

## 2017-2021 Airport Charges Proposal

### Consultation Between Operator and Users of Fiumicino and Ciampino Airports

#### Minutes of the Meeting of 5 October 2016

#### Rome Hilton Airport - “Leonardo da Vinci”, Fiumicino Airport

*Proceedings commenced at 10:20 a.m.*

The Consultation with users of Fiumicino and Ciampino airports, regarding the 2017-2021 pricing system, commenced at 10:20 a.m. with a welcome by the **CEO of Aeroporti di Roma, Mr Ugo de Carolis**.

This was followed by the introductory speech by **Mr Marco Troncone (Director of Financial Planning and Control at Aeroporti di Roma and “Contact Person” for the Consultation procedure)** which described the main stages of the 2016 Consultation with Users Procedure 2016, with the respective deadlines and presented the financial statements of the first five-years of effectiveness of the Programme Agreement (first pricing sub-period) with reference to the capacity, investments, traffic development, major infrastructure work (forebuilding of T3, boarding area F and upgrading of the runways), the trend in prices compared with the forecasts of the Programme Agreement and the achievement of the expected results on quality and also referred to the details of the content of various works, starting with the presentation by Mr Gregori.

**Mr Giorgio Gregori, Engineer (Director of Infrastructure Development)** took to the floor, presenting, with the help of slides projected onto a screen, the gradual growth of investments in the first regulatory period 2012-2016 of the Programme Agreement, which allowed for the recovery of the accumulated gap, in line with the growing capacitive and qualitative need of the airports.

Mr Gregori continued with a detailed description of the infrastructure works carried out and those that will be completed by 2016 in Fiumicino and Ciampino airports. He reminded of the upcoming closure of Ciampino for the structural upgrading of the runway and restructuring works in the General Aviation Terminal, as well as the upgrading of the Commercial Terminal.

As regards Fiumicino, some of the works undergoing completion shall be focused to increase airport capacity. Among these, Mr Gregori explained, are the forebuilding of T3, new boarding area F and the new BHS system, partly inaugurated in July 2016.

Mr Gregori continued his speech by introducing the Aeroporti di Roma infrastructure strategy in the second regulatory period (five-year period 2017-2021), with reference to the increased capacity of the terminal, runways and terminal areas, as well as to the infrastructure and maintenance works.

The infrastructure works to be carried out in 2017-2021 are part of a planning activity, designed in a flexible manner to carry out the works needed to meet the infrastructure needs related to the increase in traffic expected in the period.

The 2017-2021 Investment Plan, outlined in the document “Consultation with Users: Investments”, which can be consulted on the ADR website, will focus on three main areas:

- Terminal capacitive development to ensure passenger flows to 2021, consistent with expected in the long term, and adequate levels of service;
- Runways and Terminal Areas capacitive development, through the implementation of a new runway and new terminal areas that allow for the removal of the operational constraints of the three existing runways and to give greater flexibility during peak times most required by users. He pointed out the specific features of the positioning of the three runways at Fiumicino, two of which positioned perpendicularly; this clearly limits their

use. At the same time, the new runway position will allow for an increase in take-offs in the direction of the sea, leading to less impact in terms of noise.

- Renovation and maintenance (some of which are very important in terms of electricity, such as AVL) to ensure the reliability and technological updating of the systems and infrastructure, as well as improving comfort and the levels of service offered.

In the final part of his speech, Mr Gregori went on to describe the Investment Plan of the second regulatory sub-period, which provides for a total capex of €1,898 million, a value in line with the provisions of the Programme Agreement.

Mr Gregori noted that the People Mover investment will be postponed to after the five-year period and specifically focuses on works on water management, which are necessary given the specific geological nature of the area of Fiumicino. He finally referred to the specifications of the individual infrastructure works, available in the document under consultation published on the ADR website

**Mr Emanuele Calà (Head of Service Quality)** followed to explain the document “Quality indicators and action plan for the pricing sub-period 2017-2021”.

ADR, Calà first observed, has, with the Programme Agreement, started on a path of profound transformation, using the method of placing customers and their satisfaction at the centre of all of its business functions.

Mr Calà continued by describing the projects that, since 2012, have provided evidence of the change adopted by ADR and have allowed for a substantial improvement in customer experience, with the aim of aligning the quality of services in the Capital’s airport system with the best European airports (e.g. creation of the terminal manager, insourcing of cleaning activities through the establishment of Airport Cleaning).

Also in 2016, proving that the process did not stop, the trend continued in the improvement of quality, experienced and provided through a further thirteen improvement sites that Mr Calà exhibited via the slides present on the website.

The quality improvement activities have allowed the Company to achieve its desired results, recording, in the second half of 2016, for Fiumicino airport, the best results yet in customer satisfaction. Fiumicino has in fact come second among all major EU hubs, with traffic exceeding 40 million passengers, second only to London Heathrow (according to the survey run by ACI – Airports Council International – on over 250 airports worldwide).

In particular, Mr Calà dwelled on the analysis of quality received at Fiumicino, comparing the first half of 2013 with the first half of 2016. These figures show a net improvement in virtually all analysed sectors; this improvement is further accentuated in the second quarter of this year.

Mr Calà continued by presenting the final data of indicators relating to the fourth year of the Programme Agreement, which show, for Fiumicino airport, performance exceeding the target for 12 out of 13 indicators and, for Ciampino airport, performance exceeding the target for 8 out of 13 indicators.

In the final part of his report, Mr Calà presented the criteria leading to the definition of 2017-2021 Quality Plan and references, that is, Article 29 of the Programme Agreement, Pricing Regulation Form for airports with traffic exceeding 8 million and ENAC Circular GEN-06. He also described the reasons for which ADR has relied on the selection of twelve indicators for the next five-year period, as indicated on the slides. ADR has modified a portion of the indicators, relying on the ENAC Guidelines, which identify the mandatory indicators and related minimum scores. The ADR Quality Plan also contains indicators proposed by passengers. All this was summarised on the exhibited slides. For each indicator, a definition and the identification technique was provided.

At the end of his speech, Mr Calà referred to the presentation published on the ADR website for a description of the individual indicators.

*A participant requested to ask a question and Mr Troncone said that there would be a session dedicated to Q&A.*

**Mr. Lorenzo Cavina (Head of Environment and Sustainability)** took to the floor to comment on the document “Environmental Protection Plan for the pricing sub-period 2017-2021”, starting by mentioning the importance of the commitments provided for by the 2012 Programme Agreement and pointing out that for ADR, combining economic growth with environmental protection and effectively promoting environmental sustainability actions is now, more than ever, a strategic priority. 2012 was also an important year for obtaining the integrated environment and safety at work certificate.

As regards environmental indicators to be included in the updating of the Programme Agreement for the five-year period 2017-2021, ADR has moved within the framework provided by ENAC with the guidelines published in 2015. Of fundamental importance for ADR were also the analyses made in the Environmental Management Plan and the environmental priorities specified by Stakeholders following a programme of interviews carried out in 2015.

Mr Cavina continued by describing the four areas of intervention (energy saving and reduction of atmospheric emissions □ optimal waste management □ reduced water consumption □ cultural change) and the environmental indicators selected for which, Cavina wished to specify, ADR has a consolidated history and attention. He briefly recalled what has been done in recent years in terms of limiting atmospheric emissions, water consumption and waste management. This was beyond the fact that the Programme Agreement did not provide specifications in this regard. As regards CO<sub>2</sub> emissions, he recalled ADR’s membership of the ACA (Airport Carbon Accreditation scheme) and its achievement of neutrality level 3+ for Fiumicino. He also emphasised the excellence achieved in water consumption.

To conclude, Mr Cavina presented the final accounting of environmental indicators relating to the fourth year of the first sub-period, which reveals a good result achieved, for both Ciampino and Fiumicino, also in comparison with other European airports, such as Madrid.

**Mr Raffaele Pasquini (Head of Marketing and Product Development)** then took to the floor to present the document “Forecasted evolution of traffic in the Capital’s airport system – ADR Programme Agreement, pricing sub-period 2017-2021”.

Mr Pasquini described the historical data for 2000-2015 and 2016 forecasts, referring to the Rome airport system, which show an average growth trend of 3.6%, down by 2.1% in the last five-year period due to the slowdown caused by the financial crisis and due to the known exogenous factors, that have affected the air transport industry (wars, economic crisis and rise in terrorism).

The traffic performance for Fiumicino airport in the period 2000-2015 shows the airport’s resilience to exogenous factors and, therefore, a 2.9% average growth in passengers; this figure, in line with what was anticipated by the system, however, shows a slowdown in recent years (2011-2016) with a more limited growth of 2.0%. The positive trend is also achieved despite a slowdown in the national economy.

Pasquini then went on to explain the deviations of traffic data recorded for the two airports compared with the 2012-2016 forecasts used for the first regulatory sub-period of the Programme Agreement. These analyses did not consider the known exogenous crisis factors that have affected the aviation industry and, in fact, in the regulatory five-year period, the actual total traffic remained “under” the forecasted target for the first regulatory sub-period of the Programme Agreement. Moving on the data for Ciampino, relating to the previous year, the trend in traffic is “marked” by the fire at Fiumicino.

Moving on to the traffic forecasts for the pricing sub-period (2017-2021), Mr Pasquini summarised the main assumptions underlying the proposed estimates that refer to: historic data and latest internal estimates for 2016, international political scenarios and competitive context of reference, market estimates made by

leading players of the aeronautical industry and econometric analyses based on the trend of the main socio-economic indicators. Explaining the slide relating to the traffic forecasts, he pointed out the limitation of movements for Ciampino and the rise in medium and long-haul flights for Fiumicino, which explains the difference between movements and passengers.

The analyses conducted leads us to expect – in terms of the airport system, with respect to the base year, 2015 – an average annual increase in passenger traffic of 2.3%, which will also be matched by an increase, albeit more limited, in the number of movements of 1.6%, according to the highest load factor indices. Speaking in absolute terms, the estimate to 2021 expects the figure to reach approximately 53 million passengers and just over 400,000 movements.

This growth will be driven by the development of Fiumicino against the substantial stability of Ciampino volumes.

Moving on to analyse Fiumicino airport, an average increase of passengers of 2.7% is expected which, in absolute values, translates into approximately 7 million additional passengers compared with base year 2015. Movements are also increasing, but to a lesser extent, with a consequent increase in passengers per flight.

Mr Pasquini continued by proposing a breakdown by network industry, which revealed, compared with base year 2015, an increase for the DOM+EU component of approximately 5 million passengers, representing an average annual increase of 2.6%, such as to decrease – albeit slightly - its market share to the total traffic. In contrast, the non-EU component, driven by the expected performance to the Americas and Middle East, presents an average annual increase of 3.2% compared with the base year: this corresponds to a growth in absolute value of approximately 2 million passengers and 0.6 percentage points, in terms of market share. This is one area in which Fiumicino airport can still produce great results, despite the parallel growth of the Americas and Asia.

Mr Pasquini concluded his speech with a quick view of Ciampino airport where, due to the known limitation imposed on the number of movements – a limit of 100 movements per day – it is expected that the airport will operate with constant movement and passenger volumes compared with today. Compared with the base year, 2015, a slightly negative CAGR could be seen due to the increased volume of passengers in 2015 determined by the transfer of flights from Fiumicino to Ciampino in the period May-July following the fire.

Finally, **Mr Fabio Soleri (*Head of Regulatory Affairs*)** took to the floor, referring to the documents published on the ADR website detailing the eligible costs and pricing parameters. The Programme Agreement and its appendices are, however, available on the ENAC website. He highlighted the importance of a regulatory setting system that provides certainty on regulations in the long-term, a key element to launching a wide-ranging investment plan. He briefly retraced the methodology regulating the price calculation methods, as provided for by the ADR-ENAC Programme Agreement and recalled the updating of the pricing parameters, which concerned: the updating of the traffic plan for the five-year period 2017-21 and the related review of the investment plan, the redefining of indicators and targets for the quality plan and for environmental protection and the updating of eligible pricing costs. He then referred to the slides for the detail of the proposed pricing.

As regards the 2013-2016 pricing, he made a comparison between the forecasts and the actual values, the difference of which is due to a slight reduction in investments and lower inflation rates. Fiumicino showed a 6.3% growth in prices, lower than the 6.9% specified in the Programme Agreement, due to lower investments in the airport and to the lower rate of inflation.

Ciampino, on the other hand, showed the opposite: slightly higher fees than those planned in the Programme Agreement. The higher costs are attributable partly due to its change of status from a military to a civilian airport.

In any case, the deviations were quite small compared with expectations of the Programme Agreement.

Mr Soleri continued by describing the main values related to pricing proposal for the **years 2017-21** (from 1 March 2017), that is, the year of the second pricing sub-period of since the start of the Programme Agreement.

With the aid of some slides, Mr Soleri showed that the updating of Fiumicino 's average regulated fee for the new five-year period reflects the development of the company's Investment Plan, which is significantly contributing to the airport's improved quality of service, as evidenced by the main specialist surveys. At Fiumicino, compared with the average value of €32.8 per paying passenger fees for the current year (maximum revenues / paying passenger fees provided for by the 2016 Programme Agreement), the proposed update for 2017 shows a value of €31.1 per passenger, corresponding to a 5% reduction in terms of the expected update in values, according to the rules under title II of the Programme Agreement. The average price increase expected in 2017-2021 is 3.8% (2016-21: 1.9%) against major investments planned and inflation assumptions estimated at 1.5% in the five-year period.

As regards Ciampino commercial aviation, the average price changes planned in 2017-21 amounts to -0.7% (2016-2021: -4.0%) with inflation assumptions estimated at 1.5% in the five-year period. Compared with the current year (maximum revenues / paying passenger fees provided for by the 2016 Programme Agreement), a 16% reduction in the average fee is recorded, attributable to the updating of planned values according to the rules under title II of the Programme Agreement and to the new airport pricing structure, with fees dedicated to the General Aviation segment, for which a different service is intended. As for commercial aviation net of general aviation the decrease is more significant. For general aviation, a specific pricing structure has been introduced, which was not planned in the period 2013-2016.

For the pricing variation assumptions, inflation estimated at 1.5% was taken into account in the five-year period. A reminder was also given of the non-EU premium.

To further analyse the new regulated fees, Mr Soleri invited participants to read the material provided for consultation concerning the new fee structures at Fiumicino and the related analyses of their impact per aircraft. Soleri concluded with specific considerations on the values of the pricing dynamics which were recently subject to verification for the purpose of determining the 'eligible costs' in the second sub-period of the Programme Agreement, i.e. WACC, RAB and eligible operating costs for regulated services, all elements adequately represented in the material provided for consultation. He recalled the evolution of the RAB in the five-year period 2017-2021, of 2.8 billion, to be verified on its implementation. He referred to the presentation for data resulting from the certified regulatory accounting. He also referred to the website for the document containing the evolution of eligible costs in the period 2017-2021 and for the detailed pricing structure for both Fiumicino and Ciampino.

**Mr Troncone** took to the floor to ask whether there were any observations or comments from those present in the room.

**IBAR representative, Mr NERI** took to the floor, giving thanks for his presentation and for the document provided. The ADR procedure complied with the regulatory framework, however, he stressed the substantial difference between presentation and consultation. The latter is effective if it encompasses a dialogue with users not overly limited in time. He therefore proposed to move the lunch to the end in order to use the time for a more thorough Q&A session.

**TRONCONE.** Agreed and reminded that a document with the answers to the questions received by the deadline will in any case be discussed at the end.

**RYANAIR.** Consultation means ensuring that the approved prices take into account, as far as possible, the proposals of the airlines.

**EASYJET.** Wondered why the Programme Agreement refers to prices determined according to the base year while in the formula included in the presentations reference is made to the previous year.

**SOLERI.** All methods for calculating the prices are included in the Programme Agreement. He reminded that the appendix of the document “Preliminary Information” records the calculations of the individual price parameters. The pricing for 2017 is based on that calculated for 2016 (in turn calculated based on 2015 plus adjustments due to inflation and other factors). ADR will adjust applied inflation to reflect the latest data contained in the DEF. This will be carried out before the end of the consultation period.

**EASYJET.** In terms of presentation, there was a difficulty in understanding the criteria of factor K and V. In general, it was not clear how the average price contained in the presentations was determined.

**SOLERI.** Explained that the current regulatory system requires a price-cap for each individual service, not for the combination of services.

**TRONCONE.** All details are contained in the documentation. The fee is the result of the combination of various airport services. Each fee is determined by taking into consideration all capital invested for each service, which has a cost basis with specific volumes. The sum of all results in the figure of €31.1/pax.

**EASYJET.** With reference to the quality indices, he asked how the samples were selected to determine the results and what methodology was used to analyse the quality results.

**RYANAIR.** Challenged the decision to set the WACC at 8%. Believed this percentage too high compared with the European airport average, which is around 6%. Since ADR acts as the monopoly, the right percentage should be 1%. As regards investment, Ryanair believed that 1.9 billion is a lot, given the uncertainties of the future. These investments are also intended for passengers in transit, for which, however, a lower fee is expected. Part of the investment is intended for the fourth runway: Ryanair asked whether other alternatives had been examined to improve the efficiency of the runways instead of building a new one. It was asked how the fee will be applied to passengers in transit at Fiumicino airport.

**SOLERI.** As regards the WACC, he referred to the documents published on the website, containing all necessary information. By comparison with the consultation of the last pricing sub-period, there is a decrease in the applicable value for the pricing calculation.

**RYANAIR** As regards the quality indicators, further information is needed and, also, the ENAC indicators are not challenging (for instance, the cleaning of toilets should not be included among the indicators).

**IATA representative.** Gave thanks for the consultation documents in English. Reiterated that today’s consultation is not a true consultation: most of the factors are already established in the Programme Agreement and the users were not consulted for the Investment Plan.

The asset allocation between commercial and regulated services should have been subject to consultation. The same applies for the development of quality and traffic parameters. The representative noted that as regards the Investment Plan, further detail is required, especially from the point of view of the master plan. Therefore, the consultation should be divided into a series of structured meetings. He proposed a discussion with ADR on the management of the investment plan.

As regards the service, while giving thanks for the information provided, he believed that the goals should be measured in terms of KPI. Finally, as regards the fees, he believed it would be better to discuss their level before speaking about their structure.

**SOLERI.** Appreciated the comments, which would be taken into consideration, however, emphasised that all useful information had already been made available to users since 7 September to formulate their comments.

**IATA.** Agreed and would provide feedback in this regard, however, believed that the most effective method of comparison is direct communication, in order to arrive at a price whose elements have not already been predetermined.

**SOLERI.** Did not agree on the fact that the factors comprising the fee had already been predetermined. For instance, all factors of the investment plan take into account the eligible costs, tracked year to year. Factor K of the formula would be verified, on the basis, of course, of investments which, over the last year, had been acknowledged from an economic and financial point of view.

**IATA.** Believed that the factors had been predetermined as the documents always refer to the programme agreement or ENAC guidelines, without taking into account users' opinions.

**IBAR.** Believed that the framework agreement should not be followed exclusively, but, on the contrary, another approach could also be considered. Another meeting could be scheduled, for instance.

**TRONCONE.** The regulatory scheme is not subject to consultation. Everything else can be submitted to consultation and can be modified. For instance, as regards investments, he reaffirmed the appropriateness of the level of detail and, therefore, for individual investments, it is possible to discuss their usefulness. There is the possibility of making changes to the choices made.

**RYANAIR.** Gave thanks for the opening. Asked why passengers in transit would pay less than ordinary passengers. Also, why not remain with Terminal 2 without building a new one? Why all these massive investments in Fiumicino?

**TRONCONE.** ADR's position involves achieving the right balance between airline demands and public service requirements, providing quality infrastructure, including in the interests of safety. In deciding its investments, ADR is driven by its commitment to invest in what is necessary. ADR is aware of the impact on fees and on airlines' financial results. This does not mean that we do not have the pleasure of sharing the details of our decisions. However, we need to abide by the rules of the regulatory structure and the Agreement.

**IBAR.** Reiterated that investments are the most important aspect to focus on. With reference to the fourth runway, there should be a consultation with users as regards its construction.

With reference to the quality indicators, it was noted that the parameters described are not challenging, therefore proposing that users should also be consulted on this aspect and, specifically, to define the Service Level Agreement. IBAR submitted to ADR a list of further questions prepared in conjunction with the Users' Committee and Assaereo.

Finally observed a steadily increasing trend in check-in desk fees which, however, affects airline costs. It was therefore asked whether ADR intends to freeze the increase in these costs.

**TRONCONE.** Proposed a break for the chance to analyse the questions.

*At 1:05 p.m., the proceedings were suspended for a light lunch break. They resumed at 2:00 p.m.*

**Mr Troncone** took to the floor again, proposing a new meeting on 27 October, with the date to be confirmed. He subsequently informed that, until 26 September, questions had been received from some operators, the answers of which are contained in a document available from today on the ADR website, in the section 2017-2021 Pricing Proposal. He confirmed that the deadline for the consultation is 7 November.

**Mr Troncone** noted that the answers already provided and the answers to the questions to be received by ADR by 21 October shall be made available on the ADR website and gave the floor to Mr Gregori for questions on the Investment Plan.

**Mr Gregori** spoke with reference to the Master Plan: he specified that the main driver is traffic, which has short-term fluctuations but, at Fiumicino, has a history of steady growth.

With reference to the question on the positioning of the fourth runway, he noted that the latter is the result of the analysis of several alternatives, taking into account the environmental constraints, primarily noise. At

Fiumicino, archaeological and hydrogeological constraints must also be considered. ATC changes, which are still under discussion with the ENAV, have also been taken into account.

Considering the specific features of the aviation industry, works should currently be designed that will become operational in five or more years. ADR is continuously committed to not spending more than necessary, so as to have what is needed 'just in time'. As regards the BHS and HBS, he specified that these are not required only for transits but for airport safety. There is, therefore, a benefit for transits but mostly for the airport as a whole.

**Mr Calà** took to the floor to discuss aspects of the quality system and specifically answered the questions relating to the methods for collecting the results. There are 12 indicators: 7 for quality provided and 5 for perceived quality. The survey was carried out on a sample by a certified third-party company. The system is certified and there are internal and external audits. The surveys are carried out 365 days a year throughout the day. The interviewed sample is higher than that established by the relative ENAC circular. He referred, for details, to the ENAC website and to the circular GEN-06. He argues that a 'multi-level' system is already in place to track quality performance targets, that is based on: (i) Programme Agreement – Annex 10; (ii) III "Atto Aggiuntivo" to the Programme Agreement; (iii) so-called "Minimi di Scalo"; (iv) ADR's Service Charter. Other observations would be taken into account ahead of the meeting scheduled for the end of October.

**Mr Soleri**, as regards the economic regulation and pricing structure, recalled 8.52% as being a real pre-tax value. The Q&A document contains details answers on this point. With reference to the matter of the WACC differentiation, he reminded that ADR's 8.52% compares with SEA's 10.4% and with various other medium-sized airports with a similar WACC. The country risk scenario proposes various solutions in terms of applying the WACC and specific risk profiles are to be taken into account. This is reflected in a 'cost of equity' for ADR, constructed with the use of additional beta that is valid for 10 years, devised to correct a market distortion. With reference to the check-in desks, he reported that in 2017 these will decrease by 40% compared with 2016. As regards structural changes: these are marginal changes; peak times have been changed in consideration of the actual use of the runway and peak hours have been reduced from 8 to 5.5. As regards the passenger boarding structure, it is necessary to take into account that 47% was a legacy of the past, with no underlying analyses. With reference to the basket matter rather than the different weighting between Fiumicino and Ciampino: ADR allocates costs to the services of any specific airport. With the Programme Agreement, there is no option of working on baskets other than the 13 planned services. The outcome of the cost-allocation work, verified by ENAC and certified accountants, is extremely objective. He reminded that investments are only remunerated once the pre-final balances for the current year have been verified by ENAC itself.

**Mr Troncone**. Asked those present whether they intended to describe the document prepared or whether such description could be postponed to the next meeting.

**IATA** proposed to postpone the discussion and expressed appreciation for the willingness to organise another meeting. IATA believed it good practice to arrange for the presence of the regulator.

**Mr Troncone** agreed and, in closing, noted that, as per procedure, the minutes of today's meeting should be read, signed and distributed but, since the hearing had not concluded, he deemed it possible to postpone the requirements relating to the minutes to the next hearing. In the absence of objections, he postponed these obligations to the next meeting of 27 October.

*The meeting terminated at 2:30 p.m. and was adjourned to 27 October 2016, the date scheduled for the second public hearing of the airport consultation procedure for Fiumicino and Ciampino airports, on the proposal of the 2017-2021 pricing system.*

Attached to these minutes is a list of participants in today's users' consultation.



## 2017-2021 Airport Charges Proposal

### Consultation between Operator and Users of Fiumicino and Ciampino airport

#### Minutes of the second public hearing of 27 October 2016

#### Hilton Garden Inn Rome Airport - “Leonardo da Vinci” Airport, Fiumicino

*Discussions resume on the second day of the public hearing, on 27 October 2016 at 10:30.*

The second public hearing of airport Users in Fiumicino and Ciampino airports, regarding the proposed tariff structure 2017-2021, opens at 10:30 a.m. with greetings from **Mr. Marco Troncone (Planning, Finance and Control Director of Rome Airports and “Contact Person” for the Consultation Procedure)**. He announces that the day will be focussed on the questions received by 21 October last. Before this however he introduces future changes to the tariff proposal which were applied following motions and proposals presented during the meeting of 5 October last.

In particular, with reference to the Investments Plan, he observes that efforts have been made to optimise the whole with a view to maximum efficiency of the investment plan, as well as the impact on operating costs. The new investment forecast for the five-year period was comprehensively reviewed with an effect, which shall already be noticeable in the very short term and a general reduction in the Investments Plan of more than 100 million Euros in the five-year period. This shall not affect the main deadlines for capacitive release regarding the five-year period. This is because capacitive development continues to be an element not under discussion, provided that the effective development in traffic meets expectations. When there is a situation of significant deviation entailing a reduction in traffic respect to the plan, ADR shall in fact be ready to reconsider the development of investments. Therefore the reduction has an impact on tariffs. As regards the amendment to the KPI quality structure, he refers to Mr. Calà's intervention.

He explains a slide concerning the effect of the tariff structure on Fiumicino, produced by reviews of the pricing mechanism. On average relative to the prior proposal of Sept. 9<sup>th</sup> there shall be a reduction of about 0.5 Euros per passenger in the five-year period. This will likely give rise to a slight decrease in the effective tariff applied as early as next year. In the short term, ADR signals a freezing of the tariff burden for the next two years, albeit in the presence of an investment of over 650 million Euros for Fiumicino for the next two years that consequently will be carried out substantially without economic impact for the users. To ADR this outcome represents the best possible pursuit of infrastructural development, an essential element, while ensuring economic sustainability for the airport's users.

Also as regards Ciampino: the new proposed tariff structure reflects optimisations. There is a lower tariff burden due to the substantially lower burden of investments: about 20 cents per passenger less as from next year.

**Mr. Giorgio Gregori (Director of Infrastructural Development)** takes the floor. He specifies that an optimisation and skimming operation was carried out whilst safeguarding the outlooks of capacity and expansion for Fiumicino South. The interventions concerned mainly: urban development activities at Fiumicino North and flight infrastructures at Fiumicino South, always verifying that the capacity would not be affected by such interventions. A further skimming operation concerned the land-side and maintenance interventions or those of renovation. This leads to an optimisation of the investment plan worth over 100 million with a reduction of over 40 million as early as 2017. He refers to fact sheets which shall be discussed in detail in the Q&A.

**Mr. Emanuele Calà (Service Quality Manager)** takes the floor. In relation to the quality Plan 2017-21 the proposal presented on 5 October was re-examined in depth, focussing on the evidence of increasing the number of provided quality indicators. He reaffirms that the solidity of the set of indicators lies within the

context of the regulatory pillars; the weight of the indicators of the provided quality was then further increased from 59% to 66% (8 out of 12 related to the provided quality of the service) through the introduction of an indicator related to passengers with reduced mobility (waiting time on arrival for PRM passengers). This applies to both Fiumicino and Ciampino.

**Mr. Cambula** takes the floor, intervening with reference to the question concerning runway no. 4. He recalls that the current runway system consists in three runways, one of which is transversal and underlines the importance of Runway 2 from a capacitive viewpoint, however above all regarding acoustic impact. Its use makes the management of acoustic impact on the territory in a compatible manner possible. The choice of a new flight infrastructure cannot overlook the market and the use of the airport by airway companies. Given its role as a hub for Europe and Italy, Fiumicino must also guarantee the possibility of arrivals and departures. The maximum attributable capacity (equal to 90 movements) has already been reached in the current situation however a medium term management of 90 movements per hour is not possible; it is therefore necessary to plan and realise a new flight infrastructure in order to allow the airport future development. He stresses that the choice of positioning is very complex, given the necessity to observe international standards and taking account of Ciampino airport, the various neighbouring military entities and environmental limitations. Having completed a series of studies, ADR focussed on four options which he proceeds to explain.

He points out that the options within the territory have fallen, taking the numerous limitations regarding landscape, hydrogeology and social aspects into account. The first option concerned the runway parallel to no. 2; this would have given rise to operational interference with the two north-south runways and a notable “consumption” of land as well as incompatibility with dwellings during take-off and landing. This option was therefore rejected. The second option had the centre north-south direction runway parallel to runway 1 and 3, but there would have been a considerable consumption of land here as well and runway 2 would have been rendered inoperative. This option was also rejected. The third option had the runway at 1035 metres of interaxis with runway no. 3. This option was rejected due to the issue of territorial consumption and impossibility to manage Runway 2 due to contemporary take-offs. The last option optimises territorial consumption as it limits expansion to just over 260 hectares as well as allowing optimised layout. From the capacitive viewpoint, thanks to the collaboration with ENAV the interaxes of 820 metres from runway 3 allows the runways to be used independently. With the fourth option risk drivers are also reduced for overflying the terminal area.

With reference to the differences respect to the original Investments Plan, he observes that there are various grounds for the new estimate of runway 4's costs. Fiumicino's original structure had six runways but did not meet the minimum capacitive requirements for the medium term. In the original planning agreement, there was one more flight infrastructure; with the current project one therefore gains a net saving. The original planning hypothesis in the Planning Agreement could not consider the results which later emerged, particularly with reference to the quality of the lands which shall underlie the runway. He refers to the slides for details on the tests run from a geotechnical viewpoint. As regards setting up the worksite, he recalls that Runway 4 requires suitable access to the building site which must interact with the land in order to keep inconvenience to a minimum. The budget therefore also included the realisation of a motorway junction. With regard to hydraulics, he stresses the increasing frequency of short cloudbursts. This gives rise to the necessity for realising water mitigation infrastructures, such as doubling the hydraulic system in the areas surrounding the runway.

With reference to the extra cost for doubling the taxiway Bravo, he explains that this is due to elongated length of the section to be doubled in order to allow better ground traffic management. The related hydraulic system has also been sized according to the most recent normatives.

**Mr. Gregori** specifies that many of the interventions were the effect of a new hydrogeological survey requested by ENAC and the Ministry given the new meteorological events. Several extra costs are the result of the new hydrogeological structure in the medium-long term.

**Mr. Cambula** also recalls the cost associated to preventive archaeological digs. Part of a Roman villa was found recently: methods for protecting or removing are being defined with the Superintendence. With reference to Mr. Gregori's note regarding the environmental part, he specifies that all the investments for Fiumicino South have also been approved in observance of the VIA Decree, which led to an extra cost. The same reasons for extra cost (hydraulics, archaeological) also apply to the extension of the aprons related to Runway 4.

With reference to Terminal 4: the project for completing Fiumicino South envisages the realisation of Terminal 4. Thanks to a remodelling of the original forecasts, the plan was optimised, moving the realisation of the Terminal ahead and envisaging a smaller infrastructure, proposing a new capacity release for Terminal 5 with two phases of intervention, making it de facto complete. This allows greater terminal capacity with 4 years of advance and less flight load on Terminals 3 and 1. This is so that restructuring works can be carried out with a very high operational yield, minimising inconveniences.

Another query concerned the realisation of the North Terminal: ENAC approved the master plan in 2015. Such plan guaranteed the completion of Fiumicino South given the possibility to realise an initial module of the terminal in the North. Therefore, during regulatory period 2017-21 the design for the first module and connected infrastructures was added, albeit with a shifting of the amount, respect to the presentation of 5 October, related to project management being aligned to the requirements for approval.

**Mr. Troncone** defers the answers to other questions to a document soon to be added to the ADR site.

With reference to such document, **Mr. Calà**, as regards indicators, applications, timeframes and survey locations, reminds that the main characteristics have already been specified in the quality document published on the website at the opening of the consultation process. He specifies that surveys are carried out every day throughout the year and consequently take into account 'peak hours' performances as requested; surveys on perceived and provided quality are carried out by a certified third party as well as ADR's internal system of quality performance.

Concerning the effectiveness of the quality Plan and certainty of reaching targets: as regards the indicator, extreme cases are also taken into consideration (system based on mean and standard deviation); taking account of the complexity of the airport, certainty is impossible a priori. Based on regulatory references, quality is deemed amply valid.

*Discussions are suspended at 11:30 a.m. They resume at 11:50 a.m.*

**Mr. Soleri**, with reference to a question raised by EasyJet and complaints about the lack of indications regarding the "epsilon" factor: all the details are in attachment 10 of the Planning Agreement.

**RYANAIR: failure to give an official answer on the Service Agreement (paragraph 4).**

**Mr. Soleri** defers to the Q&A session. With reference to the consultation procedure initiated in 2012, ADR provides a set of data based on the CIPE resolution and ENAC guidelines, easily consultable. The need for transparency as regards criteria of construction and certification of the regulatory accounting which is the basis for calculating the tariffs is thus absolved. In ADR's latest regulatory accounts, related to 2015, only 34% of the operating costs was the subject matter of indirect allocations, as regards invested capital, indirect allocations were even lower, at 5%. He refers to the ENAC document and application guidelines.

With reference to the output from tariffing processes, regarding which the processes defining the variables for determining tariffs would not be known, he refers to the CIPE resolution and ENAC guideline. The update of the tariff structure is represented in specific fact sheets, updated in order to acknowledge the findings in today's proposed tariff structure and made available in the next few days, much earlier than 7 November. In the documents of 9 September, there is already a large quantity of information in relation thereto. More supporting material shall be made available in Excel worksheets in the next few days.

With regard to issues related to building the WACC (the document in English is ready): for determining the asset beta the construction is re-proposed in compliance with the methodology of the Planning Agreement. With reference to the 30 base points of additional cost of debt: the document explains the calculation of additional costs. As regards the WACC: 2015 and 2016 calculation made of the tariffs applied in those years using the WACC of the first regulatory period. In all the elements in which the values for years 2015-2016 were to be applied - to determine the tariffs for 2017-21 - the value of 8.52% or its corresponding nominal value where required. For incremental WACC interventions he states that the methodology is represented in Attachment 22 of the Planning Agreement.

The application of a fine system is foreseen should ADR fail to observe the Investments Plan.

**Mr. Soleri** refers to the table of presentation for last month on page 19 of document “preliminary information” for a list of the interventions eligible for incremental remuneration; generally speaking at methodological level we have an incremental WACC applied to the investments for increased capacity exceeding a certain threshold.

Other information with further details in relation thereto shall be the subject matter of a separate document.

With reference to transparency in reporting regulated and non-regulated revenues: he premises that consultation with users focuses on the tariff structure whereas ADR’s profitability is not a part of this. He specifies the significance of the column of non-pertinent revenues. With reference once again to the matters of regulatory accounting: as regards reconcilability with the IAS financial statements (in any case document in English as soon as possible), the item is valorised in the fixed assets separated into tangible and intangible, with reclassifications in observance of Italian accounting principles. The three IAS items are therefore aggregated into items “tangible” and “intangible”. He explains the projected slides.

In relation to the construction of admitted costs and determining the CIN and admitted OPEX as well as the construction of the balance factor: concerning the CIN, he stresses that this is presented in regulatory accounts according to the provisions of the Planning *ex ante* with a standard formula represented in the document to be circulated shortly. With reference to the admitted costs, an Excel worksheet shall be provided as soon as possible; as regards elasticity, unaltered values have been re-proposed respect to the regulatory sub-period that has passed by. Upon implementation of the Planning Agreement: containment of costs despite the increase in quality.

In relation to the construction of parameter “x” of the formula, he explains two slides previously shown in the last presentation. Parameter “x” is an element of stabilisation of the tariff before introducing costs admitted for new investments in the regulatory five-year period with a translation of the costs admitted in revenues, keeping the balance during the period. At the end of the five-year period, the remaining RAB becomes part of the calculations of “x” for the next period. He specifies that a different “x” is presented for each service, depending on the volumes of the service and varying composition of admitted operating costs.

**EasyJet** Asks for explanations about values R and C, also with reference to the base year.

**Soleri.** Explains values R and C, referring to the slides and taking into consideration the cost structure for the airport in the base year.

**Mr. Soleri.** C develops the costs of the formula. The annual percentage of variation of the tariff in the five-year period is given by factor X. Then there is a formula in the Planning Agreement which builds the admitted costs. With reference to the question on the weight of EU and non-EU laws: he reads the answer.

With regard to rebalancing the weights between vector component and pax and between Ciampino and Fiumicino: the regulatory accounts – grounded on the general principle of correlation to costs – are the document upon which all tariff related documentation is based, in accordance with the guidelines laid down by ENAC. The criteria of allocation are then appraised by the auditors.

With regard to the check-in counters at Ciampino: the growth in tariffs is due to the collapse in volumes of 70% of the service (annual fee counters), not counterbalanced by the decrease in admitted costs (-35%) or by the modest increase in the other types of counter lease (per hour, per flight).

**Ryanair** Points out discriminatory practices regarding passengers due to lack of correlation with costs. He asks for more information with regard to the costs of the terminal. Request to bring the illegal practices of exempting dom-dom passengers to an end. Asks for an answer in writing.

**Mr. Soleri.** On the first point: from the regulatory accounting viewpoint, the matter is irrelevant as the costs are allocated to the services, regardless of the single portion of the terminal. ADR is simply applying a tariff articulation – as foreseen in the Programme Agreement – in relation to a service in which it is bound to the revenue-cap.

**Mr. Troncone.** There is observance of a general correlation to costs respect to the passengers in transit. It is a known fact that these passengers differently, less “intensely” use the airport and do not use all its infrastructures. Furthermore, the practice largely applies to European airports.

**ASSAEREO.** Disagrees with the positions taken by Marco (Gatti). The trend in investments is, in fact, inclined to favouring point to point activities. ADR has already explained that the tariffs are the result of a direct allocation of the costs to the single service. Invites ADR to further appraisals in order to reverse the trend, also with regard to sharing weights between baskets of rights concerning carriers and passengers. As regards the first part of the morning’s discussion: the reduction of 100 million is moving in the preferred direction. However it represents the modest nature of the reduction compared to the extent of the comprehensive investments; it therefore asks for further effort to be applied in the same direction. Service level agreement: formal report on the matter. The Quality Plan is concentrated on the passenger, whereas regarding the airway company, quality can be handled by opening a comparison on the Service level agreement. It hopes that an instrument of this kind shall be implemented.

**IATA.** Point related to the point of passengers in transit: ADR said that it had used square metres as the approach for defining the tariff. To which extent does such approach reflect the effects costs of services for passengers?

**Mr. Troncone.** Specifies that this is one of the parameters. There is however a correlation between the space measured in square metres and the cost of services. Such criterion is used for allocating the RAB, the operating costs (for example maintenance and utilities).

This is not a discriminatory measure. All carriers can consider the possibility of managing traffic under interconnection. As regards national and international passengers, he denies the existence of illegal practices. Moreover ENAC, which represents the authority appointed for confirming and correcting the interpretation of the law by ADR, had never found anything illegitimate regarding this matter.

**Ryanair** Informs its receipt of a letter from ENAC in which it is implied that ADR is exercising discriminatory practices.

**Mr. Soleri.** Reaffirms that the ENAC provision has been interpreted in the only way possible for ADR.

**Ryanair** Asks that ADR explains the different treatment of exemptions by type of passenger.

**Mr. Soleri.** ADR limits itself to applying a ministerial decree of 1992.

**Mr. Troncone.** Confirms that ADR acts in observance of the legal provision.

**Ryanair** It concerns a note from the Ministry and not ordinary law. Discriminatory practice between national and EU passengers only in special circumstances.

**IATA** Asks whether there are special circumstances applied differently from the past.

**Mr. Troncone.** Affirms that the only circumstance in which ADR practices exemption is when a passenger wants to go from point A to point B with one sole ticket in transit in Rome.

**IATA** Asks to know about the other methods for allocating items in invested capital to services other than using square metres.

**Mr. Soleri.** Refers to the “Guideline” document. On specific request, he specifies that there are no forms of cross-subsidisation deriving from advertising. The space occupied by a commercial activity is not considered respect to regulated services.

**IATA** Advertising revenues, for example, should be used to reduce the costs of airway companies.

**Mr. Soleri.** Announces that detailed investments shall be provided for the five-year period, with the regulated and non-regulated portion and allocation of services.

**Easyjet** As regards the incremental WACC: there is already a risk premium within it.

**Mr. Soleri.** It is possible to refer to the general theory applied to other infrastructures too. Investments are for more capacity, however this exposes ADR to higher risks.

**Easyjet** The Planning Agreement guarantees revenues for a certain period of time. What is the additional  $\beta$ ?

**Mr. Soleri.** The incremental return is built considering standard practices of other regulators for other regulated sectors.

**Easyjet** The incremental WACC is built on a risk considered three times.

**Mr. Soleri.** Invites reference to be made to attachment 22. As regards  $\beta$ , the calculation does not capture the specific risk associated to Italy; this is represented by the incremental  $\beta$  which is valid for ten years and subject to review, it can also be cancelled, it is a temporary measure. The motivation of incremental  $\beta$  is based on the different level of riskiness not represented by other WACC parameters.

**Easyjet** Asks which is the justification of the risk free rate within the Planning Agreement.

**Mr. Soleri.** It is also applied by other regulatory entities in Europe. It is applied in order to avoid the trap of low market rates due to so-called quantitative easing. Some regulators used the forward rate. The greater the temporal horizon the less distortive the effect.

**Mr. Troncone.** The average is taken from the last three years. If there are not detailed provisions in the Agreement, we look to an historical reference datum, we look to the recent past in order to estimate the risk free rate applicable to the next five years.

**Mr. Soleri.** There is a contractual provision according to which the operator’s revenues must depend on a fair return on the investment. Other regulators have adopted procedures for contrasting the effect of the QE.

**Easyjet** Asks how the calculation is made for the supplementary charges to cost of debt.

**Mr. Troncone.** Refers to the document on the WaCC provided separately.

**Easyjet** Regarding the market risk premium, you apply 5%. In any case would it be possible to revalue downwards?

**Mr. Soleri.** Market risk premium should be understood as a greater expected return respect to a bond investment. He defers to the provided WACC note.

**IATA** Asks for feedback times.

**Mr. Soleri.** 3 November. Consultation to be conclude by 7 November. The publication of all documents/examinations discussed today shall take place very shortly with the exclusion of the tariff structure sheets which required a few more days of elaboration.

**Easyjet** Asks for clarifications regarding parameter V.

**Mr. Soleri.** In the next regulatory period the only cost item concerns the contribution to the fire prevention fund calculated according to traffic incidence. 2017 shall also include costs related to parameter V referred to 2016.

**IATA** Asks to receive further details on investments amounting to a total exceeding 10 million Euros.

**Mr. Troncone.** The users' desire to affect tariffs before application has reached a satisfactory result today. The upward movement of the tariffs shall only take place with certain investments. The exchange of information can take place with an annual process of consultation; it could also concern an informal one-to-one meeting.

**Mr. Gregori.** Make himself available for holding informal meetings in which to explain the technical details of future projects.

**IATA** Points out a lack of information concerning traffic demand which would justify the construction of runway 4.

**Mr. Gregori.** Runway 4 is necessary for traffic to grow. The grounds for Runway 4 have already been discussed with the stakeholders over the last two years.

**IATA** More information is needed on the ADR's medium and long term business case. This way it would be possible to suggest a different timing in investments to be realised.

**IATA.** Asks for more information about the SLAs.

**Mr. Calà.** As anticipated in the previous meeting, there are 91 quality indicators on which quality performance monitoring is carried out, both perceived and provided, with a sanctionatory regime by ENAC but without an awarding system. Targets in terms of threshold have been strengthened since 2017.

**ASSAEREO.** These normatives are applied to all Italian airports, but they have not stopped other airport operators from reaching a consent with the users. The other operators (SEA and SAVE) also declared their availability for more consultation. Would a consultation also be possible for service levels?

**Mr. Troncone.** Declares himself in favour of the meeting as well as assessing the proposals which shall arrive.

**Mr. Soleri.** By the end of the year ENAC shall valuate the tariff to be applied from next March. The ENAC procedure for settling disputes provides for the possibility to use the regulator entity. All supplied documents shall also be made available to ENAC. The ENAC website contains details about the phases in the context of which it is possible to intervene in relation to ENAC. He explains the percentual changes in the tariffs compared to September's proposal as regards landings/take-offs, passenger boarding and security.

*The discussions end at 14:20*

*Considering the necessity for the minutes related to today's meeting to be translated into English, Mr. Troncone notifies that the minutes shall be made available by means of publication on the website.*