

# **Users' Consultations**

## **Questions & Answers**

October 2019

# Q&A – Public hearing, 15th October 2019

## EasyJet

- Q: EasyJet put forward a series of issues relating to the receivables accrued on Alitalia's liabilities under extraordinary administration.
- A: AdR emphasizes that these are issues that have no relevance for the tariff proposal for the year 2020 which is the topic of today's hearing and of the consultation started on August 9.

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## EasyJet

- Q: EasyJet notes that AdR requested an incremental WACC for claimed “strategic” investments representing ca. €139 million in regulated assets base. easyJet disagree with AdR’s proposal since the “strategic” investments were parts of the concession agreement with ENAC. As expressed in our submissions to AdR, we are of the view that AdR’s 8.5% WACC is already excessive and unjustified by the terms of the gold-plated 40-years concession agreement
- A: As envisaged by the Economic Regulation Agreement with ENAC (“ERA”), Article 43, the additional remuneration is allowed for investments in infrastructures which are deemed necessary for capacity expansion in the event that they meet the specific requirements clearly indicated in Annex 22 of the contract. The additional remuneration is recognized in conditions of potential restriction of access to the infrastructure in consideration of the incremental risk for the management deriving from these investments that increase the fixed costs. The incremental WaCC becomes applicable only from the time of completion of the investment.
- The interventions for which the incremental WaCC is envisaged have been defined by the technical structures of ENAC and - in total transparency towards users - are listed in attachment 22 of the CDP and are aligned with those in application in Italy for electricity transmission and gas.
- Finally, we remind you that the 8.5% rate - correctly mentioned by EasyJet - is a pre-tax remuneration rate.

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## EasyJet

- Q: AdR claimed that the transfer passenger discount is cost orientated. In accordance to articles 2(1) and 25(3) of the Concession Agreement we would appreciate if AdR provide evidence of cost-relatedness, and the objective non-discriminatory and transparent criteria used to set the passenger discount. We would be interested to understand why AdR did not update the transfer passenger discount in the last years, despite AdR having incurred in several billion investments. We would also request AdR to make the study which based the level of the discount accessible to airport user. We note that easyJet made originally these requests in January 2014.
- A: With the differentiation between boarding pax fees for originating and transfer passengers, AdR is applying a tariff structure which - as widely provided in the ERA, article 25, and in article 3 of Directive 12/2009 /EC - does not create discrimination between airport users, in accordance with EU law.
- The criteria used for this breakdown are relevant, objective and transparent. AdR applies the articulation only to the boarding pax service for which it is bound to respect the price cap rules. In the proposed tariff structure, AdR respects the correlation to costs as required by art. 25 of the ERA and applies the results of analysis of the use by the different traffic clusters of the terminal areas and of the infrastructure pertaining to the boarding service. Different use, calls for proportional allocation to originating and transit passengers of relevant RAB and operating costs percentages.
- AdR's investments in terminal infrastructures are not geared towards encouraging point-to-point or transfer traffic. The articulation of the passenger facility charge between originating and transfer traffic is applied in various European airports and all carriers can benefit.

## EasyJet

- Q: We read that you plan to dismiss Terminal 5, despite reassurance to airport users in 2017-18 that you would re-open it. We would appreciate if you could inform us on how the costs are and were allocated to the aviation till.
- A: At the moment, the T5 terminal represents an important reserve of capacity that can be activated quickly in case of need. It should be noted that the refurbishment investments provided for in the annex to the ERA have been suspended and the operating costs allowances for tariff dynamics for the five-year period 2017-21 have been reduced in a transparent manner to reflect the current lack of activity. At the same time, while the T5 terminal is currently closed to commercial traffic, ADR has concentrated operations on the T1 and T3 terminals where it has increased the service levels.

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## EasyJet

- Q: • We repeat our request to renounce to the Quality bonus, which is unjustified, and to sign a SLA with airport users.
- A: We first observe that before the entry into force of the ERA, AdR had an important gap with respect to the quality levels of EU peers. This gap had accumulated in the years following the privatization due to the absence of rules that allowed for the application of charges correlated to costs.
- Since 2013 the regulatory system envisaged by Title II of the ERA provided for tariffs related to the costs of the services subject to regulation and some well-defined premiums upon the occurrence of specific and transparent conditions that have been represented to the user since the start of the new regulation model . Specifically for the quality and environment bonus, ENAC checks each year whether the targets in Annex 10 of the CDP have been reached / exceeded. Furthermore, the important improvements in quality and environmental protection required annually for the achievement of the bonuses are achieved through investments not entirely allocated to regulated services, whose financial coverage over time is also a function of the revenues deriving from said bonuses.
- ADR's effort to recover the qualitative gap that existed prior to the stipulation of the ERA is evident in the performance recorded in recent years, which allowed it also in 2019, for the second consecutive year, to obtain the important international recognition of the “Best Airport Award” assigned last spring to Fiumicino airport by the Airport Council International.

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## Assohandler

- Q: Assohandlers put forward some considerations relating to the alleged excessive level of charges arguing that ... while it is clear that the proposed average tariffs are more contained than those initially envisaged by the ERA for the year 2020, it appears to us that the average price indicated for the same year is still too high, not only in consideration of postponement in capex plan, but also due to other considerations:
- In 2018 revenues from regulated services amounted to approx. € 629 million against operating costs of € 275 million, generating a first margin in the order of 57% which we believe is reasonably sufficient to fully cover all the investments made during the year. The fact, however, that the difference between revenues and regulated costs has grown by 10% between 2017 and 2018, compared to a traffic growth of 5%, seems to confirm that the increase in tariffs has exceeded the simple necessity of investment coverage.
- No consideration was found on maintaining such high tariffs in a market situation in which there is a downward trend in air traffic compared to forecasts, both in terms of movements and passengers. Several of our associates are registering cancellations on the part of carrier-customers since the prices of airline tickets that stimulate the growth of demand are no longer profitable with the current levels of airport taxes and charges.

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## Assohandler

A: The update of ADR's annual tariff proposal follows the rules set out in Title II of the 2012 ERA and represents the allowed costs to the regulated services. Among these costs, as known, the ERA - in compliance with international best practices - also provides for the recognition of the costs related to the capital invested in the regulated services, ie amortization (return of capital) and remuneration (return on capital ) of the same invested capital - within the limits of the allocations to regulated services as represented in the certified regulatory accounting which are transparently represented each year.

In fact, in 2018 354 M € of pro-forma EBITDA of the regulated services at FCO (629 M € of revenues net of 275 M € of costs) substantially cover amortization of 141 M € and 200 M € of remuneration, compared to which are higher (€ 354 million > € 341 million, ie the sum of € 141 million and € 200 million) only due to a better traffic mix if compared to forecasts (higher non-EU component) and the quality / environment bonus.

With regard to market valuations, ADR monitors on an ongoing basis the position of the charges for its airports compared to an EU benchmark of comparable airports. FCO shows a level of fees at a discount compared to the average of comparable EU airports.



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## Assohandler

- Q: Assohandlers notes that at Fiumicino airport, against a generalized and minimal reduction in the regulated fees, the only charging centers that are subject to an increase are those directly managed by the handlers, in particular: the fees proposed for the check-in desks have increased by 8% compared to those of 2019.

A: The allowed costs of individual regulated services vary from year to year as a result of the investments directly associated with them according to the allocation keys applied in the certified regulatory accounts that are transparently represented each year within the material provided during the consultation process.

In 2020 at FCO the fees for the check-in desk service increase compared to those of 2019. This increase mainly reflects the costs allowed for the construction of the new island of desks at Terminal 3 (2018) and the addition of the completion of the fifth island at T1 occurred in 2019. Considering the reduction in the infrastructure perimeter following the closure of T2 in 2018 with the consequent allocation of passenger flows to T3, the initiative made it possible to improve the quality of service in the area, especially at peak times.

## Assohandler

- Q: According to Assohandlers same is valid for Ciampino's check-in desks and gates on which, as in previous years, there is an effective undercapacity of the infrastructure, in addition to the due considerations to be made regarding the partial closure of the airport in relation to the effects of noise decree. We therefore believe it is appropriate to maintain at least the rates already applied for 2020, which are currently sustainable for the handlers and carriers present at the airport.
- A: The fees of the Ciampino check-in desks are related to the development of the allowed costs as per Title II of the ERA and for 2020 show a decrease (-0.7%) compared to the same values for the current year (2019).