Aer Lingus

Dr. Adrian Corcoran
Director of Markets and Consumer Policy
Commission for Aviation Regulation

By email: info@aviationreg.ie

31st August 2021

Dear Adrian,

Thank you for the opportunity to provide Aer Lingus' feedback on the Irish Draft RP3 business plan for Air Navigation Services (now applicable for 2022-2024).

We welcome the update to Ireland's original RP3 Performance Plan, which was consulted upon in 2019 in line with the provisions of Commission Implementing Regulation (EU) 2019/317 and the targets set out in Commission Implementing Decision (EU) 2019/903.

Covid-19 has had a severe impact on the entirety of the aviation sector, with an unprecedented steep and sustained decline in traffic volume since March 2020 to date. As there is also significant uncertainty over the speed and timing of any recovery of passenger numbers, we acknowledge the difficulty in seeking to establish an appropriate level of costs and unit pricing for the RP3 period.

Given the uncertain nature of recovery it is vitally important that everyone in the sector has an efficient cost base to safely meet anticipated demand, supported by further efficiency measures where appropriate. We note that the ANSP operated with zero delay in RP2 and expect that a similar quality of service will be delivered in RP3. This will be of particular importance in supporting recovery as delay adds unanticipated operating costs for airlines – unwelcome in normal circumstances and particularly unwelcome when airlines are in their current weak financial positions.

We recognise that achieving an efficient cost base is particularly challenging given the current circumstances, but without these efforts, consumers will be burdened with charges that are unaffordable, compromising the recovery and leading to a viscous circle of yet higher costs paid by fewer movements.

Aer Lingus has confidence in the rational and evidence-based approach taken by the CAR in the scrutiny of the proposed business plan of the ANSP and throughout the consultation process.

Overall, Aer Lingus supports the Draft Decision made by the CAR for RP3 and would support its submission to the EU Commission for approval. Nevertheless, we note the steep increases in unit costs for 2022 and would appreciate a smoothing of the pricing over the RP3 period to reduce the step increase proposed for 2022, when (the hoped for) recovery will still need significant support.

The IAA has made numerous assertions that the proposed level of operating costs allowed will result in significant delay being introduced into the system (up to 700,000 minutes of delay). While Aer Lingus would not support an outcome of this consultation process which introduced a service quality decline (zero delay experienced in RP2), we have not seen any evidence to support the IAA's assertions. The modelling of delay has not been shared with airlines and we therefore have had no opportunity to interrogate the model and assess for ourselves if a realistic traffic scenario could indeed see delays of the magnitude claimed by the IAA.

There is a significant capital allowance made for RP3, albeit some 20% lower than was proposed by the ANSP. While we have specific queries on certain of the projects proposed, overall we would like to see the introduction of a mechanism similar to the Stage Gate process employed at Dublin Airport for further consultation and cost review of projects as they move from early design phase to ready for delivery stage throughout the RP3 period. Efficiency of capital spend will be of critical importance in this period, given the reduced financial ability of airlines to cover investments by the ANSP, and it will be important that airlines can verify that quantifiable benefits – for safety, capacity or sustainability - will be delivered from any investments made.

In particular, the following three projects "New Tower Project", "Climate Action Plan" and "ATCO Screen Replacement" would be prime candidates for a Stage Gate capex approval process – "New Tower Project", given the significant cost difference between what the IAA initially provided at €43m and the €50m now proposed; "Climate Action Plan", given the preliminary nature of work to be undertaken under this umbrella allowance and unspecified outputs and the "ATCO Screen Replacement", given the rapid changes in specifications and prices within this type of electronic equipment so as to align the capex allowance with the pricing at time of purchase.

We note also, the call from the IAA for flexibility in use of capex or opex for IT spending over the RP3 period – Aer Lingus is not opposed to the transfer of allowances from capex to opex where such transfer would result in a more efficient outcome. Again, a Stage Gate process would allow for consultation on, and agreement to, such an allowance transfer as has been requested by the IAA.

With regard to other individual projects we would ask the CAR to address the following concerns in relation to each:
Radar Replacements – a total capital allowance in RP3 of €12.6m is planned for radar replacements (Dublin radar 2 project, new Dublin radar building and national upgrades). Has the CAR confirmed with the IAA that there are no satellite-based alternatives to radar which could provide the same outputs at lower cost?

Cork ATC Extension – a very generous €2.3m capital allowance is proposed for an extension to rest facilities and additional storage space in Cork. We ask the CAR to confirm the requirement for additional storage space (what extra needs to be stored or what previous temporary storage facilities are being removed?) and also what exactly is making the current rest facilities inadequate. Our concern here is that it is a social-distancing requirement which may be very short-term in nature, which is driving this space extension "requirement", particularly as Steer were less than fulsome in supporting the need for this project.

Temperature Checking Equipment – Can the CAR confirm that there is currently no temperature checking equipment in place in IAA facilities? If there is then what is the rationale for changing the equipment, considering that Covid-19 restrictions may not be in place for very much longer? A temporary alternative, such as hand-held electronic

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temperature "guns", should be considered as they could be provided at a significantly lower cost than the €220k proposed.

BMS Upgrade – €500k is proposed to be spent on an upgraded building management system for 2 facilities. Can the CAR confirm that this project does not overlap in scope with the existing Energy Management Upgrade Works project? Also can the CAR confirm that potential synergies between these two projects have been assessed for potential to deliver the same energy efficiencies at lower overall cost?

On operating cost allowance, Aer Lingus is concerned with the reliance on benchmarking against other inefficient operators as a justification for the operating cost allowance. Efficiency in operating costs could arguably be more achievable if benchmarking were preformed against efficient operators in other parts of the industry – for example, benchmarking the operating cost reductions achieved through the Covid-19 period against airlines and airports.

Aer Lingus is grateful for this opportunity to provide feedback to the CAR's consultation process and remain available to clarify our thinking further with the CAR should this be considered of benefit.

Yours sincerely,

Valerie Ní Fhaoláin

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Infrastructure & Planning Manager