Update on charges for regulated services and meeting with users of Fiumicino and Ciampino airports in the framework of annual consultations (31 January 2023)

25 January 2023: EasyJet questions on ADR's proposal

1. **Are passengers' charges for non-EU destinations being lowered to €23.96 per passenger in 2023? Are passengers' charges for UK destinations being increased to €23.96 per passenger in 2023? How is this decision consistent with ART's approval to freeze charges for 2023?**

   ADR: ADR proposes that at an application date (TBD) upon closing of the consultation – as made clear in document available at ADR's consultation webpages: Proposta tariffaria 2023 - Aeroporti di Roma (adr.it) (please go through document "Assessing cost-correlation within passenger boarding charges") – at FCO, boarding charges for passengers' having non-EU destinations will be lowered to €23.96 (from €25.79 previously). UK's exit from EU triggered application of 'non-EU' passengers' charges to traffic having UK destinations, effective on the same above (TBD) date.

   Application date of such updates shall be dependent on timing of consultation closing, among other factors.

   In ADR's reading of ART's resolution n. 232/2022, under the current freeze of regulated charges (as per ART's resolution n. 68/2021) the abovesaid application is conditional upon a comprehensive and objective representation to users of:
   - split of allowed costs and passengers' volumes between the two traffic clusters (EU/non-EU);
   - charges re-balancing calculations consequent to passengers with UK destinations being re-located within non-EU to meet a benchmark revenue cap, as indicated by ART.

   The latter is meant to avoid any "overcompensation" relative to benchmark revenue cap specifically indicated by the Regulator, ie. 2021 revenues built *ex-ante* for the 2017-21 reg period as amended for re-balancing provided changes between relevant *ex-ante* and actual investment spending (among others), ie. cost allowances represented already to users during the summer of 2020.

2. **If passengers' charges for UK destinations are increased, could you explain how ADR plans to avoid collecting extra revenue without compensating for the increase with a proportional decrease in EU charges?**

   ADR: ADR's proposal for charges' update compliant with ART's resolution n. 232/2022 articulates cost allowances in detail (please see tables [a.], [c.] and [c1.] in document available at ADR's consultation webpages: Proposta tariffaria 2023 - Aeroporti di Roma (adr.it), "Assessing cost-correlation within passenger boarding charges") and subsequently resolves for cost-correlated equilibrium charges that are meant to meet targeted revenue cap (relevant math is made fully available in table [d.]). Once again, applying outcome represented in table [d.] to meet revenue constraint as indicated above (2021 revenues built *ex-ante* for the 2017-21 reg period as amended) avoids any condition of potential “overcompensation”, ie. revenues above allowed costs.

Intuitively, proposing charges’ reset to reflect an improvement in traffic mix – in the wake of UK’s exit from the EU – was to be combined with average (traffic-weighted) decline in EU and non-EU charges. Indeed, non-EU charges in ADR’s proposal are being diminished by 7% on (i.) different traffic weighting and (ii.) cost correlation updates that lowered differential over UE boarding charges paid by non-EU traffic from 61% to 50%.

3. When was the last time the EU and non-EU areas for cost allocations were reviewed? Did ART approve the cost allocation methodologies?

ADR: Among the inputs of cost allocation model (cost allocation to services), in drafting regulatory accounts ADR makes use of information on buildings located on the airport ground.

These buildings are represented in the company asset register with the typical technical information on the configuration of the building itself concerning – among others – size in square meters and cubic meters assigned to each "space code" (representation at elementary level of the building plan produced by “Archibus”, the software of choice).

For the purposes of regulatory accounts, the single “space code” is associated with a corporate “profit center”. Every year, during the preparation of the regulatory accounts, these associations may be subject to variations on evidence of a change in destination/usage.

The “allocative logics” of operating costs and invested capital based on the "sq mt driver" reflect the above said general principles. Starting from the elementary data up to the build-up of the specific allocation driver, annually downloaded wealth of data (Archibus) is shared with the auditing firm in charge of supervising ADR’s regulatory accounts.

Finally, results of the regulatory accounts, with details of each applied logic and related drivers (with indication of their weight on cost allocation) are transmitted to ART and ENAC with the opinion expressed by the auditing firm.

4. How many square meters are in the EU and non-EU areas and when were they last audited?

ADR: In table below we provide square meters for terminals / boarding areas determined on the basis of what is represented above under item 3. Surfaces in tables are those directly associated with boarding service and exclude technical areas associated with baggage handling.

Mq '000	
Infrastructure/terminals	**Boarding Pax - Direct Mq**
Terminal 1	24,6
Boarding area B	13,5
Boarding area C	5,4
Boarding area D	21,9
Terminal 5	7,7
Terminal 3	45,6
Boarding areas E and pier	92,2

Please note that as for charges setting purposes, the determination of allowable costs to boarding service for each infrastructure in tables [a.] and [c.] of the published methodology document ("Assessing cost-correlation within passenger boarding charges") reflects the logic of the "sq mt driver" represented above with which additional drivers necessarily coexist for attributions of other direct and indirect costs (personnel, cleaning, heating, others).

5. **Are the assets and costs for 2023 – and 2022 – the same as the proposed proxy year of 2019?**

   ADR: We take opportunity of this question to recap on some key elements used across the analysis that underpins ADR's proposal to review 2022 and 2023 boarding pax charges (solely accounting for a change in non-EU differential in boarding charges). ADR is presenting a cost allocation split on evidence provided in 2019 regulatory accounts (as the last relevant year pre-pandemic), both with passengers having UK destination within EU and non-EU traffic clusters. Resolved for "x" (ie. the cost-correlated EU/non-EU differential in charges, please see tables [b.] and [d.]), "x" is then applied to meet the above said revenue cap (ie. 2021 revenues built *ex-ante* for the 2017-21 reg period as amended for most recent cost actuals).

   This in turn implies that 2022 and 2023 asset and cost values are not deemed relevant for the purpose of this analysis that is predicated on maintaining an underlying freeze of charges relative to 2021 (as per ART's ruling no. 68/2021). Reference years for proposed methodology are 2019 and 2021, the former being proxy year for split of cost allocation (as the last relevant year pre-pandemic), the latter being proxy year for revenue cap (compliant with underlying freeze in charges as per ART's resolution no. 68/2021).

6. **How have the "user pay" and "non-discrimination" principles mentioned by ADR been applied to allocate costs of Schengen and non-Schengen areas to EU and non-EU traffic designations?**

   ADR: Key "objects" in_regulatory accounts on which the most significant portion of cost allocation is dependent are FCO infrastructures that are "tagged" as EU and non-EU (not SCH, ex-SCH). This is relevant for our cost allocation exercise.

   With regard to the above, it should be noted that:
   - infrastructures represented by passengers' boarding areas and baggage reclaiming areas are for exclusive use of the relevant traffic clusters (EU / non-EU) with obvious consequences on cost allocation (entirely allocated to the relative customer cluster);

- costs of areas termed "Terminal" – broadly speaking represented by passenger acceptance and surrounding areas – are divided on the basis of relative use by traffic cluster (whereby split is performed with calculations underpinned by specific assignment of boarding areas to each flight destinations);
- costs related to centralised infrastructures such as passenger acceptance system, BHS systems, public information and announcements are divided between traffic clusters on volume of passengers passing through the corresponding dedicated areas of Terminal.

In table [c.1] we share with users that on infrastructures of common use the % variation in cost from one to other traffic clusters is proportional to % variation in traffic upon UK modified traffic designation.

7. What is the "dwell time" of UK passengers before and after Brexit?

ADR: For various applications in daily airport operations, since 2016-17 ADR collects on a daily basis originating passengers' transit time between security gates and expected boarding time (so-called "dwell time"). ADR does it through an internal IT system.

This is a measure we could add to our analysis with a view to providing for a time-weighted allocation on areas of shared costs. On evidence suggested by available data, this would have triggered a higher cost allocation to non-EU and – other things equal – higher non-EU boarding charge differential.

However, ADR decided not to add this additional element to the methodology for re-determining cost-correlated non-EU differential in boarding charges. Choice reflects ADR's intention to preserve adherence with historically adopted criteria and avoid more complex rounds of cost allocations.

8. What is the "dwell time" of non-Schengen European, Schengen, and non-European destinations? How and when was the "dwell time" calculated? How is the time spent in the commercial area considered?

ADR: We are afraid not to be in a condition to share with you these internal and highly commercially sensitive data. Please note that – as represented under item 7. – these are not elements included in the methodology for re-determining cost-correlated non-EU differential in boarding charges

9. What are the gates used by non-Schengen European, non-Schengen EU, and international destinations? What is the average walking time?

ADR: Our current infrastructures provide for split of gates and walking time (approximate) as in the table below.

Traffic Cluster	Boarding Area	Gate	Walking Time from T1 security gate (min)	Walking Time from T3 security gate (min)
Dom/Sch	A	A61-A83	8	10
	B	A31-A58	5	6
	C	A21-A27	5	3
	D	A01-A10	5	4
			6	**6**
Extra- Schengen	E - AVC	E01-E08	7	4
	E - Pier	E11-E24	11	8
	E - ex G	E31-E44	14	11
	E - ex H	E51-E52	12	9
			11	**8**

10. What is the average waiting time before passport control? What is the average waiting time at security gates in T1 and T3? What is the average walking time from security gates to EU and non-EU gates? Could you provide evidence?

ADR: In fiscal year 2019, **average waiting times before passport control for EU/non-EU passengers** are illustrated in tables below.

	FY 2019 AVG	
Pax	**EU**	**non-EU**
Arriving	01:09	03:50
Transfer	NR	02:00
Departing	01:30	03:16

In fiscal year 2019 **reference average waiting times at security gates** in T1 and T3 were three minutes and two seconds and three minutes and sixteen seconds, respectively.

Above data are collected by an independent ISO-certified third party and include "egates". Additionally, as for average waiting times at security gates please note that ADR's commitment to improvement is reflected in:

- Service Charter – consequently trends are discussed between ADR and users in the regular meetings on quality controls;
- Quality parameters of the Economic Regulation Agreement – consequently trends can be tracked down in the consultation material that ADR publishes on yearly basis.

As for requested walking times please see table above (under item 9.) that reflects our data gathering.

11. **Could you explain why T1 baggage drop-off and T3 baggage drop-off use a different percentage in the allocation than the BHS?**

    ADR: Infrastructures represented by baggage drop-off (T1 and T3) are for exclusive use of the relevant traffic clusters (T1 baggage drop-off = 100% EU, T3 baggage drop-off = 100% non-EU). Allowable costs related to BHS systems (T1 and T3) are split between traffic clusters in proportion to volume of passengers passing through the Terminal areas (split is performed with calculations underpinned by specific assignment of boarding areas to each flight destinations).

    Evidence of marginal difference in outcome of cost allocations between terminal areas and BHS areas (compare terminal 1 and BHS T1 and terminal 3 and BHS T3) simply reflects BHS costs also being marginally impacted by transit passengers (EU and non-EE) to which attributed allocation logic reflects respective % volume (transit cluster / tot transits). 2% of BHS T1 + BHS T3 costs are dependent on usage by transit passengers as represented to users already in the analysis of cost correlation of transit charges presented during the 2019 consultation on 2020 charges update (please see link to full document – "Answers to questions: Easyjet" – in the consultation webpages: [2020 Charges proposal - AEROPORTI DI ROMA - Aeroporti di Roma (adr.it)]).

12. **Could you explain why T3 has a different percentage of T3 baggage drop-off?**

    ADR: Infrastructure represented by T3 baggage drop-off is for exclusive use of the non-EU passengers. Costs of areas T3 – broadly speaking represented by passenger acceptance and surrounding areas – are divided on the basis of relative use by traffic cluster; split is performed with calculations underpinned by specific assignment of boarding areas to each flight destinations.

13. **What is the average number of bags per passenger for Schengen, Non-Schengen EU, UK, and international passengers?**

    ADR: In fiscal year 2019 ADR's baggage facilities for departing passengers handled total bags in excess of 14 mln with the following ratios of bags per pax per traffic segment as per request:

    - Schengen traffic excluding UK – 0.49
    - UK – 0.57
    - Ex-Schengen – 0.97

14. **Could you provide evidence that 2% of UK passengers use baggage transit facilities?**

    ADR: In 2019 the share of UK transit passengers represented 1.7% of total transfers. Costs correlated to UK transit traffic are included in the analysis of cost correlation of transit charges presented during the 2019 consultation on 2020 charges update (please see ADR's answer to item 11.).

15. **Could you provide evidence on how the revenue contribution has been calculated?**

ADR: Revenue contributions by single traffic cluster (EU and non-EU) are calculated in a straightforward and fully transparent approach that we endeavoured to describe in tables [b.] and [d.] of the study.

Purpose of the two above cited tables is to provide comprehensive calculation of combination of (i.) % correlation to costs for non-EU passengers (as shown in tables [a.] and [c.]) and (ii.) % contribution of the same non-EU passengers to revenues, resulting in "fair value" (cost-correlated) of non-EU charges differential, given target revenue cap.

As a departure point for the calculation, the two traffic clusters are assumed to have a contribution to revenue proportional to the respective volumes and irrespective to the applied differential in charges (note as in indicated tables all originating charges are set = 1).

16. **Could you explain the methodology used to calculate the differential of non-EU passenger charges, referencing the ART models, and if it was approved by ART or ENAC? Why the principle of "cost-correlation" should be accompanied by a revenues' metric?**

ADR: Purpose of the revenue contribution calculation is to resolve "fair value" of non-EU differential given allowed cost split and target revenue cap as combination of (i.) correlation to costs per non-EU passengers (see above item 15.) and (ii.) contribution of the same non-EU passengers to revenues.

Revenue metric is needed for matching 2021 revenue cap (as previously indicated).

17. **What is the cost coverage for EU and non-EU passenger charges in 2019, 2022 and 2023? What is the cost coverage for UK passengers in 2019, 2022 and 2023?**

ADR: We understand your "cost coverage" data request as the difference between boarding pax revenue and allowable service costs by traffic cluster and produced table below accordingly for fiscal year 2019.

	Revenues	Costs	2019
EU	207.579	167.427	40.152
non EU	147.218	175.424	(28.206)
	354.797	**342.851**	**11.946**

Data enquiries for 2022 and 2023 are flawed by specific circumstances as regulatory accounts for allowable costs determination are not yet available.

As for your request focussed on UK, while you have access to allowable costs of the specific traffic segment (it can be derived as difference between total in table [a.] and table [c.]), we are afraid not to be in a condition to share with you service revenue from passengers with UK destinations that we deem as confidential information.

18. **Could you explain the methodology used to allocate costs to non-EU passenger charges, referencing the ART models, and if it was approved by ART or ENAC?**

ADR: Costs are allocated to traffic clusters using transparent and objective parameters that we present in tables [a.] [c.] and [c1.]. Combined with revenue cap as explained, they underpin the proposed differential in charges that we are discussing today.

19. **Could you provide the difference between determined costs and incurred costs in 2019 and 2022?**

ADR: In following table we represent evidence of boarding pax service's revenue and allowed costs costs from ADR's regulatory accounts through years in which certified financials are currently available (2019-21).

Boarding pax FCO (M€)	**2019**	**2020**	**2021**
Revenues	355	73	87
Costs	343	294	278
Difference	**12**	**-222**	**-191**