Public hearing for Fiumicino and Ciampino airport users in the framework of 2023 annual consultation

Minutes of the meeting held on March 27, 2023 (Rome Fiumicino)

Fabio Soleri of ADR illustrates state of talks on FCO and CIA charges updates for 2023 after the former two meetings (held on Jan. 31 and March 9) reiterating that:

- ADR is acting in compliance with ART’s ruling 68/2021 as it was already the case through 2022;
- In parallel, ART’s ruling 232/2022 (intervened in December 2022) on re-determination of boarding pax charges to reflect re-determination of traffic (passengers with UK destination being considered non-EU passengers, hence paying a charge differential), required ADR to re-calculate boarding pax charges for FCO and CIA, hence these cannot remain unchanged relative to 2021 in the single components (while remaining unchanged when expressed as weighted average);
- Outcome of ongoing debate will be submitted to ART for scrutiny;
- Updated aviation charges will eventually come into effect later through 2023.

More in detail, as Mr Soleri of ADR explained making reference to the documentation published on ADR’s website on March 17, ADR presents today marginal changes to the charges proposal of December 2022 (at the start of consultation) which reflect some changes in the applied cost allocation logics. The latter reflects contributions received by users throughout the consultation process.

To recap:

- In December 2022 ADR submitted charges proposal and documentation illustrating a comprehensive approach to cost-relatedness for the boarding pax service between EU and non-EU traffic clusters at both FCO and CIA. In the abovesaid approach, ADR endeavoured to represent cost allocations between traffic clusters by single infrastructure line, applying logics in regulatory accounts (“unbundled” accounts) meshed with cost elasticity to traffic. At FCO the analysis was conducive to a “charges differential” of 50% (non-EU traffic premium). When this outcome was translated into the methodology to avoid “overcompensation” portrayed by ART in ruling 232/2022 it produced FCO boarding pax charges worth 15,99 €/pax (EU, adult) and 23,96 €/pax (non-EU, adult). The former was coincidentally unchanged relative to level applied in 2021 and 2022, whereas the latter was down by 1,83 €/pax. Please see charges proposal of December 2022.
- In the period following publication of info material and first meeting (Jan. 31), ADR was reached by various users’ comments, mostly stressing negative aspects of cost correlation analysis.
- During the second meeting held on March 9 ADR replied to users’ queries (mostly on cost allocation and overall methodology of ART’s ruling 232/2022) and introduced the possibility that it could change some of the cost allocation logics to reflect part of users’ feedback and adhere
even more to values/logics taken from certified regulatory accounts. Should that happen, ADR would publish a new, thorough analysis of cost correlation with new evidence and outcome on charges proposal and would call a new meeting to share and discuss results.

- On March 17 ADR published new info material including the anticipated new document and a slightly revised charges proposal to reflect the above and called a new meeting to be held on March 27

- In short, the new document illustrates cost-reflectiveness of EU/non-EU traffic clusters entirely based on regulatory accounts logics with only “indirect costs” moving between clusters as traffic mix is being revised in the wake of Brexit. “Indirect costs” compose a well-defined “round” of cost allocation in the certified regulatory accounts of the company and the info material published on March 17 (as illustrated in the March 27 meeting) carries evidence of cost outcome per single infrastructure line, making the illustration transparent and comprehensive. The analysis is conducive to a charges differential of 42% (down from previous 50%)

- In the wake of the above described changes, charges proposal for boarding pax of FCO is slightly modified with charges being worth 16,32 €/pax (EU, adult) and 23,19 €/pax (non-EU, adult). The former approach to matching a revenue target as per ART ruling 232/2022 remains obviously unchanged.

To back up his statements, Mr. Soleri illustrates table 4 of the abovesaid report (illustrating how cost allocation varies) and table 7 (illustrating how revenue target remains a constraint for ADR across the different calculations). Once again, Mr Soleri re-iterates the relevance of target revenue of 334.6 € mln that does not change, irrespective of charges differential calculations.

On revisited charges differential calculation, he emphasizes that the published document illustrates all relevant element of the intervened changes and that – relative to the initial proposal of December 2022 – a smaller portion of costs migrates from one traffic cluster to the other (only portion that is termed “indirect costs” in ADR’s regulatory accounts that ADR does not attribute to infrastructure). Mr. Soleri highlights specific percentages of indirect costs to each infrastructure line and states that all other elements of calculation remain unchanged as UK traffic moves from one cluster to the other, as it can be seen in tables 4, 5 and 6 of the published document.

For CIA, ADR found no reasons for changes relative to the initial Dec. 2022 charges proposal. Mr. Soleri anticipates that next steps of this year’s consultation process shall include some more days for users to get back with further comments (by end of the week), with ADR taking the following week to reply. If no other element emerge, he anticipates ADR’s intention to call the end of the process just before Easter by notifying ART (users shall also be duly informed).

Q&A session starts:
Regan Tilson (Ryanair): we are disappointed with last minute change in charges proposal and we disagree with outcome for EU cluster. Can you confirm this is a subjective change you come up with relative to proposal that has remained valid since last December when you initially published?
ADR (Soleri): I personally have hard time accepting expression “last minute”, as we anticipated possible changes at the March 9 meeting, we posted a full doc explaining the changes more than a week ago and we are here to talk through the changes intervened in our cost allocation logics (triggered by users’ comments) and the new proposal of charges descending from those. As for “subjective”, if you refer to the fact that these figures have not been audited, the answer is “yes”. However, we put a significant effort in explaining the reasons behind our choices in cost allocations between the two clusters in both the analyses we produced (December 2022 and March 17). Finally, the changes we made in the second report were simply meant to take on board some users’ comments. Finally, this is still a charges proposal on which we are here to exchange views and discuss with the aim we make it understandable for everybody.

Regan Tilson (Ryanair): can you walk me through the changes that have led to charges differential? ADR (Soleri): illustrates briefly (again) that ADR has changed the logic of allocation of costs with a view to extract all raw data from regulatory accounts. Analysis is made by single infrastructure line for higher transparency. All details of the analysis are displayed in doc published and notified to users on March 17. Insodoing, ADR simply replicated to some of the criticism we received that costs were moving too widely from one cluster to another.

Regan Tilson (Ryanair): is up to ADR to choose cost allocation methodology? ADR (Soleri): Certification of regulatory accounts follows a specific set of instructions and is not meant to go as far as this (allocating service costs to traffic clusters). We benefit already from a set of logics we developed over time that provides for specific cost allocations by single infrastructure line. As of today, we are proposing a slightly different cost allocation outcome, true. We started in December 2022 with one possible analysis of cost-reflectiveness for this purpose. In following meetings we received feedback that we have reflected in the new analysis.

Regan Tilson (Ryanair): we can’t accept this. ADR (Soleri): we leave it to you to send a note in writing. If you have specific queries on what we have done in the analysis we are discussing today

Regan Tilson (Ryanair): will there be a vote on this? ADR (Soleri): we recapped on the complicated issue of our current regulatory standstill several times. This was supposed to be a consultation on unchanged tariffs as for ART ruling 68/21, then ART 232/22 introduced the issue of changing boarding pax charges to reflect a new traffic mix with a higher traffic % paying premium. In the process, we have shown you how our charges differential have evolved through the years since start of ADR’ Economic Regulation Agreement (and cost-correlatedness) as infrastructure of FCO has evolved. From an historically applied 61%, we have moved to 50% in our December 2022 analysis and charges proposal reflecting infrastructure changes which has now come down to 42% in the wake of users' comments.
Regan Tilson (Ryanair): we have gone through the document and noticed very limited info.
ADR (Soleri): we are eager to review your note and questions and will try our best to reply in writing. Pls let me express that by changing charges differential we do not extract any extra revenue as we have to match the same target revenue.

Marco Gatti (EasyJet): must confess that we share some of Regan’s concerns. However, we have investigated the matter of cost allocation with you in past weeks and don’t want to come back with further criticism on methodology. We shall leave it to ART to decide. We already expressed our views that we believe all charges were to remain unchanged, compliant with ART ruling 68/21. Still, we don’t understand how it could be that EU boarding pax charges go up in this last proposal. We are deeply concerned with the decision of ADR to modify the passenger charge without abiding by the rules of ART Decision 92/2017, the options of ART Decision 68/2021, and definitely article 80 of decree law 1/2012. easyJet expressed many times its disapproval of AdR’s decision to change passenger boarding fees from 2021 levels. But I will remit to ART for a decision on this point. We are also concerned that ADR in the last 6 months claimed to have oriented charges to costs, abiding to the mentioned article 80, however it proposed a cost differential between the passenger charges of EU and non-EU, first of 60%, second 50% and finally 42%. I don’t know how this is possible, and don’t want to comment on this anymore, I will remit to ART for a judgement. We also astonished to see in this final proposal an increase the passenger charge to European passengers, an increase that contradicts with what were told during the previous consultation meetings and Decision 232/2022. Also in this case, I will remit to ART for a judgement. According to what is indicated by ENAC in Note 142933-P of 10.12.2021, the concession agreement (contratto di programma in deroga of ADR) requires an additional Act, without which it is not possible to implement "an autonomous update of the above-mentioned fees", concluding that AdR can only "extend the current tariff levels". In the preliminary report at para. 2.2.3.1 of ART Decision No. 136/2020 and in the preliminary report at para. 9.1.2 of ART Decision No. 38/2023 ART agreed with this interpretation, indicating the need to conclude the Additional Act. We ask the Authority in light of the above to reject AdR’s proposal to change charges, including for UK passengers, before the start of the new regulatory period.

ADR (Soleri): I thank you for not insisting on the most technical issues of cost allocation that – i believe – were thoroughly explained to you in past meetings and with material posted on website in last weeks. I hope the effort we put into this was appreciated.
Still, your contribution deserves some reply as I personally struggle to understand why you keep on denying evidence that charges could change for us to comply with ART’s 232/2022. Once again, ART’s ruling 232/2022 was illustrating that both EU and non-EU charges were mildly coming down, assuming unchanged 61% charges differential.
In the wake of ART’s ruling, we took our time to elaborate on cost allocation logics between the two traffic clusters and we came up with initial evidence that charges differential was more cost-reflective at 50% rather than 61%. Once again, 50% was leading to EU charges remaining flat just
coincidentally, while non-EU charges descent (1.83 €/pax) was greater than in ART’s ruling 232/2022 (0.83 €/pax).

Finally, in the wake of some points that users including yourself raised, we have adopted a more straightforward approach to cost allocation between the traffic clusters leading to the revisited charges differential of 42%, reflected into our charges proposal we are discussing today that foresee EU charge slightly rising vis-a-vis non-EU charge declining by more. Unchanged in all this is the target revenue we have to match.

Luciano Neri (IBAR): contemplating shift of charges from one geographic area to another will never make everybody happy. This is ART’s job to verify. We are also very anxious to know how you intend to consult users during 2023 in the wake of ART’s ruling 38/2023 carrying new economic models.

ADR (Soleri): as you can expect let me express my right not to comment on this. What you’re raising is beyond scope of today’s meeting. However, we can re-iterate what various times myself and ADR’s CEO have had the chance to represent to you already in last two years: we look fwd to the moment when we’ll gather again with you to discuss our multi-year capex plan and correlated aviation charges.

In the aftermath of the meeting, ADR received an email from ITA’s representative Rita Gaglione who due to IT issues, was unfortunately unable to express an opinion. Mrs Gaglione’s email content is reported below.

Rita Gaglione (ITA): With regard to the new tariff structure, ITA AIRWAYS rejects it, preferring the previous one, proposed by airport authority.

Ending the meeting, Mr. Soleri reiterates next step towards a possible conclusion of this year’s consultation that at this point consider ADR to wait for further contribution with deadline by end of week. After ADR’s replies, should no other elements emerge – ADR intends to close consultation before Easter with notification to users and to ART.