

Users' Consultations

Questions & Answers

October 2018

Q. Assohandlers: Capital expenditure

The documentation shared with the airport users shows a substantial difference, both in percentage and absolute terms, between planned and actual investments (the first equals to € 393,547 thousand for Fiumicino and Ciampino for the year 2018, while the forecast for 2018 stands at just € 211,887 thousand).

In our opinion, such a significant difference (that equals to - 46% with respect to planned investments), although justified only by a temporary shift in investment plan and therefore balanced by the provision of higher investments on subsequent years, should be reflected in lower airport charges, which instead are not shown by ADR. We ask for clarifications on how the surcharges paid for these investments will be offset and on the real consequences if the investment plan won't be followed.

A. The infrastructural interventions that have been defined with ENAC at the beginning of the second five-year regulatory period (2017-2021) involved the increase in capacity of the terminals, runways and aprons and the restructuring and maintenance activities. They are part of a careful planning activity, conceived in a flexible way for the realization only of the interventions that are considered necessary to cope with the traffic forecasts. The downward difference between planned and effective investments is due to the temporary deferment of some incremental capacity interventions - without prejudice to the quality of supply - and reflects expectations about traffic growth which is now seen to be slightly lower.

The expenditures for the "new airport projects" provided on a ex-ante basis for each "five-year regulatory period" are eligible in the tariff proposal only in the subsequent year and only for the portion of remuneration and depreciation.

Briefly, if the question is intended to assess whether a link exists between planned investments and tariff proposal, the answer is that this link does NOT exist neither in ADR nor in the broader framework of the economic regulation of Italian airports. It may also be worth mentioning that the recognition of investment plans for tariff purposes takes place only after the approval by the ISA (ENAC).

The reduction in the effective value of investments compared to the ERA's provisions for the two-year period 2017-2018 is reflected in the lower level of costs allowed at the "k" parameter in the same period and consequently in the tariff update; for the 2019 tariff proposal please see page 5 of the document «Preliminary information» which shows the details referring to each of the relevant parameters. The value of the «k» parameter that has been defined in the ERA (€ 8.2 / pax) has been reduced by -2.0 € / pax to 6.2 € / pax on the occasion of 2019 update of regulated charges (see tariff option «No gradual»)

The hypothesis of application of the proposed graduality mechanism leads to a further reduction of the "k" parameter in the rate from € 8.2 / pax to € 5.8 / pax (see "Gradually" tariff option).

Q. Assohandlers: If the ERA provisions on investment plans systematically outweigh their real need, largely because the investment plan established at the time of ERA is no longer suited to the needs of the market, we wish that the complete investment plan is examined with users to determine the relevance of interventions and the updates that seem necessary to allow with the market conditions, rather than ADR presents figures (sourced from the ERA) that will never be reached.

A. As seen, the activity of constantly updating the investment plan can determine deviations with respect to the track originally established by ENAC. Since the launch of the ERA, ADR is still showing a good track record in execution of the Infrastructural Development Plan for the completion of FCO Sud. In the period 2012-2018 ADR has invested € 1.5 billion, a value in line with the ENAC provisions excluding FCO Nord and the 4th runway.

In its guidelines the Plan continues to represent a view of the airport that is aligned with the needs of the market around three fundamental drivers:

1. Increase of terminal capacity with new waiting areas and boarding areas and airside development
In recent years: increased terminal areas within the current airport infrastructure (90,000 square meters of new infrastructure releases, T5 and T2 closures), +5.000 seats and new gates + extension pitches and taxiway / runway upgrades
2. Traffic development and the role of FCO as intercontinental *gateway*
In recent years: traffic growth with high resilience despite the uncertainty of the supply. FCO appears among the Top 3 in Europe in terms of long-range growth (1.5 million pax in the international market in 5 years, over 50 intercontinental interconnected destinations)
3. Improvement of services offered to passengers
Increase of the Gate served through loading bridges (60% in 2017 vs. 48% in 2012) + 2 new baggage sorting systems (T1 and T3)

In the spirit of national and European regulation, ADR considers annual meetings within consultations for tariff updates as a platform for the exchange of information which are useful for continuing and improving the activities aimed at updating the Investment Plan.

Q. Assohandlers: Tariff alignment to the costs of regulated services

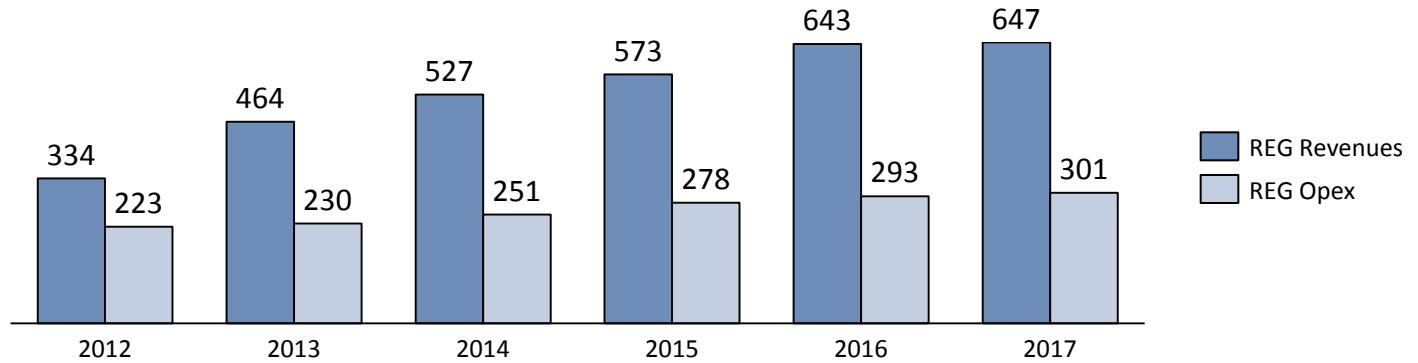
We require an overview about the evolution of costs, (average per passenger from year to year starting from the reference year) and a financial overview of the airport's performance on the regulated activities since the ERA's enforcement.

A. During the period under evaluation, the evolution of operating costs and operating costs per passenger reflects the restart of the infrastructural development of Fiumicino after the introduction of the Economic Regulation Agreement in 2013 and the considerable improvement in the quality of the service. During the last 5 years ADR has released new terminal spaces for 90,000 square meters, equal to an increase of well over 20%. Furthermore, the costs were affected by new anti-fire and safety standards, but also by careful management action aimed at their control.

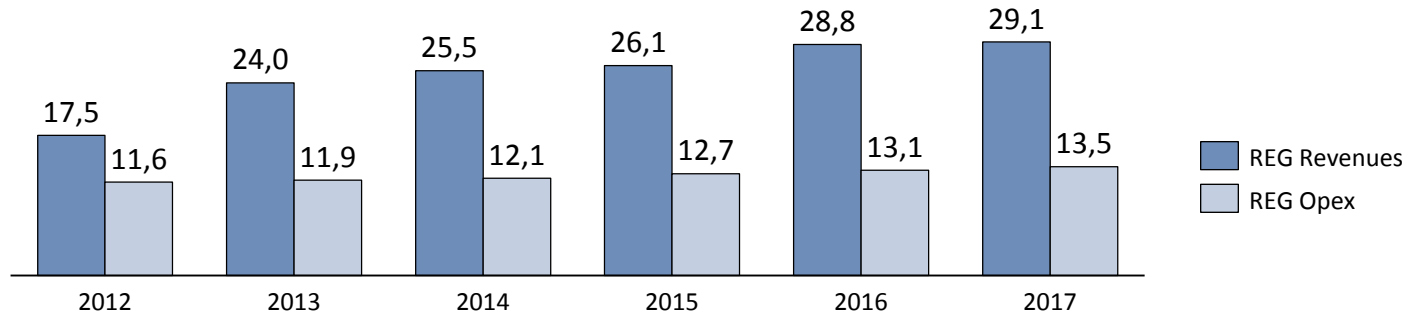
Since the introduction of the ERA, the revenues and unit revenues of the regulated services reflect charge alignment to the costs of the service after years of tariffs that did not allow the financial recovery of the new investments.

In the following pages, in two graphs, revenues and operating costs pertaining to services subject to regulation according to the provisions of the ADR-ENAC ERA. The values are taken from the certified regulatory accounting and refer to the airport system (Fiumicino and Ciampino).

Total revenues and operating costs (/000) (SYS: actual values 2012-2017)



Revenues and operating costs / paying passengers (SYS: actual values 2012-2017)



Q. Assohandlers: Check-in desks

With regard to the Fiumicino airport, we note that the proposed charges for the check-in desks (various types and period of application) have increased by 5% compared to those of 2018, therefore well above the rate of inflation, without any apparent justification, given that the only intervention carried out would appear to be related to the building of eleven new desks at T3 on the area L, in a condition in which the lack of the check-in desks and the space available to the passengers at the terminal is now objectively unsustainable. The same reflection in the case of Ciampino check-in desks, as in the previous year, where no improvement / redevelopment intervention has been carried out and where also bears the additional containment of the recently completed dedicated space, which limits even more usability and service levels. Therefore, as already declared at the time of the 2017-2021 tariffs approval, we think that the provision of the proposed increases on these charging centers results unjustified and unsustainable, especially in consideration of the nature of airport traffic, that is exclusively low-cost and the cap with respect to the building capacity.

We therefore request that the applied tariffs notwithstanding for 2017 and 2018 remain unchanged even for 2019, which are currently only sustainable for Handlers and carriers that operate at the airport. We require an overview of the evolution of costs, (average per passenger from year to year starting from the reference year) and a financial overview of the airport's performance on the regulated activities since the introduction of the ERA.

A. Fiumicino check-in desks

The 2019 charges proposal for check in services showed an increase compared to those of 2018 equal to + 4.6%. This increase mainly reflects the costs allowed for the construction of the new island of desks at Terminal 3. Considering the reduction in the infrastructure perimeter that followed the closing of the T2 in 2018 with the subsequent allocation of passenger flows to the T3, the initiative allowed to improve the quality of service in the area, especially during peak hours.

A. Ciampino check-in desks

The 2019 charges proposal for check-in services show an increase compared to those of 2018, equal to +3.9%. This increase reflects a small amount of costs allocated to the service relating to interventions carried out in compliance with safety regulations.

Q. Assohandlers: Loading bridge

An explanation is required regarding the more than substantial reduction in the charges of the loading bridges (the only charging center which undergoes a reduction of 8% on average, after a decrease of 6% in the tariff already paid for the current year) although it represents the infrastructure that has undergone most increases, both qualitatively and quantitatively, over the last few years. It should also be remembered that the inequality in the distribution of LBs between AZ and the other two Handlers still generates heavy inefficiencies for the latter.

A. During 2019 tariff proposal for LB service showed a reduction compared to 2018 equal to -8%. This change reflects a percentage increase in expected quantities (+ 16%) higher than that of eligible costs (+ 7%) as already represented at the beginning of the second five-year regulatory period (consultations brought out in October 2016).

It seems useful to recall that with respect to the volumes of each service the estimates published at the beginning of the five-year period are still valid. The values relatives to the usage of the infrastructures remain, at the moment, well below the values that were hypothesized at the beginning of the five-year period. This difference is determining a reduction in revenues for ADR compared to the initial provisions.

Regarding the alleged inequality in the distribution of LB between AZ and the other two handlers, for each of the handlers mentioned we have assessed for the last 12 months (September 2017 - August 2018) the percentage of assisted flights allocated to the loading bridge compared to total flights managed by the handler itself.

The analysis clearly showed that for both the handlers the percentage was higher than the average at the airport (equal to 63%). Therefore, the above statement is not valid.

Q. Assohandlers: "Offices and operating premises" and "Lost & found"

With regard to the proposed charges for the "operating offices and premises" and "Lost & Found", as already highlighted in previous years, we believe it is essential to extend the exemption in progress to the future years as the application of official tariffs (which would even double the costs for the Handlers and all airport operators in some cases) could threaten the sustainability of the airport services provided. We would also like to point out that a rate of just under € 50 sq.m./mounth for a local operational office is beyond any reasonable and justified increase.

A. With respect to the exception to the published tariffs regarding the service "Offices and operating premises" and "Lost & found", please refer to the following phase of commercial proposal.

Q. Assohandlers: Quality indicators

We do not find that quality indicators encourage further economic efficiency. In particular it is not clear how and if the indicators of quality and energy efficiency impacts on the overall economic efficiency, also with reference to the proposed tariffs. We are also opposed to systems that reward airports for outperformance as it encourages excessive costs in order to achieve the goals, even when the target does not match the needs of the market.

A. Various international economic theories (eg Total Quality Management, Lean Production) show that investing in quality - investing and not "spending" - leads to an improvement in business processes with a consequent reduction in waste and an increase in operating efficiency that are reflected in time in lower costs of regulated services, in addition - of course - the quality offered to customers, the latter with a positive impact on the increase in non-aviation revenues.

In the case of ADR these theories find empirical evidence: associations and institutions of international renown that in recent months have assigned important awards related to the quality of service (ACI World, ACI Europe and Skytrax) have recognized as critical feature for ADR to improve the performance by precisely the company's ability to re-engineer operational processes through technological development and company know-how.

Q. Assohandlers: price cap

In conclusion, we reiterate our opinions to both ENAC and ADR that the airport user community continues to be in conflict with the method by which tariffs are established at the Roman airport system . While the price cap methodology is common in many markets, the assumptions underlying the ERA in Italy do not allow a healthy exchange with users, nor do they constitute a reasonable correlation between costs and revenues.

A. Regarding the statement on the price cap methodology, we would like to point out that the tariff models applied in Italy and in particular that are applied to the Roman airport system are based on the higher correlation between costs and revenues within a regulatory five-year period.

As proof of this, it can be recalled that the regulatory model provides for the eligibility of the costs only in the cases of investments that have been reported by the airport management body and after the ENAC approval.

Regarding the exchange of information, every year ADR tries to improve the documents that are subject to the consultation with the user in order to make the exchange of information rewarding for both the manager and users.

Q. Easyjet: EasyJet notes that ADR's proposed peak and off-peak times remains unchanged despite changes in FCO's traffic mix. We would like to understand if the proposed off-peak times are still relevant and if the structure promotes efficient operations, as required by the Contratto di Programma. Please provide traffic data for the 30 busiest days in 2017/2018 evidencing that FCO's off-peak times are from 15:01 to 18:59 and from 21:01 to 11:29

A. Changes in FCO's traffic mix do occur, albeit at a slow pace, evidence suggests. In ERA ests. for the second regulatory period (2017-21) we indicated that peak time movements were to be 35% of total. Data gathered from the 30 busiest days of 2017 show that peak movements were in line with ERA's fcsts.

Q. Easyjet: PRM service fees at FCO are among the highest in Europe and ca. double the European average of comparable airports. For example, in Italy BGY has a PRM fee of €0.55 vs. €0.99/pdp at FCO. We believe they are excessive, particularly in relation to the poor quality of service (e.g. quality indicator 8). We urge ADR to align PRM fees to European reasonable levels (i.e. below €0.50/pdp).

A. Charges for FCO's PRM service are broadly in line with those of peer EU hubs. Local airports are not fair comparables given the substantial differences in service content mostly due to different terminal size (we reckon that BGY's terminal/boarding areas size is less than 15% FCO's). Currently, an avg of PRM service charges consisting of MXP, LIN, AMS, FRA, MUC, MAD, CDG stands at € 0,99 / pax vs € 0,86 / pax at FCO (€ 0,99 / pax proposed for 2019).

Q. Easyjet: We note that ADR continues to propose a transfer passenger charge which is ca. 1/3 of the passenger charge. We understand that over 7 years ago ENAC has performed a study of cost-relatedness of the proposed transfer passenger charge. In light of the last year's structural changes in FCO's piers, dedicated infrastructure for long-haul passengers (i.e. Pier E) and ADR's obligation to provide cost-related, non-discriminatory and transparent charges, we request that ENAC and ADR organise a working group with airport users to assess ADR's cost of transfer vs. point to point passengers.

A. Last year's changes to FCO with the new ex-Schengen pier were part of the comprehensive investment programme to complete renovation of the South premises. The programme now awaits the forthcoming Schengen pier (est. to be open to traffic in 2020-21). ADR's aim is – consequently – to review outcomes of the methodology of the charges differentiation within the boarding pax service at the inception of the next regulatory period (2022-2027). Criteria applied in 2013 for first introduction in 2014 are transparent and non-discriminatory with outcomes depending on sq. mt. and infrastructures usage by the two passenger clusters (O&D and transfer). Having said this, we can also anticipate that changes to infrastructures intervened since then will presumably lead to broadly similar conclusions on transfer discount.

Q. Easyjet: We would like to have confirmation that provision is transparent and not discriminatory, i.e. it will not grant ADR additional profits, generate excessive revenues or favour any airline

A. As already indicated (publication of the 2019 charges proposal), ADR has introduced the option of a graduality mechanism according to which the 2019-21 regulated charges for boarding, LTO and security services will remain stable at the levels of 2018. In the “standard” charges evolution of the current investment scenario charges are rising until 2021, while in the following five-year regulatory period they are expected to decline due to regulatory formulae, mark-to-market of the cost of capital and transfer of efficiencies. The option of graduality is an application of ADR-ENAC ERA and provides a much more stable pattern of charges for some years to come.

Correlation between eligible costs and regulated revenues will be met over the entire period of the application, ie. 2019-26. Proposal meets transparency and non-discrimination criteria and bears a short-term negative impact on ADR’s earnings, only partially counterbalanced in later years.

Q. Easyjet: We would appreciate if ADR could confirm that the proposed deferment of the parameter “k” will not have any impacts on the next regulatory period’s RAB, capex and opex and will not favour any airlines or business model

A. ADR’s proposal to introduce graduality in future years’ charges is in application of art. 44 of the ERA – among others. Art. 44 foresees that in the determination of «x» parameter’s revenues for a 5-year regulatory period «other allowances» can be included. Thus ADR can confirm that the proposed application shall not create any changes to the RAB, capex and opex allowances. The value of «other allowances» shall consist in the cumulated value of the «k» deferment as it will be evident in the tariff proposal for 2021. Being an application with impact on services common to all users, we can also anticipate that it shall not favour any single airline.

Q. Easyjet: Please also confirm that ADR will not increase costs or charges above the parameter “k” related costs at 2018 base value (i.e. no indexation, interest or WACC)

A. In introducing the option of gradual tariffs ADR has expressed a commitment to offset the impact on future years' charges of the revaluation of the portion of “k” that shall be deferred. Thus, ADR shall apply the rules under ERA that provide for cost allowances and estimated regulated revenues to be equal in present value, but charges (net of offsets) will eventually be calculated applying 2018 values.

In case of users' and ENAC's consent to this application, these additional information shall be included in the set of financials that ADR shall report over time.

Q. Easyjet: ADR should confirm that it will not have any direct or indirect benefit from the deferral and will annually report in a separate statement the impact of the deferral and its residual value on costs and charges

A. ADR has already indicated to ENAC its intention to report the calculation of the deferral on an annual basis as well as its cumulative value that shall become relevant for determination of cost allowances under «x» parameter for regulatory period 2022-26.

Back-up

2019 Tariff Proposal: Comparison

FCO (2019 vs 2018): Security and PRM

	(A)	(B)	(C)	(D=(B-A)/A)	(E=(C-A)/A)
€ value	2018 PT	2019 no diff.to "K"	2019 si diff.to "K"	2019 vs 2018 %	2019 vs 2018 %
Sicurezze	5,69	5,76	5,69	1,2%	0,0%
PRM	0,86	0,99	0,99	15,1%	15,1%

Benchmark FCO e CIA vs LIN e MXP (2019): Check-in desks

Banchi (*) € value	FCO PT 2019	CIA PT 2019	LIN PT 2019	MXP PT 2019	LIN vs FCO	MXP vs FCO	LIN vs CIA
1a	30.677	33.584	37.340	22.872	21,7%	-25,4%	11,2%
1b	26.295	n.a	n.a	-	n.a	n.a	n.a
2a	19.721	n.a	n.a	18.298	n.a	-7,2%	n.a
2b	15.338	n.a	n.a	-	n.a	n.a	n.a
transiti	18.866	n.a	25.018	15.324	32,6%	-18,8%	n.a

(*) valori riferiti a canone annuo