



## **Decision on**

### **Application for Access to Installation (ATI) Fee Approval**

#### **CUPPS – Cork Airport**

Commission Paper 3/2016

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Commission for Aviation Regulation

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## 1. Executive Summary

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- 1.1 On 30 November 2015 the Commission for Aviation Regulation received an application from Cork Airport (daa) for approval of a fee for the use of CUPPS (Common User Passenger Processing System) equipment at Cork Airport. This fee will 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, Cork Airport must seek approval in advance from the Commission where it collects a fee in respect of an airport installation.<sup>1</sup>
- 1.3 On 15 January 2016 the Commission published a consultation on the proposed CUPPS fees. We received three responses; from Cork Airport, Ryanair, and Aer Lingus. Responses are published on the Commission's website.<sup>2</sup>
- 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 Cork Airport and the above criteria are met subject to the following conditions.
- The fee will be adjusted each year to take account of outturn passenger numbers in the previous year
  - Only the remuneration of capital expenditure part of the fee will be adjusted for inflation
- 1.5 We approve a fee of €0.132 per departing passenger, subject to adjustment for inflation and passenger outturns. In this decision we include an equation to determine how the fee will be adjusted each year.<sup>3</sup>

## 2. Assessment of the Proposed Fee

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- 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.<sup>4</sup>

### 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

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

<sup>2</sup> <http://www.aviationreg.ie/Documents/Default.150.html>

<sup>3</sup> All prices quoted are in 2015 price level.

<sup>4</sup> [http://www.aviationreg.ie/\\_fileupload/Image/CP8\\_2004.pdf](http://www.aviationreg.ie/_fileupload/Image/CP8_2004.pdf)

question.

- 2.4 In its application to the Commission Cork Airport identified €788,225 of costs attributable to CUPPS over a five-year period, or €157,645 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 daa. 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**

<b>Annual Costs, €</b>	<b>Cork Airport Submission</b>
<b>Capital Costs</b>	
Depreciation (Return of Capital)	33,929
Return on Capital	8,336
<b>Operating Costs</b>	
Engineering, software, and hardware support	115,380
<b>Total Cost per Annum</b>	<b>157,645</b>

- 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. The Weighted Average Cost of Capital is estimated at 7.8%. Return on capital is calculated using this rate of return.
- 2.6 We note Aer Lingus' comment that the WACC for Cork Airport should be lower than 7.8%. Dublin Airport's WACC is 5.8%; our expectation is Cork's would be higher than Dublin's due to a higher risk profile. The effect of a lower WACC is small. Moving to 5.8% would reduce the costs by €2,000 per annum; this is significantly less than the cost of conducting a full assessment of the cost of capital of Cork Airport.
- 2.7 Operating costs consist of the ongoing costs of operating the CUPPS system, which are directly derived from the competitive tender.
- 2.8 The total costs are directly related to the provision of the installation. The cost price per passenger, averaged over five years, is €0.132.
- 2.9 The Commission believes the relevancy criteria has been met as regards to the total costs identified.
- 2.10 The approved fee has been rounded to the nearest one-tenth of a cent.

## **Objective**

- 2.11 To meet the objective criteria the fee must be set in a fair and balanced way and without motivation on the part of Cork 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.
- 2.12 The cost estimation used above to assess the relevancy criteria includes

both recovery of costs incurred and a reasonable profit for Cork Airport via the return on capital. The proposed fee allows full cost recovery. The Commission finds that it is objectively set.

### **Transparent**

- 2.13 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.
- 2.14 Prior to submitting its application to the Commission, Cork Airport held a consultation with users on the proposed fee. Interested parties were invited to submit written comments by 20 November 2015.
- 2.15 At no point did a user raise a concern with the Commission relating to the level of information made available.
- 2.16 Cork Airport provided high level information on costs to users and more detailed information to the Commission.
- 2.17 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**

- 2.18 To meet this criteria the fee must be applied in an equitable manner to all and comparable situations are treated the same.
- 2.19 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 Cork Airport it can do so.

### 3. Decision

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3.1 The Commission grants approval for a fee of €0.132 per departing passenger subject to the following conditions:

- The fee will be adjusted each year to take account of outturn passenger numbers in the previous year. We include forecast departing passenger numbers for each year below.
- 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 will be adjusted according to the following equation:<sup>5</sup>

$$Fee_t = €0.132 * \left( \frac{Departing\ PAX\ Forecast_{t-1}}{Departing\ PAX\ Outturn_{t-1}} \right) * \left( \frac{CPI_{t-1}}{CPI_{2015}} * 0.27 \right)$$

#### Cork Airport Departing Passenger Forecasts

Cork	2016	2017	2018	2019	2020
Departing PAX	1081500	1135575	1192354	1251971	1314570

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<sup>5</sup> CPI is the annual consumer price index as defined and reported by the CSO. Note that the ratio of capital costs to total costs is 0.28:1. Passenger forecasts are as setup in the Appendix. As the fee will be set in November each year for the following year, up-to-date forecast for November and December of that year can be used to calculate *Departing PAX Outturns*  $t-1$