to this document.

User response to consultation

Two users submitted a response to the consultation on the proposed amendment of the ATI fee for CUPPS – Aer Lingus and NIKI Luftfahrt. The NIKI Luftfahrt response indicated that they wished to join the opinion of airlines with a higher frequency at Cork Airport. We have therefore considered the NIKI Luftfahrt response to be captured within the Aer Lingus response.

Users were asked to express agreement or disagreement on 6 main elements of the proposed fee as part of this consultation process:

1. Agreement with a WACC of 7.8% for Cork Airport

Users indicated that they believed the appropriate WACC for Cork Airport could be 2-3% lower than the 7.8% indicated in the consultation paper. daa considers the WACC to be commercially sensitive and we have therefore not provided details of the WACC calculation in response to this user comment. We have indicated in our response to consultation document that it would be helpful if CAR would state the WACC they considered appropriate for Cork Airport in arriving at a decision on this fee approval application.

It should be noted that the rate of return on capital does not have a material impact on the fee proposed; a 0% return on capital would also return a per departing user cost of 13c (if the return on capital were 0% the cost per departing passenger would be 12.6c (rounding to 13c) as opposed to 13.3c (also rounding to 13c) with the 7.8% return on capital rate return of capital of 7.8%). Appendix 3 to this document shows the calculation of the per departing passenger cost of CUPPS at Cork Airport assuming a return on capital of 0%.

2. Agreement that the following cost categories are relevant to the setting of the CUPPS charge:

- Cork-specific capital

- Allocation of server and software capex to Cork
 - These two cost categories provide the base for the return of and return on capital costs
- Operating Costs – maintenance and support

Users agreed that the above cost categories were relevant to the calculation of the CUPPS cost.

3. Agreement with the calculation of costs within each of the cost categories

Users agreed with the calculation methodology within each cost category (noting that there was a query in relation to the return on capital percentage used).

4. Agreement with the allocation mechanism used to allocate the server and software capex costs between Cork and Dublin Airports

Users agreed with the allocation mechanism (% departing passengers at Cork Airport relative to the overall total for Cork and Dublin Airports) used to allocate server and software costs shared between both airports.

5. Agreement with the passenger forecast used in the calculation of the CUPPS charge.

The passenger forecast used as the denominator for the calculation of the per departing passenger charge was as follows:

		YR1	YR2	YR3	YR4	YR5	5 year average
Cork	2015	2016	2017	2018	2019	2020	
Forecast growth		5%	5%	5%	5%	5%	
Departing PAX	1,030,000	1,081,500	1,135,575	1,192,354	1,251,971	1,314,570	1,195,194

Users had no comment on this forecast which reflects our most current information on future traffic trends at Cork Airport.

6. Agreement with a per departing passenger charge of 13c

User response indicated general agreement with the per departing passenger charging mechanism (no alternative was proposed). It was considered that the 13c charge could be lower if a) the WACC was set lower than 7.8% (please see Appendix 3 for confirmation that a lower WACC will not materially alter the cost per departing passenger) and/or b) a terminal value for the CUPPS equipment was included in the cost calculation. daa considers that there is likely to be no or a very low resale value to the equipment at the end of the contract period and any such resale value is unlikely to exceed the costs of de-installation. We did not consider that a net resale value sufficiently large to effect the per departing passenger cost would be realisable at contract end.

On 30 November 2015 daa issued a final response to the consultation indicating that we intended to apply to CAR for approval of an amended ATI fee for CUPPS of 13c per departing passenger.

4. Fee Proposal for the Provision of CUPPS at Cork Airport

daa proposes an amended charge of 13c per departing passenger for approval. This proposed fee is based on the costs of CUPPS provision under the new ARINC contract. The full cost breakdown under the new contract was supplied in the consultation paper issued on 11 November 2015; on the same date we issued to you the WACC calculation for Cork Airport and a narrative description of the calculation (both of these files are attached again for completeness as Appendices 4 and 5). The costs for CUPPS are a discrete cost and do not include any allocations of a Cork Airport overhead for opex or existing assets at the airport and therefore we consider full cost recovery through the ATI fee proposed to be appropriate.

daa is proposing this fee as the basis for the approval application for the following reasons:

- 1) In the most recent decision relating to ATI fees– CP1/2008 CAR cited the following items to be of relevance and we believe they are also relevant in this case:
 - a. The relevant costs in accessing an airport installation fee were those costs without which the installation would not exist, namely capital costs, utility costs and certain operating costs without which the installation could not operate.
 - b. Depreciation based on the capital stock was relevant to the provision of access to the installation
 - c. The logic of recovery of a return on capital was accepted
 - d. Operating costs which are relevant to providing the installation the subject of the access fees are relevant when setting access fees
 - e. Dublin Airport Authority is entitled to recover from ground-handlers seeking access to an airport installation access fees based on the costs incurred by it in providing the installation to ground-handlers.

and we therefore consider the current fee consistent with the stated CAR position on appropriate levels of ATI fees.

- 2) Users did not express disagreement with full cost recovery through the CUPPS charge proposed.

We request that you approve this application for an amendment to the CUPPS charge at Cork Airport from 24c per departing passenger to 13c per departing passenger and look forward to your decision in relation to this ATI fee.