

Appendix 1: Comments on the Consultation on airport charges regulatory model for over 5 million passenger movements per year

Question 2.A - Definitions

- 11 Please provide further explanation what will be covered under centralized infrastructure. Add also reference to “accessories” charges for which service is also provided against a cost-recovery fee: PRM, de-icing, centralized infrastructure, etc.
- 13. “Master Plan”: It is important that the long-term infrastructure developments will be consulted with the users, therefore the master plan cannot be limited to short-and medium term as stated in the definitions
- 23. “Airport User”: This should not be limited to the airlines but include associations as well. Everywhere it is relevant in the text, and especially in sections pertaining to consultation, it should be made reference of consulting airports users and their representative organizations.

Question 3.2.A – Consultation procedure

- We understand from the document that it is foreseen to arrange for the consultation meeting only every 4 years, which is in our view not acceptable. It is a key requirement to have at least yearly consultation on the level of airport charges. This is still applicable under a long-term contract to review the actual cost and traffic development, changes in investments and other key items on an annual basis
- We appreciate that the consultation has to be in full compliance with the requirements established in the Airport Charges Directive 2009/12/EC
- We recommend to ensure that the regulator will be present at the consultation meetings
- Please clarify the requirements in paragraph 4 – it is unclear which requirements will trigger the promotion of the consultation process. In our view the timeline of the consultation process needs to be in line with the date of any planned changes in the charges structure or level, or as soon as any changes in the current system are foreseen. If no changes are expected, the annual charges consultation should be held according to the schedule of a 12 months period
- The text should also be amended where necessary to reflect that consultation is between airport managing body and airport users and their representative organizations

Question 3.3.A – Notification period

- We consider the notification period of 4 months prior to any change in the charges structure or the level of charges as too short given the planned duration of the frame-contract. Experience has shown that a much longer time-period is needed in order to agree on a long-term contract and allow for sufficient time to arrange for meaningful discussions
- It needs to be ensured that the full documentation will be provided to the users well in advance of the consultation meeting, in order to allow for a meaningful discussion

and sufficient time to prepare for the consultation meeting. It is further needed that English translation of the documents is provided to allow all airport users and representative organizations to meaningfully engage with the airport body

Question 3.4.A - Communication

- The text should be amended to reflect that consultation is between airport managing body and airport users and their representative organizations

Question 3.4.B – Participation in the Consultation

- We would like to seek further clarification of how a consensus vote would be established in order to agree on any change in charges. It needs to be ensured that sufficient representation from the breadth of airport users are considered and to avoid that the sole interests of a specific group or share of users is only taken into account
- It needs to be ensured that there is the right to appeal the decision in case no agreement can be made, or in case specific users are not in agreement
- The consultation material should be provided in English language and the consultation held in English to allow for participation and engagement of the international carriers and associations

Question 3.4.C – Public Hearing

- The aim of the consultation is to reach consensus between the airport managing body and the airport users – it is not supposed to be a public hearing where a decision already made is merely announced and subsequently implemented

Question 4.1.A – Information to be provided “Document of Consultation”

- Transparency is a key charging principle enshrined in ICAO’s policies on charges and defined in the Airport Charges Directive. Airports must therefore ensure that airlines, as users, are provided with full adequate information on major charge or infrastructure developments
- The airport managing body needs to justify the charges structure and demonstrate that the charges are cost-based and non-discriminatory in line with ICAO’s policies on charges and the Airport Charges Directive
- Airlines need to know exactly for what they are paying for and the airport managing body need to justify investment plans and business developments that impact on users. Airlines also need adequate information to evaluate the providers future operational plans to ensure that the investment is cost effective and meets future requirements
- In addition to the transparency requirements already outlined the following should be made available:
 - Financial Data
 - Historical revenue and costs – A minimum of five years
 - Forecast revenue and costs – A minimum of five years
 - Revenue segments – Commercial/aeronautical
 - Corporate financial structure and shareholder commitments
 - Unit costs and productivity metrics and targets
 - Capital, borrowings, interest costs, depreciation, etc .
 - Operational Data
 - Historical traffic levels – Aircraft movements, passengers and freight
 - Forecast traffic levels
 - Staffing levels

- Service levels, core functional delivery, customer satisfaction etc.
- Planning Data
 - Master planning – Short, mid and long-term
 - Business cases to support infrastructure development
 - Growth and risk factors – External and internal

Question 4.1.B – Traffic Forecast

- It is important to understand how the traffic forecast will be considered in the calculation of charges and the mechanism that will be applied in case of a different development compared to the forecast

Question 4.1.C – Investment planning over the rating period

- It is a key requirement to include investment planning in the consultation process and ensure a proper review of the capital investment plan. This should not be limited to the period of 4 year as it is of importance to understand the long-term development plans.
- The users need to be consulted at an early stage in order to share the same vision with the airport management body regarding investment planning in order to:
 - Agree a basis for ongoing project evaluations, i.e. does a proposed project positively support the “vision”
 - Find environmentally acceptable solutions that overcome capacity issues
 - Establish a unified position in relation to future capacity enhancement programs
 - Overcome differences of opinion on capacity enhancement requirements (often caused by differing financial policies and differing operating model either hub-carrier, LCC or visiting carrier (charter or OD carrier)
- It needs to be ensured that the following areas are reviewed and agreed between the airport managing body and the users:
 - An agreed Airport Master Plan
 - A clear understanding of surrounding Land-use Policy
 - An independent analysis/forecast of Future Demand and review of currently available Capacity (by individual sub-system, e.g. check-in, passport control, etc. and by market segment, e.g., international or domestic, short/medium/long-haul and by a/c type).
 - A prioritized rolling 10 year Capital Investment Plan (CIP) – focusing on the first 5 yrs. but with reference to longer term development options as outlined in the airport master plan
 - An understanding of the potential for the proposed CAPEX plan to impact on Airport Charges, Operational Costs and Service Quality.
- Further information is needed to understand the current traffic and hypothetical schedule for at least a 5 year period:
 - Airside infrastructure systems (runways, taxiways, aprons, stands and gates)
 - Passenger terminal (stands and gates either bridge served or remote, baggage handling systems, commercial activities)
 - Cargo terminal
 - Airport support elements, e.g. flight catering, a/c maintenance, RFFS, fuel supply and storage, utilities
 - Operating practices to be able to find operational solutions
 - Surface access systems (road, rail and sea)
 - Adjoining land-use incl. real estate developments
 - Ongoing CIP projects and investments (including associated costs/benefits for all stakeholders on all projects) – see CIP Project Definition Sheet.
- The possibility to allow for pre-financing should be removed. Pre-financing of capital projects through charges is costly, unfair and inefficient. Conversely, a properly

structured financing package for new investments will ensure that costs of financing are kept to a minimum and that airlines only pay for agreed investments on an “as and when used” basis.

Question 4.1.D – Quality and Environmental protection plan

- The key aspects of the service provided by the airport managing body should be meet and agreed in form of quality and operational performance standards
- Those Quality measures need to be carefully established with all the users and applied per terminal and per block-time (e.g. peak hour) at the airport. It needs to be ensured that those indicators are measurable and apply to the services which are affecting the carriers operations. All facility and services provided against payment of a charge must be integrated into the quality of service indicators.
- The following elements should be reviewed and agreed between the airport managing body and the airport users during the consultation process:
 - Definition of the services to be measured
 - Timeframe for measurement
 - Targets
 - Exclusions
 - Planned maintenance outside critical operational periods
 - A simple, cost-effective measurement methodology with an agreed independent assessment or audit if necessary
 - Review reporting period
- If the service levels are not being reviewed and agreed between the airport managing body and the users and their representative organizations, there would be no commitment to deliver service standards and no link between the performance of the service provided and the level of charges, which is not in line with the airport charges directive
- It is required to have a clear link between the planned efficiency gains and the investments planned in order to contribute to the indicator and the target levels defined
- Those investments need to be supported by a sound business case and agreed with the users prior to any implementation
- A baseline needs to be established in order to measure success and failure compared to the baseline
- The necessary level of quality and environmental performance should be part of the frame contract, thus if this level is achieved there should not be any type of incentive granted, as the users already pay for this level of quality and environmental performance
- A penalty process can be considered in case of failure to deliver against the agreed targets
- Further comments on the proposed indicators are provided under question 8.1.4

Question 4.2.A – Information provided by carriers

- It needs to be ensured that carriers will be notified of the timelines to provide the related traffic data and that only information for the purpose of setting the charges are required
- The competitive nature of the airline industry requires that such data will be handled as commercially sensitive data

Question 5.1.A – Agreement after consultation

- Comments on Point 6. regarding an unresolved agreement will be provided with Question 6.a

Question 5.2.A – Information during the contract period

- During the annual consultation process within the agreed contract period it is necessary to provide all information as outlined under the subject of transparency
- Users and their representative organizations need to achieve a full understanding of the actual development according to the plan. Any changes in costs, revenues, traffic forecast, economic parameters, and investments need to be explained and justified. A mechanism how those changes will be addressed in the charges contract needs to be defined upfront as part of the initial consultation

Question 6 – Appeal procedure

- It is necessary to ensure that any unresolved issues between the airport managing body and the users can be addressed to an independent supervisory authority prior to charges being finalized
- The role of the independent supervisory authority should not be limited to review the correct application of formulas in the charges calculation, but also to ensure that the airport charges directive as well as ICAO's principles are fully complied with. In addition there is a need to assess whether the airport managing body is applying cost-efficiency measures and the proposed investment plan is according to the users need, market demand and capacity requirements

Question 7.A – Subjects to be included in the charges calculation

- The charges structure need to be consulted with the users and cannot be adjusted solely by the airport managing body
- Peak/Off-peak charges are not an effective means of easing capacity constraints as it redistributes costs between different airport users arbitrarily
- Airlines indeed have little opportunity to adjust to such a system in an efficient way due to the complex task of scheduling such operations. The challenge is to maximize aircraft utilization and optimize aircraft rotation within the constraints of airport curfews, opening hours, increasing environment restrictions, crew availability, and many other factors. In addition, the market dictates airline scheduling, as schedules are constructed in response to passenger and cargo demand
- Peak/off-peak pricing constitutes a challenge to ICAO's key charging principles of non-discrimination and cost-relatedness, which must be fully complied with. ICAO's guidance also indicates that the effectiveness of peak pricing in redistributing traffic is limited and that a successful approach is a scheduled coordination between the airlines and airports

Question 8.1.A – Analytical and regulatory accounting

- Overall we strongly support the single till principle under which airports commercial revenues are used to offset the charges cost base. The single till is justified because there is interdependency between the passengers airlines bring to airports and the non-aeronautical revenues (e.g. retail) they provide for airports. As airlines have delivered the customers to make non-aeronautical operations at airports profitable, it is reasonable that they should also share in their benefits
- In any case, accounting must display how non-aeronautical revenues contributes to offsetting aeronautical costs. The accounting document as well as the allocation key between aeronautical and non-aeronautical for airports using a dual till must be communicated to the users and their representative organizations with the consultation documents. Allocation keys must be part of the consultation for which consensus is necessary

- Please justify why operating costs shall include the IRAP value applied to the cost of work. With IRAP being a regional business tax it is not sufficiently explained why this tax should be added to the cost base, why should a tax be added to the cost base
- We support number 6, which allows ART to demand further information elements from the Managing Body, which should be extended to the users having the right to ask for further information as well. Yet further under number 8 this is being contradicted when the Managing Body shall provide, on the occasion of user consultations, the global structure of costs (operating and capital) only. Costs have to be cost related and full transparency as to the composition and drivers on the cost side and the planned revenues need to be provided

Question 8.2.A – Dynamics of compensation

- One of the key elements which needs to be ensured during the consultation meeting is the agreement on the baseline
- Regarding the methodology used and calculation of the formula we request a separate meeting for further clarification and understanding of the parameters used

Question 8.2.B – Dynamics of operating costs

- Regarding the methodology used and calculation of the formula we request a separate meeting for further clarification and understanding of the parameters used

Question 8.2.C – Flexibility of operating cost

- Please explain the functioning of the second bullet point for the flexibility of individual operating cost entries related to traffic changes (WLU) – what is meant by this and how is it expected to work?
- What are the values displayed in the cost flexibility table based upon? We request a proper consultation on the elasticity values used in order to provide further comments

Question 8.2.D – Efficiency objective

- The increase objective of efficiency productivity shall not be proposed by the Managing Body but can only be proposed and subsequently negotiated and agreed upon. The efficiency objective is a key element and cannot be left singularly with the Airport Managing Body.
- The efficiency assumption needs to be provided as part of the consultation process, thus the authority should already provide its view on the efficiency parameter at the beginning of the process
- We disagree to use historical data as such data can easily be compromised by one-off special effects
- The determination of the efficiency assumptions requires the consideration of benchmarks with other airports and other industries

Question 8.3.A – Net invested capital

- The asset base should be based on historic cost accounting
- Please clarify what intangible assets you foresee to be included in the regulated asset base

- There should not be a cost of capital for assets under course of construction as this would imply pre-financing
- Further clarification on this section is needed in order to allow for analysis of the proposed methodology

Question 8.4.A – Depreciation

- The paragraph under number 2 requires further review and clarification

Question 8.6.A – Invested capital

- Several steps of the description of the process are not sufficiently clear and requires a determined approach for transparency

Question 8.6.B – Cost of debt calculation

- The cost of debt calculation considers the ten-yearly BTP (assuming this is a government bond) daily arithmetic mean average with reference to the 12 months coinciding the base year
- We believe that a more forward looking approach should be considered, i.e. taking into consideration the interest on current 5 year maturity government bonds
- The determination of the equity beta shall be established via recourse to other European airports which are listed on the stock exchange. There needs to be appropriate consultation on the airports to be selected in order to follow this approach.

Question 8.6.C - Asset beta

- The reasons listed under Asset beta corrective factors are not acceptable. Closer review reveals that these are typical arguments being brought forward by the airport for a better value of the beta. Yet each of the items listed does not provide any reason to adjust a correctly determined beta value. We expect that these items are removed or at least discussed with airport users in full transparency.

Question 8.6.D – Tax rate

- We will provide further comments regarding the application of the tax rate at a later stage

Question 8.8A – Incremental WACC and cost discontinuities

- We require further clarification as to which elements shall be considered for the financial position. The items from the balance sheet shall be clearly agreed upon and based on the most recent audited annual report
- We will provide further comments regarding the cost discontinuities at a later stage

Question 8.9A – Commercial margin treatment

- As stated previously we strongly support the single till principle under which airports commercial revenues are used to offset the charges cost base. The single till is justified because there is interdependency between the passengers airlines bring to airports and the non-aeronautical revenues (e.g. retail) they provide for airports. As airlines have delivered the customers to make non-aeronautical operations at airports profitable, it is reasonable that they should also share in their benefits

Question 8.10.A – Dynamics over the contract period

- We will provide further comments on the dynamics of the contract period after full analysis and clarification of the methodology

Question 8.1.4 – Quality and environmental indicators

- It is not sufficient that the indicators are selected by the managing body and ENAC without consulting with the users. It is necessary to make this a part of the consultation process in order to agree jointly on the relevant indicators, the way of measurement as well as the baseline and targets to be achieved
- All investments related to contributing to the quality and environmental aspects need to be supported by a business case focusing on efficiency improvements and consulted and agreed with the users. Full transparency on the impact of charges related to those investments is required
- We do not support a reward and penalty system. The required level of quality needs to be agreed with the users which will be the baseline for the contract. This is the level of service the users will already pay for and should not be incentivized. Instead a penalty system can be considered if the agreed level of performance will not be achieved
- The related formula for a penalty system needs to be consulted and agreed with the users
- It needs to be ensured that the performance can be measured in an objective way to avoid any misuse or manipulation (e.g. by carrying out the measurement in off-peak hours or during periods of low traffic, etc.)
- Regarding the indicators outlined in appendix 1 it is necessary to link the indicators to the actual capacity (and foreseen traffic growth)
- Further clarification of the individual indicators is needed and it cannot be defined by the airport managing body and ENAC without consulting the users
- In general it needs to be ensured that the performance against those indicators can be measured. Overall the measurement should be expressed in efficiency gains instead of savings