



## **IAA ANSP Response to Consultation on Draft Performance Plan for RP3**

**31 August 2021**

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## Executive Summary

- ❖ This submission identifies IAA ANSP's significant concerns with the NSAs' approach that underpins its proposal to reduce the ANSP's cost requirement over the period 2020-2024.

Proposed reduction in required costs by IAA ANSP 2020-2024		
<b>RP3 Cost Requirement 2020-24</b>	<b>-€74.4m</b>	<b>-11%</b>
Staff Costs	-€15.5m	-4%
Direct Underlying Costs (Other Opex)	-€34.8m	-17%
Depreciation	-€14.8m	-20%
Cost of Capital	-€9.3m	-25%

- ❖ We have supplemented this submission with evidence to support our position and have set out concerns with the consultation material based on verifiable data. The impact of a reduced cost allowance in terms of delays is outlined in an independent report from EUROCONTROL Network Manager while IAA ANSP's well established efficiencies are verified in Air Traffic Management Cost Effectiveness (ACE) and Performance Review Body (PRB) studies.
- ❖ Having closely followed the NSA issued Business Plan Guidance Note issued in February, the IAA ANSP Revised RP3 Business Plan sets out the required costs for the period 2020-2024 and provides the relevant justifications for the costs eligible under RP3. The NSA consultation material and supporting analysis by external consultants Steer does not consider the required costs on a line by line basis from the perspective of (i) local circumstances (ii) eligibility (iii) justification or (iv) interdependencies with other KPAs.
- ❖ Instead, the NSAs have proposed to reduce IAA ANSP's cost requirement by 11% on the basis of a highly theoretical modelled scenario based on a range of questionable assumptions and outdated information – this scenario has led to a proposed reduction in direct underlying costs of €35m, which represents approximately one half of the overall reduction being proposed. In addition, IAA ANSP has identified a number of errors in the model and has communicated these to CAR and Steer.
- ❖ The IAA ANSP's business plan was designed with the objective of providing a full, safe, secure, high quality, resilient and efficient service to airline customers over the RP3 period, supporting their return to normal operations post COVID-19. Having provided a full service to our customers on a 24-7 basis since the onset of the pandemic and in the presence of a phased cost containment programme, the NSAs consultation proposes to reduce the ANSP's actual costs incurred by 6% or c.€12.1m, which is double the Union-wide cost efficiency target for the period 2020-2021. This proposed reduction is in effect retroactive regulation and is contrary to European developments leading to the revised Regulation<sup>1</sup> in November 2020, which indicated that actual costs (post cost-containment) would be recoverable by 2027-2029. It also does not take account of the actual requirements to maintain services during the pandemic, the statutory nature of our service provision or the need to make decisions during the pandemic despite considerable uncertainty including the much faster recovery that had been expected in 2020.
- ❖ The NSAs' proposals are based on a scenario which has not accepted actual known constraints and local circumstances, including the negotiations that led to Cost Containment Phase 3.
- ❖ IAA ANSP identified in its RP3 Plan the new cost line items since 2019 referred to as step changes, which set out why costs are increasing on 2019 levels independent of traffic. The modelled scenario by Steer is based on a methodology that does not appropriately take account of these new cost items since 2019.
- ❖ The consultation paper does not consider the IAA ANSP's cost requirement in terms of what is eligible and justified – instead, there is an overreliance on one of the scenarios modelled by external consultants Steer who have focussed primarily on a technical model rather than gaining a full understanding of the ANSP cost requirements and the consequences of not being sufficiently remunerated via RP3. This approach focussed on a theoretical model rather than practical operational requirements is detrimental to industry interests.

<sup>1</sup> Commission Implementing Regulation (EU) 2020/1627 of 3 November 2020

The submission highlights how removal of €74 million creates a risk for a longer-term degradation of compliance standards and safety culture.

- ❖ The proposed approach by the NSAs will result in a situation whereby the required staff costs to service the traffic forecast cannot be incurred over the remainder of RP3 – the implication of this is that our quality of service will be affected as the industry recovers, and these implications will extend into the RP4 period. This means an enhanced risk of delays, potential reduction in system availability due to lower equipment maintenance and less spares to ensure serviceability, lower investment in staff training and capital that is required to safeguard service quality and resilience.
- ❖ From a capacity perspective, we have shared the relevant facts with customers and the general feedback received is that a material increase in delays in Irish airspace will not be acceptable – the majority of customers indicated a willingness to pay what is required in order to avoid a material increase in delays and to safeguard business continuity.
- ❖ The consultation does not make any link between cost and safety, and instead refers to the IAA ANSP Business Plan which states safety will not be compromised. This is correct but there is a real cost of doing business and the Plan was not prepared on the basis of €74m being removed from it by the NSAs.
- ❖ The IAA ANSP's Business Plan focusses on maintaining the Irish unit rate as one of the lowest in Europe. The NSA's approach, which would remove more than €50m in operating costs from the ANSP Business Plan, risks having a detrimental impact on service quality.
- ❖ Included in the consultation document is NSA's assessment of the IAA ANSP's projected profitability for the years 2022, 2023 and 2024, based on its regulated activities. Both profitability in EBITDA terms and in net income terms have been incorrectly stated in the consultation each of the years 2022 to 2024. This is a major error in the NSA's consultation which should have been corrected before the consultation concluded. These incorrectly high figures create a risk of distorting stakeholders views with regard to projected profitability which may result in certain stakeholders taking a position that they may not otherwise have taken if the correct analysis had been included.

<b>NSA assessment</b>			
	<b>2022 (€'000)</b>	<b>2023 (€'000)</b>	<b>2024 (€'000)</b>
EBITDA	11,306	26,630	34,033
EBIT	(1,975)	12,449	20,576

<b>IAA ANSP assessment</b>			
	<b>2022 (€'000)</b>	<b>2023 (€'000)</b>	<b>2024 (€'000)</b>
EBITDA	20,406	22,390	21,493
EBIT	7,125	8,209	8,036

- ❖ The consultation proposes a capacity target that effectively amounts to zero delay (0.03 minutes) and simultaneously not permitting the required ATCO allowances, implying that it is inevitable that IAA ANSP will incur the financial penalty. Both the financial penalty and ATCO allowances are proposed without any evidence.
- ❖ The Environment is of utmost important however, it is the view of IAA ANSP that there is a disproportionate reduction in KPA targets for Ireland in comparison with those proposed at SES level. The RP3 target 2021-2024 [1.13] is based on the 2020 performance [1.13] which was not a typical year in terms of traffic levels and traffic flows.

## 1. Introduction

- ❖ IAA ANSP is obliged to provide services irrespective of traffic volumes, and so, Irish airspace has remained open throughout the crisis serving vital repatriation, cargo and emergency service flights. This crisis has confirmed that ANS is part of a State's critical infrastructure. At the same time, the length of time that it takes to train air traffic controllers and undertake technological change on a system that is in continuous use means that there are unavoidable costs that are not simply "demand-led" or linked to traffic. In line with the nature of the ANSP business, the Chair of the NSA Coordination Platform emphasised recently that performance planning must start from an operational perspective and not economic.
- ❖ It is well known that in responding to previous crises, ANSPs have not always sufficiently accounted for the return of demand for capacity, leading to the emergence of traffic hot-spots and since 2017, significantly increased pressure on capacity. Insufficient resilience provisioning exacerbated this challenge. When the demand came materialised, the available resilience in the system could not always cope with the extremes of demand, especially in peak season. The proposals contained within the NSAs consultation do not sufficiently account for unavoidable costs required to sustain the recovery in traffic while ensuring an acceptable level of service – the consultation seems to place a disproportionately large emphasis on the notion that there are so-called excessively high costs of ensuring no delay but it does so without considering the evidence (e.g. 2018-2019) and at a time in which the majority of our customers are reluctant to risk increasing delays. Furthermore, due to the theoretical modelling approach used, no evidence has been provided to support the need for lower costs than those submitted by the ANSP, while no effort has been made by the NSAs to quantify or analyse the impact or a reduced cost allowance on operational performance for example. Statements that imply reduced allowances should not impact on operational performance are of no value if not backed up by evidence.
- ❖ Indeed, this was clearly understood by the Director General of DG MOVE, Mr. Henrik Hololei, when he stated at the TRAN Committee in 2020 that there are no plans to deplete ANSPs of resources as they are required for the recovery. This is clear and strong guidance from the EC and States which should not be ignored. IAA ANSP delivered on all its RP2 targets with low delays, but as set out in the RP3 Plan this was achieved by short term measures including a heavy reliance on overtime and significant deferrals of annual leave. These measures cannot be sustained into RP3. The NSA had previously recognised the high level of efficiency in the ANSP but that cost levels in RP2 were unsustainable. The NSA also stated in 2019 that both national and EU staff related regulations that began implementation during RP2 (and will continue in RP3) will not only severely restrict the use of short-term staffing solutions but will also require additional staff to comply with requirements such as paternity leave.
- ❖ The European Commission published a Statement at the Single Sky Committee 71 noting that the Commission will take local circumstances into account when assessing the consistency of proposed national or FAB targets with the Union-wide targets. This confirms that the Union-wide targets are not binding for each individual ANSP. Ireland's good performance over the course of RP1 and RP2 means that there is little scope to continuously deliver upon "top down" cost efficiency targets compared to other States which may not have performed so well to date.
- ❖ In developing the initial RP3 Performance Plan, the NSA gave due consideration to the relevant interdependencies between the various Union-wide targets. It was stated at the beginning of this RP3 Process that the NSA see interdependencies as a very important aspect of the Performance Plan, and a key element in validating local targets that are outside the Union-wide targets. It was also stated that at the core of this process is the need to ensure that Safety is never compromised, either directly or indirectly, by efforts to comply with other Performance targets. The NSA also noted that the Implementing Regulation grants the NSA scope to avoid imposing the Union-wide targets at national level if they are deemed to be unrealistic taking account of interdependencies. There is no evidence in the consultation that the NSAs have sought to address this issue.

Time allocated for this consultation process

- ❖ IAA ANSP is of the view that the timeframe allocated to this revised RP3 consultation process has been insufficient. In late 2020, a number of airline customers disputed the proposed timelines in response to CAR's consultation process whereas IAA ANSP was generally supportive on the basis that they were consistent and ultimately being set by the European Commission. However, the approach by the NSAs and Steer has been unprecedented in terms of the methodology being applied. The associated modelling by Steer, and the requirements placed upon IAA ANSP, is also out of step with the rest of Europe resulting in the IAA ANSP being disproportionately affected by these tight timeframes.
- ❖ IAA ANSP is significantly concerned that the PRB and EC will set precedent for approving a Performance Plan that was developed without appropriate procedures in place – just one week before the consultation material was published at the end of July, IAA ANSP received a final draft Opex Report prepared by Steer. It had been prepared on the basis of outdated traffic forecasts (November 2020) and IAA ANSP's draft RP3 Plan from April. This implied that there was only a one-week window to update the Opex report and modelling for the final ANSP RP3 Plan, which included traffic forecasts as of May 2021.
- ❖ Furthermore, given the level of errors in the consultation material that have been identified by IAA ANSP throughout August, it does appear that the NSAs did not sufficiently peer review the consultant's analysis prior to publishing the consultation material upon which it is based e.g. certain modelling assumptions are on the basis of November 2020 traffic forecasts whereas others are on the basis of May 2021 traffic forecasts. This burden of peer reviewing Steer's analysis should not have rested with IAA ANSP when we were required to respond to the consultation under what was already a very tight timeframe. It has resulted in a consultation which is based on incorrect figures.

NSA Requirement for Evidence-based submissions

- ❖ At the stakeholder consultation meeting, CAR stated that it was interested in receiving evidence-based responses to the consultation from stakeholders. IAA ANSP has gone to great lengths to ensure that its RP3 Business Plan is evidence-based and is concerned that evidence contained within its Plan has been dismissed by the NSAs by virtue of applying a methodology that bypasses the need to assess the relevant evidence. The NSAs have not sought to dispute the ANSP's evidence-based positions or to provide any evidence to support their own positions, but rather have relied on a modelled approach. IAA ANSP is also concerned that there has been insufficient time for other stakeholders to review the consultation material before even considering evidence-based requirements. Accordingly, IAA ANSP is of the view that there have been significant shortcomings associated with the development of the RP3 Performance Plan.
- ❖ IAA ANSP also provided significant additional evidence supporting its planning process during bilateral engagement with CAR and Steer. In particular, IAA ANSP wishes to refer to a presentation it delivered in May which contained significant evidence in relation to its Opex requirements and which also responded to queries raised by CAR on the draft ANSP Business Plan.
- ❖ This presentation focussed on requirements in relation to ATCOs, Engineers, Staff and non-Staff cost requirements. This particular presentation extended to 56 slides on this occasion, but the evidence has not been explicitly reviewed in a transparent manner by CAR or its consultants. Non-Staff Opex requirements were detailed on a line by line basis and IAA ANSP received very little follow up queries in relation to this.
- ❖ IAA ANSP has nonetheless substantiated this response to the consultation with further evidence of why its RP3 Plan contains more reliable cost projections compared to the analysis by Steer and CAR. It is our position that decisions should be based on evidence and where the NSA's position differs to IAA ANSP, then it should provide the appropriate evidence to support its decisions.

Approach to modelling

- ❖ CAR confirmed at the stakeholder consultation meeting that Steer's model is demand led, which IAA ANSP understands to imply that required costs are driven by traffic. It has, however, become abundantly clear that traffic is just one factor of many that influences the required costs of ANSPs. If the RP3 modelling by

Steer for Ireland is predominantly demand led, then it risks overlooking legitimate step changes that IAA ANSP has identified in its RP3 Business Plan and which are not driven by traffic. IAA ANSP requests CAR to provide clarification in relation to this.

- ❖ CAR also confirmed that it was not involved in the 2019 RP3 planning process and that Steer has built a model on behalf of CAR from the ground up. This implies that CAR's model is bottom up but IAA ANSP's reading of the model is that it is predominantly top down relying on benchmarking from other ANSPs in the first instance (2020 and 2021) before simply reverting to 2019 costs for all line items from 2022.

#### Interdependency Analysis

- ❖ At the stakeholder consultation meeting, IAA ANSP learned that the NSA's interdependency analysis is contained in the inputs to the Steer modelling. Throughout our engagement with Steer to date, Steer has continued to reaffirm that its modelling is very transparent. As the interdependency analysis that has shaped its modelling is not published, IAA ANSP wishes to request that this critical analysis is made available to all stakeholders.

#### Zero Delays category / Incentives

- ❖ A number of key customers have indicated the relevance of considering disruptive delays and a level of service that reaches a threshold where the costs exceed the benefits, and whether the NSAs have assessed whether the ANSP has the funds to ensure an acceptable level of service and minimise delays. IAA ANSP is keen to request that the NSAs demonstrate how they have considered this key question from the perspective of the identified cost requirement that is eligible within the RP3 period as opposed to elsewhere (e.g. borrowing to repay in subsequent RPs), in addition to the relevant interdependency analysis between cost efficiency and capacity.
- ❖ At the stakeholder consultation meeting a stakeholder asked for more information for calculating the capacity financial penalty which equates to 1% of Determined Costs, and CAR committed to following up with a response to all stakeholders following the consultation meeting. CAR also noted that financial penalties such as the capacity related penalty being proposed for IAA ANSP is similar to its service quality measures in place at Dublin Airport. However, despite having service quality measures in place at Dublin Airport which include, for example cleanliness of toilets, baggage handling availability and security queue wait time, IAA ANSP is keen to emphasise why this is not an appropriate comparator.
- ❖ CAR provides an example on its website which shows that the price cap at risk per breach of most targets is €0.01. It is further stated that assuming a passenger traffic level of 30 million per annum, this price cap at risk would represent foregone revenue of €300,000 per breach, which is equivalent to 0.1% in this example. Conversely, for IAA ANSP the annual delay threshold could be reached in just 30 minutes if the en route centre experienced capacity shortages. Using CAR's proposed en route revenue in 2024, this would result in a financial penalty exceeding €1m to arrive at the 1% financial penalty that is being proposed. On this basis, the financial penalty being proposed for IAA ANSP is ten times higher than what CAR has implemented at Dublin Airport.
- ❖ The most problematic aspect of the financial penalty being proposed by CAR is that IAA ANSP's RP3 Plan contains very robust independent analysis of the delays that will follow during RP3 if the required number of ATCOs are not in place. The analysis focuses on delay in the event of a shortfall of between 8-16 ATCOs per annum i.e. delay levels far in excess of the 0.03 minute capacity target being proposed by CAR, whereas CAR proposes to disallow 16 ATCOs in 2023 and 3 ATCOs in 2024, even though the 2024 deficit is understated due to the inability to train 30 ATCOs in one year. In other words, CAR is proposing a capacity target that effectively amounts to zero delay (0.03 minutes) and simultaneously not permitting the required ATCO allowances, implying that it is inevitable that IAA ANSP will incur the financial penalty. Both the financial penalty and ATCO allowances are proposed without any evidence.
- ❖ If the NSAs are of the view that zero delay is not an appropriate objective, then the capacity target needs to reflect a threshold in line with this i.e. the current target of 0.03 minutes that is being proposed is essentially zero delay.

- ❖ As the NSAs appear to be tacitly supporting a position that airlines are unwilling to pay for zero delays, IAA ANSP is seeking clarity from the NSAs in this regard and whether any evidence has been prepared to support its preliminary views on this topic. IAA ANSP has provided evidence to show that airlines do not want delays in Irish airspace, and we expect a number of responses to the consultation to reflect this also. It will be a poor outcome for RP3 if performance levels are degraded, creating a significant challenge for future years.
- ❖ Given the nature of the contributions by IATA at the RP3 Stakeholder Consultation, IAA ANSP wishes to draw the NSAs attention to IATA's response to the European Commission's Implementing Decision on the revised RP3 Regulation in August 2020 which stated:  
*The EC, Member States and the industry as a whole need to take bold steps in this crisis as well as ensuring that:*
  - *Safety is not compromised*
  - *Capacity is kept flexible, scalable and can continue to evolve to meet demand*
  - *ANSP costs are contained, adapted to the actual situation and users are only charged for the actual operationally necessary costs linked to the dramatically reduced usage of these services.*
  - *Investments must be re-assessed and prioritised strategically, to enable an even greener and more efficient ATM in a shorter timeframe. The delays experienced over the past years, in particular 2018/19, should not be repeated*
  - *The preliminary findings of the PRB on the already filed draft State performance plans are taken into account.*
- ❖ IAA ANSP's RP3 Business Plan is designed to achieve and deliver each of these five bullet points and would have maintained service quality, low delays and one of the lowest unit rates in Europe. By taking an alternative approach, the NSAs run the risk of creating a situation that is not desired by any stakeholder (ANSP, airlines, passengers, Irish State and economy).
- ❖ Furthermore, in responding to the European Commission's Implementing Decision on revised targets in March 2021, IATA stated that: *It is critical that ANSP's continue to develop their service provision to avoid the crippling capacity situation of 2018/19. Airspace and TMA modernisation projects with a focus on key operational and sustainability aspects must be prioritised and consulted with airlines before replanning their implementation, sadly this interaction and consultation has been lacking to date, despite states revising up to 70% of their CAPEX programme milestones or scope. A renewed focus on consultation must be encouraged to ensure that the European aviation system is fit for the future, while targeting the key initiatives that will enable sustainable future traffic growth.*
- ❖ Finally, prior to the pandemic IATA issued a press release titled "*Air Traffic Control Inefficiencies Mean Summer of Wasted Emissions and Delays*" in which it stated that *the busy summer travel season in Europe has begun and both travellers and airlines should be able to get to their destinations on time. The current situation is simply unacceptable. Airlines are making strides to reduce their environmental impact but in Europe they are being forced to produce unnecessary emissions every day. Fortunately, solutions exist. With the correct investment and planning, and a change in mindset by both governments and ANSPs, another summer of wasted emissions and delays can be avoided.*
- ❖ These positions clearly indicate that delays and degradation of service is unacceptable to airlines.

#### Updated STATFOR traffic forecasts

- ❖ CAR has indicated that it will decide whether the forecasts within the RP3 Performance Plan should change in line with the STATFOR update that is scheduled in October and that it would welcome views on the circumstances in which the RP3 Performance Plan should be updated i.e. all circumstances, none, or on the basis of a threshold of change relative to the May forecast.
- ❖ IAA ANSP agrees with the letter from the European Commission to SSC Members and Members of the NCP working group performance on 5 July which states "*After the publication of the October 2021 STATFOR forecast, NSAs should immediately start the work and stakeholder consultations on the related draft*

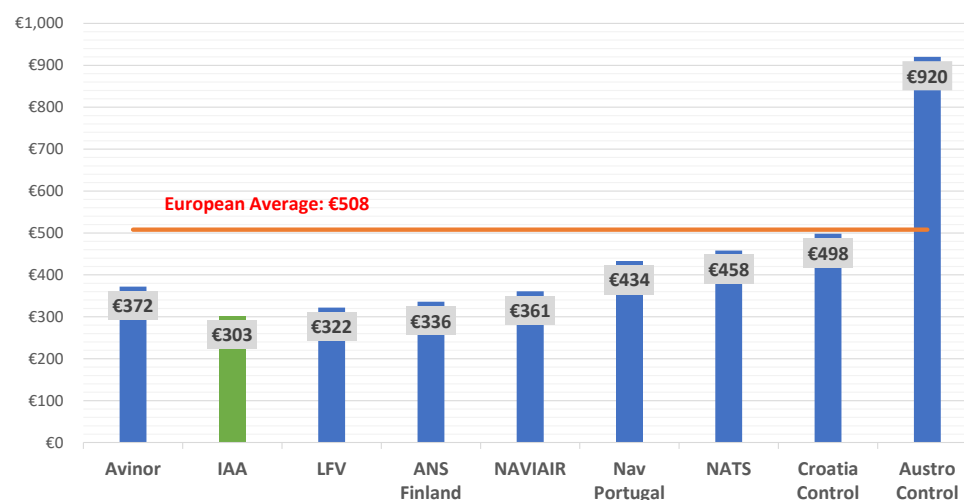


*performance plan updates. Member States have to submit their updated plans within 3 weeks from having been requested to do so by the EC.”*

- ❖ However, IAA ANSP is mindful that a sensitivity of +10% traffic is being consulted upon at this time. We, therefore, wish to point out that there are significant issues with the training costs estimated by the NSAs for the incremental ATCOs of 22 in 2023 and 27 in 2024, whereby training costs per incremental ATCO in 2024 are 58% lower than the training costs per incremental ATCO in 2023.
- ❖ Ahead of preparing its next consultation, IAA ANSP is requesting the NSAs to have regard for the position taken by Ryanair in its Response to the European Commission’s Implementing Decision on revised targets in March 2021, which states that *Ryanair supports the use of STATFOR Scenario 2 which sees traffic returning to 2019 levels by 2023/24 as the basis for the revision of targets in line with Performance Review Board (PRB) recommendations. It is imperative that ANSPs have robust plans in place to scale up to Scenario 1 levels within a reasonable timeframe. We call on the Commission to impose a requirement on all ANSPs to provide the Commission, the PRB, and airlines with a detailed plan for scaling up to Scenario 1 traffic levels. The Commission should also set out a maximum time permissible to do so (we suggest 4 weeks for scale up is appropriate).*

#### Ireland’s RP3 Comparator Group

- ❖ At the stakeholder consultation meeting, IATA queried why CAR didn’t place more of an emphasis on the RP3 Comparator Group. The approach taken by CAR to comparators is something that the ANSP has raised on a number of occasions with CAR and it is not clear why CAR is diverging from the approach set out by the PRB and EC. CAR appeared to suggest that the comparator group is not simply relevant from a cost efficiency standpoint. If the NSAs can pick and choose which aspects of the wider Performance and Charging regulatory approach that they use, how will a consistent and fair approach be delivered across Europe. The ANSP has legitimate concerns that CAR’s approach to RP3 is more closely aligned to its regulation of the daa than to the approach taken by NSAs across Europe, under the requirements of the Performance and Charging scheme. However, CAR’s documentation summarising the revised targets sets out that *“The PRB has advised that the previous RP3 alert thresholds (beyond which Member States may request a revision of the performance targets) and comparator groups (used to benchmark the DUC) should be retained”*.
- ❖ IAA ANSP therefore requests the NSAs to place more of a reliance on Ireland’s RP3 Comparator Group as Steer had done so in its background analysis. In the event that NSAs opt against any reliance on the RP3 Comparator Group, IAA ANSP requests that a full explanation is provided on why Slovenia and Latvia (i.e. the top of the first quartile) have been deemed to be of more relevance. For the avoidance of doubt, there are too many shortcomings associated with Steer’s methodology for IAA ANSP to support a simple switch in reliance to the RP3 Comparator Group instead of Slovenia and Latvia.
- ❖ IAA ANSP has, for example, indicated that there is a regulatory requirement for time off following the vaccination of certain staff, but it is not clear how Steer has accounted for this. As the methodology chosen by Steer for 2020 and 2021 is based on data in December 2020, this would not have been picked up as the regulatory requirement surrounding the vaccinations of frontline staff had not come into force.
- ❖ IAA ANSP also provided significant evidence from the independent ACE study in its RP3 Plan and is unclear why the NSAs have not relied on any of this analysis. It would appear that analysis that shows positive performance by the IAA ANSP is simply ignored in an effort to find data that could be used to portray the ANSP less favourably. IAA ANSP is of the view that the NSAs should provide its position in relation to the outcome of the most recent ACE Study and whether it played a role in identifying Latvia and Slovenia as appropriate comparators to Ireland.

**ANS cost (ATM/CNS cost + ATFM Delay cost) per composite flight hour (economic cost)**

Source: ATM Cost Effectiveness Report 2019

- IAA 40% lower than the European Average
- 7th lowest in Europe

Capital Expenditure

- ❖ We welcome that the NSAs “broadly accept the merits of the proposed capital investment plan and associated level of expenditure”. We also welcome that the NSAs have recognised that a level of flexibility is required in relation to expenditure on a project by project basis. However, unavoidable costs in RP3 that are eligible and justified should not be randomly deferred to RP4. The consultation proposes to make a programme level reduction of 20% to forecast capitalisations over the period 2021-2024 without providing appropriate evidence of why this is warranted.

Deferred Revenue

- ❖ IAA ANSP does not agree with the NSA proposal to extend the recovery of lost revenue to 2029 on the basis that it smooths the profile of the impact on the unit rates. The NSAs need to provide appropriate reasoning why seven is required for Ireland when other NSAs are choosing five years in line with the EC Implementing Regulation 2020/1627 which states that “the corresponding unit rate adjustments should be exceptionally spread over a time period of 5 calendar years”.

## 2. Overall Cost Requirement – KPA Cost Efficiency

- ❖ The Irish NSAs consultation results in a figure for IAA ANSP that equates to the Union-wide targets. This is despite guidance from the EC that cost efficiency must be assessed in the context of the needs of the system and the requirements for service in that country. As customers will be aware, the Irish unit rate is already one of the lowest in Europe and is well below the union-wide average. Reducing it further to simply align with Union wide targets neither considers existing efficiencies or the risks attached to not providing for unavoidable and justified, modest increases.
- ❖ While IAA ANSP has been required to go to great lengths to identify its required costs and to justify those costs, the same rigour does not appear in the NSAs' consultation where proposals have almost entirely been based on a theoretical methodology developed by Steer. This is a significant shortcoming in the consultation which undermines the confidence that stakeholders can have in the Performance plan delivering the required outcomes.

RP3 Cost Comparison	2020	2021	2022	2023	2024	Total
ANSP Requirement	103.3	112.7	143.6	154.4	158.8	<b>672.8</b>
NSA Consultation	101.1	102.9	125.3	132.5	136.6	<b>598.3</b>
<b>Shortfall</b>	<b>2.2</b>	<b>9.9</b>	<b>18.3</b>	<b>21.9</b>	<b>22.2</b>	<b>74.4</b>
<b>% Reduction</b>	<b>-2%</b>	<b>-9%</b>	<b>-13%</b>	<b>-14%</b>	<b>-14%</b>	<b>-11%</b>

<b>55% of the step changes are Capex related, including:</b> <ul style="list-style-type: none"> <li>- The new Dublin Tower €22.1m (33%)</li> <li>- The En Route Contingency Centre €9.1m (13%)</li> <li>- Sustainability Projects €4.0m (6%)</li> </ul>	<b>45% of the step changes are Opex related, including:</b> <ul style="list-style-type: none"> <li>- New headcount for compliance &amp; projects €4.5m (7%)</li> <li>- Underlying costs for new capital projects €10.9m (16%)</li> <li>- Restructuring related €10.2m (15%)</li> <li>- Environmental €1.2m (2%)</li> </ul>
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- ❖ Section 7 of IAA ANSPs Business Plan identifies step changes on costs incurred in 2019. It includes a range of line items not in place in 2019 behind a required increase of approx. €67.6m over the period 2020-2024. The quantum of step changes is very similar to the total mark down being proposed by the NSAs i.e. a reduction of €74.4m compared to step changes amounting to €67.6m.
- ❖ A shortcoming with the NSAs' approach being proposed is that it permits certain cost requirements (e.g. a number of step changes, pay increases and headcount increases) but it does not specify exactly what is being disallowed and why. In other words, what expenditure is considered justified and which is not. This results in a theoretical scenario to ANSP management with significantly reduced costs but is not accompanied by regulatory justifications or accountability for proposed reductions.
- ❖ As the ANSP component of the DUC only marginally increases 2019-2024 under the NSA proposals (i.e. less than 1%), and acknowledging many step changes are being permitted, this implies that the NSAs have not accepted 2019 costs as being the starting point for RP3 – in very simple terms, the NSAs are now proposing to disallow cost items incurred in 2019 on a forward looking basis through 2024<sup>2</sup>. It should be noted that the IAA ANSP's costs in 2019 were below the NSA and PRB determined costs for 2019, while the PRB's report for 2019 approved these costs as efficient and justified.
- ❖ CAR states it sought to develop just one scenario that it considers is balanced and achievable but it also notes that even if cost efficiency targets cannot be met, other KPAs do not need to be degraded – this statement completely disregards independent analysis by the Network Manager that was provided to the NSAs for review ahead of its consultation. This demonstrates a very concerning lack of understanding of the very real interdependencies between cost, safety, capacity and environment – an analysis the consultation has not attempted to address. The IAA ANSP's costs are required to deliver safety, capacity and environment, as well as Government policy. To take cost out will inevitably impact on one or more of these objectives and it is not credible to ignore this.

<sup>2</sup> In real terms (2017 prices) IAA ANSP has identified step changes alone amounting to €19.2m in 2024 whereas the NSAs are proposing to allow the entire regulated cost base to increase by just €10.0m in 2024 by comparison.

### 3. Staff Costs

Staff Costs (€m)	2020	2021	2022	2023	2024	Total
ANSP Requirement	64.8	59.8	73.9	78.2	82.7	359.4
NSA Consultation	63.2	58.3	70.9	74.0	77.5	343.9
<b>Shortfall</b>	<b>1.5</b>	<b>1.5</b>	<b>3.0</b>	<b>4.2</b>	<b>5.2</b>	<b>15.5</b>
<b>% Reduction</b>	<b>-2%</b>	<b>-3%</b>	<b>-4%</b>	<b>-5%</b>	<b>-6%</b>	<b>-4%</b>

- ❖ It might appear to other stakeholders that staff costs have been largely accepted by the NSAs as it has proposed to reduce the identified requirement by 4% compared to 17% in the non-staff category. However, given the significance of staff costs this still amounts to a €15.5m shortfall, which is equivalent to almost half of the overall non-staff shortfall and represents a shortfall of €5.2m to IAA ANSP on average over the three year period 2022-2024 given actual costs incurred to date. Significant effort has been put in by the ANSP to identify the staff requirement for RP3, taking account of statutory obligations and regulatory requirements.
- ❖ €3m of the proposed shortfall in staff costs relates to actual costs incurred in 2020-2021 and the NSAs have proposed a scenario by Steer that is non-transparent. In addition, there is very little evidence that the consultation considers IAA ANSP's cost requirement in terms of what is eligible and justified. The ANSP does not agree with disallowing costs which have already been incurred following negotiations with unions.
- ❖ The Steer model does not take into account increments paid in 2020 and 2021 and materially underestimates the cost of annual increments in 2022, 2023 and 2024. Our engagement with Steer, since the publication of the NSA consultation document and its supporting model, has allowed us the opportunity to clarify the calculation of increments. From this engagement, we understand that these clarifications will be reflected in the Performance Plan.
- ❖ Increments are contractually due to relevant employees who meet their required performance targets annually and therefore we request that CAR takes account of the information provided by IAA ANSP to Steer to support a revision to its pay costs allowance in its final determination.
- ❖ IAA ANSP's required annual increment related increases for 2020 and 2021 are 2.3% and 2.2% respectively. These have been completely excluded by Steer's model. This has been communicated to Steer, and this cost, along with its cumulative impact on future years, needs to be reflected in the Performance Plan. Steer's model includes a 0.3% increase from 2022 to 2024 but there is no explanation provided to account for this variance. This 0.3% has not been calculated correctly and CAR has confirmed it will increase this to 1.9% in 2022. It is expected 2023 and 2024 will include increases of 1.8% and 1.6% respectively for current staff following this consultation. New hires with increments have been modelled separately by Steer.
- ❖ The cost requirement for the collective labour agreement (CLA) has also been excluded by the consultants in its modelling of ANSP costs, implying that this very effective and proven mechanism for achieving additional productivity measures and helping to ensure business continuity is not available to IAA ANSP. The CLA was recently agreed by the relevant unions and approved by the Board of the IAA in July 2021. It amounts to a recurring cost from 2022. Notwithstanding this modelling decision, which is not described in the consultation, Steer insist on applying a generic productivity/efficiency measure to the ANSP, which is aligned to its modelled costs. IAA ANSP request clarity from the NSAs and Steer on why this actual required cost is not being recognised.
- ❖ Steer has modelled the cost of pensions based on the actual pension costs in 2019 as a percentage of total payroll and rolled these assumptions forward while taking into account that new headcount will join the hybrid scheme. An error in the Steer model means that the attrition rates used to reflect departures from the main defined benefit scheme has been overstated. Steer have confirmed this error and we are expecting this to be corrected following the consultation.
- ❖ We acknowledge that Steer has used the pension contribution rates supplied by the ANSP, being the best information available at the time of the preparation of the ANSP Business Plan. At the time of finalising the RP3 Plan, the ANSP provided an estimated pension contribution rate of 3%.

- ❖ The Steer model incorrectly calculates the actual cost of Corporate Services staff. In calculating the unit cost, Steer's model uses the total headcount of 68, instead of the full time equivalent (FTE) of 50. This results in the average Corporate Services staff cost being understated in Steer's model. We have engaged with Steer on this error and we expect the cost of the Corporate Services headcount will be calculated correctly in the Performance Plan.
- ❖ In terms of costs incurred in 2020, one of the prerequisites to secure agreement for the company-wide payroll reduction measures from January 2021-January 2022 was to return reduced payroll measures for November-December 2020 which took place at a time in which negotiations on cost containment intensified without agreement. This is an example of actual costs that have been incurred following actual constraints to providing the 24-7 service. It also occurred in the absence of regulatory guidance on cost efficiency from an Irish NSA perspective and at a time in which the European Commission had stated that it would have regard for actual costs. Despite all of this, Steer have decided in its modelled scenario that this revenue for November-December 2020 should not be returned, and there is no explanation contained in the consultation paper on this.
- ❖ The proposed ATCO headcount figures that have been modelled are below the identified ANSP headcount requirement for each of the RP3 years, despite the detailed independent analysis by the Network Manager which identified the issues that will arise from a capacity perspective.
- ❖ IAA ANSP has no confidence in the model upon which the consultation is based as it also transpires that the ATCO figure proposed in the consultation is based on the May'21 forecasts whereas the equivalent training proposals in the consultation is based on the Nov'20 forecasts. This represents a significant oversight in the model, with these issues compounded by an erroneous assumption built in that it is possible to train 30 ATCOs in one-year. Simulator capacity constraints do not support this assumption.
- ❖ The foundational analysis upon which the proposals in this consultation is based is difficult to comprehend given the Scenario B results in a higher number of ATCOs in 2024 – irrespective of rounding errors, there is no logic to this.
- ❖ It is the view of the IAA ANSP that there should be an acknowledgement by the NSAs about the limitations of the Steer analysis. There should also be an analysis to determine that crossover effect on staff costs arising from a 17% reduction in the non-staff costs requirement.
- ❖ IAA ANSP underspent on CAPEX during RP2 and airlines continue to be critical of this, notwithstanding that capex has been returned to airlines. If IAA ANSP has less staff than required for RP3, CAPEX spend will again fall short of RP3 requirements. This means that projects which would have delivered resilience, capacity or productivity improvements will not proceed as required. How has Steer assessed these consequences? Operational, day to day, safety and security aspects of our business always take precedence above projects. Therefore, when staff numbers are cut CAPEX spend reduces and the associated benefits are lost.

#### 4. Non-Staff Costs

Underlying Costs	2020	2021	2022	2023	2024	Total
ANSP Requirement	26.9	35.4	44.4	46.7	46.4	199.8
NSA Consultation	27.5	30.2	33.9	36.0	37.4	165.0
<b>Shortfall</b>	<b>(0.6)</b>	<b>5.2</b>	<b>10.5</b>	<b>10.7</b>	<b>9.0</b>	<b>34.8</b>
<b>% Reduction</b>	<b>2%</b>	<b>-15%</b>	<b>-24%</b>	<b>-23%</b>	<b>-19%</b>	<b>-17%</b>

- ❖ Close to half (€34.8m) of the entire revenue shortfall proposed by the NSAs in the consultation relates to key cost items with a very broad and critical category known as Non-Staff Costs, which includes training, maintenance, telecoms, rent, insurance etc.
- ❖ In an effort to understand the approach that has led to this very significant proposal, IAA ANSP sought a copy of the confidential model that had not been published. Despite a number of requests during August, an editable version of the model was not provided. This would be considered unusual given (i) the significance of this model and its outputs for the ANSP, airlines, passengers and staff (ii) the time constraints in responding to the consultation (iii) an awareness that IAA ANSP in cost containment did not employ external consultants to review the consultation material (iv) the amount of queries that were required during August to understand the model, and (v) it is very unlikely that any other stakeholder, ranging from customers to the State and agents acting on behalf of the European Commission, will scrutinise this model.
- ❖ We identified many legitimate oversights and inconsistencies with the unpublished Opex model, but we were regularly requested to include the relevant points in this response to consultation. This implies that the consultation has many known errors and issues that will not be known to stakeholders until after the consultation. There has been a missed opportunity to identify all of these modelling issues at the stakeholder consultation meeting – the presentation at the consultation meeting relied on figures which were known to be unreliable due to the large volume of errors. Nonetheless, there was no reference to these figures being unreliable on this basis, and a number of stakeholders continued to support these figures irrespective of the evidence put forward by IAA ANSP confirming they were unreliable.
- ❖ IAA ANSP is very concerned that the technical errors, inconsistencies and oversights will not be fully rectified post-consultation as there does not appear to be any procedure that allows for a further review by IAA ANSP.
- ❖ The Steer analysis, and NSAs' proposals by extension, fail to fully consider the Step Changes table in the ANSP's RP3 Business Plan which had been included following a request by CAR to understand the relevant cost drivers since 2019. It is not possible to ascertain what step changes have been allowed in the consultation as *"the Steer methodology differs"* to our approach.
- ❖ Steer's report goes to great lengths to compare IAA ANSP historically to its RP3 Comparator Group in its very comprehensive background analysis, but it takes a completely different approach when assessing our cost requirement during RP3.
- ❖ Steer's methodology for 2020-21 is overly simplistic in that it postulates that IAA ANSP's cost base should have evolved in 2020 and 2021 on the same basis as ANSPs in Latvia and Slovenia in what is referred to as the bottom of the first quartile. It is not clear why these States are relevant and accordingly this approach is lacking appropriate substance in terms of eligibility, justification or local circumstances.
- ❖ There appears to be some recognition by Steer and the NSAs that IAA ANSP should not be best in class during 2020-21 (e.g. Slovakia's ANSP LPS) but the crude assumption about being in the top 25% overlooks many realities including different structures in terms of local employment laws.
- ❖ To further emphasise the inappropriateness of Steer's methodology upon which the NSAs have based its proposals, there are certain ANSPs in our RP3 Comparator Group that have completely avoided payroll reduction measures and others incurring double digit increases in pension costs, while complying with the relevant regulations. From an IAA ANSP perspective, we implemented a phased cost containment programme beginning in March 2020 in the absence of regulatory guidance and without any awareness of

developments in Latvia and Slovenia, which led to significant company-wide payroll reduction measures, including up to 30% for senior management. But Steer and the Irish NSAs have deemed this to be insufficient without directly considering what has taken place in circumstances specific to Ireland?

- ❖ The consultation also fails to account for the appropriateness of 2019 as the base year for RP3 in Ireland from the perspective of Union-wide cost efficiency targets. IAA ANSP had one of the lowest en route unit rates in Europe and incurred actual costs far below what had been determined. Related to this, there was a significant level of capital expenditure underspend throughout RP2 and a commitment to return it to airline customers. This point alone provides sufficient justification to allow IAA ANSP's required new eligible costs since 2019 and to deviate from the Union-wide cost efficiency targets, while continuing to contribute to all of the Union-wide KPA targets.
- ❖ Evidence has been provided to the NSAs from a customer point of view following independent surveys and bilateral engagement but the NSAs have overlooked this analysis, instead preferring to await feedback from airline customers in response to its consultation. Time in the process is quickly running out and there are real implications that will follow should the NSAs ignore all evidence except that from Steer. We understand that customers want efficient unit rates but are acutely aware of the trade-off with safety and service reliability. Customers know that they receive a low unit rate in Ireland, and this will continue if IAA ANSP's RP3 Business Plan is implemented, while service would also be protected.
- ❖ Furthermore, the consultation has not considered local laws and actual constraints compared to other jurisdictions, which range from upward only rent reviews to contractual security and cleaning fees. Other factors overlooked by the Steer methodology include the reality when it comes to commercial rates in Ireland and the nature of IAA ANSP's insurance costs.
- ❖ This analysis is flawed in that it results in our cost allowance being €2.2m higher than actual costs for travel, training and subscriptions during 2020-2021, while simultaneously inferring that other costs of €4.6m should not be allowed during 2020-2021. This does not follow an assessment of what is eligible and justified but instead mirrors Latvia and Slovenia.
- ❖ Steer's methodology for 2022-2024 moves away from selected other European jurisdictions and reverts back to 2019 costs incurred by IAA ANSP before ultimately inferring that the identified cost requirement should be reduced by a further €30.1m. By definition, this methodology largely overlooks the new cost line items since 2019 despite providing token increases for certain categories.
- ❖ This methodology fails to fully recognise sector specific inflationary pressures and relies primarily on general inflation from 2022-2024, while assuming a random productivity improvement across the board. IAA ANSP queried why its sector specific inflation assumptions based on RP2 actuals have been disregarded without any detail in the consultation. A satisfactory explanation has not been provided.
- ❖ Playing this methodology out across a total of 24 non-staff categories leads to a suggestion that IAA ANSP's cost requirement is too high by almost €35m. We strongly disagree with proposals from the NSAs that revenue would evolve accordingly and that it can be done without any degradation to our service. If cost reductions are to be proposed, these should be fully justified rather than simply relying on a theoretical model.
- ❖ The methodology applied by Steer and favoured by the NSAs in line with the proposals in the consultation results in the majority of Non-Staff Opex categories being held constant in 2024 compared to 2019. In other words, there is no recognition that costs are evolving beyond 2019 levels and increasing above and beyond inflation e.g. insurance costs.
- ❖ In defending its consultancy driven methodology, CAR has indicated that for each of the categories below, there are different ways to conceptualise what is meant by its methodology in terms of allowances and disallowances relative to the ANSP cost requirements. From an ANSP perspective, this is very unsatisfactory given the requirement of the NSAs to assess cost efficiency in terms of what is eligible and justified having had regard for the relevant interdependencies.
- ❖ Consequently, this methodology creates unnecessary uncertainty; it lacks regulatory accountability and its basis from a regulatory perspective is highly questionable. It may be claimed that it is closely aligned to

airports regulation, but this is a different field and IAA ANSP is not aware of the application of any other form of top down benchmarking that is favoured by regulated entities and customers alike.

- ❖ CAR has further indicated that stakeholders may consider pro-rating the overall variance across the forecasted cost requirement lines. IAA ANSP understands that CAR is satisfied with its methodology on the basis that certain allowances in 2024, for example, may overstate the true cost requirement and in these circumstances, any surpluses should be spread over the line items that face a deficit such as the example of insurance provided above.
- ❖ The difficulty with this methodology in practice is that it results in approximately €35m from IAA ANSP's identified non-Staff Opex cost requirement being reduced, equivalent to 17% of non-staff Opex in total. It follows that there is insufficient headroom in terms of any potential surpluses offsetting the magnitude of deficits that are inevitable due to (i) step changes (ii) sector specific inflation increasing much faster than general inflation and (iii) other factors outside of our control.
- ❖ As set out below there are increases in training to match recognised ATCO requirements but these need to be revised on foot of errors in the consultation material. The two other increases in maintenance and spares reflect the significantly enhanced buildings footprint in RP3 but are insufficient compared to the actual cost requirement and there is no explanation why the methodology set out in IAA ANSPs Business Plan has been dismissed.

#### Proposed Cost allowances in 2024 compared to actual expenditure in 2019

	2019 actual (real)	CAR 2024 (real)	% change on 2019 in real
Travel	1,284	1,284	0%
Training	∞	∞	25%
Utilities <sup>3</sup>	480	480	0%
Telecommunications	∞	∞	-
Maintenance	4,185	4,461	7%
Spares	779	872	12%
Power	833	833	0%
Other (1)	435	435	0%
Subscriptions	453	453	0%
Rent and rates	2,574	2,574	0%
Computing	1,660	1,684	1%
Consultancy	1,013	1,013	0%
Insurance	∞	∞	0%
Building repairs	949	844	-11%
Environmental	-	332	-
Security	∞	∞	-5%
Professional services	538	538	0%
Cleaning	∞	∞	-
PR	355	355	0%
Staff related	523	523	0%
Other (2)	3,794	3,794	0%

- ❖ Another way of viewing the proposal on non-Staff Opex is that a total of €34.8 million (net) nominal for the regulatory period 2020 to 2024 is being removed from the identified cost requirement with the overall proposed reduction of € 48.2 million being offset by €13.4 million.
- ❖ The step changes that represent new costs since 2019 that are not necessarily linked to traffic can be further disaggregated for non-staff Opex as follows:

<sup>3</sup> Utilities costs in Ireland are increasing at significantly higher rates compared to the rest of Europe and it is unclear why Steer has not taken this into account.



**Step Changes in Non-Staff Costs during RP3**

€,000s Nominal	2020/2021	2022	2023	2024	RP3
New headcount for projects / compliance	123	707	1,651	1,998	4,479
Training cost		193	205	207	604
Compliance training	350	200	200	200	950
Other operating cost for new projects	3,747	2,274	2,381	2,484	10,885
Restructuring – related	1,691	2,769	2,846	2,921	10,227
NIS compliance	∞	∞	∞	∞	∞
Other	∞	∞	∞	∞	∞
Environmental	166	349	356	363	1,235
<b>Total Opex</b>	<b>6,077</b>	<b>6,991</b>	<b>8,245</b>	<b>8,785</b>	<b>30,098</b>

- ❖ It is not acceptable that the NSAs have chosen a methodology which bypasses a detailed assessment of the above step changes. This information was after all provided to CAR following a request to understand the relevant cost drivers. This results in a shortfall in required costs in the years 2022, 2023 and 2024 as follows:

**Shortfall in Required IAA ANSP Costs in 2022-2024**

€,000s Nominal	IAA ANSP 2022-24	NSA 2022-24	Shortfall 2022-24	% change
Travel	4,003	4,113	110	3%
Training	∞	∞	(4,151)	-
Utilities	2,034	1,538	(497)	-24%
Telecommunications	∞	∞	(1,411)	-
Maintenance	19,576	14,472	(5,104)	-26%
Spares	4,414	2,795	(1,619)	-37%
Power	4,292	2,668	(1,624)	-38%
Other	2,489	1,393	(1,096)	-44%
Subscriptions	1,205	1,451	246	20%
Rent and rates	9,548	8,245	(1,303)	-14%
Computing	9,832	5,176	(4,656)	-47%
NIS	∞	∞	-	-
Consultancy	5,121	3,245	(1,876)	-37%
Insurance	6,411	4,712	(1,699)	-27%
Building repairs	4,542	2,748	(1,794)	-39%
Environmental	1,063	1,063	-	0%
Security	∞	∞	(2,346)	-
Professional services	2,559	1,723	(836)	-33%
Cleaning	∞	∞	(1,555)	-
IAA Restructuring	∞	∞	-	-
Impairment	∞	∞	-	-
PR	2,966	1,137	(1,829)	-62%
Staff related	3,421	1,675	(1,746)	-51%
Other	7,540	12,153	4,611	61%
<b>Total</b>	<b>136,923</b>	<b>106,750</b>	<b>(30,175)</b>	<b>-22%</b>

**Training**

- ❖ Training costs have been understated by €4.2 million from 2022-2024. This shortfall is predominantly made up of ATCO training requirements but also includes technical training for non-ATCO staff.
- ❖ Steer's average training cost in the model appears to be based on the draft RP3 Plan from April, which is out of date and was updated in the ANSP Business Plan submitted in June. This applies to both the costs and number of students, including the split by years. This error needs to be corrected in the Performance Plan.

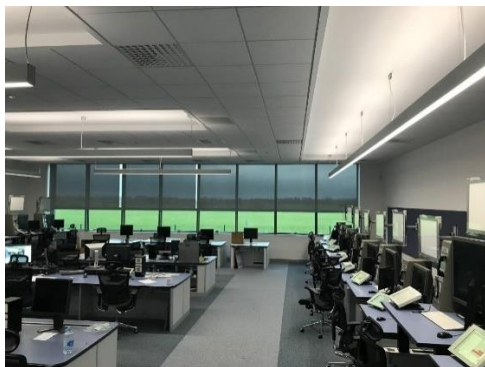
- ❖ Notwithstanding the out of date assumptions used, Steer’s method of calculating training is incorrect. In Steer’s model, 2019 training costs were reduced in 2020 (14.7% on 2019) and 2021 (7.7% on 2019), and then kept at 2021 levels for the remainder of RP3. From 2022, an SCP (student controller programme) cost was then added to this to get the total training cost. However, Steer make an assumption of cost per student which is too simplistic and doesn’t consider all factors associated with training an ATCO and is understated. It also assumes that 50% of the SCP training cost is incurred in year 1 and 50% in year 2. This timing does not align with actual training and needs to be amended in the final determination.
- ❖ Steer’s training cost does not make adequate provision for increased training required due to new regulations including Regulation 373, training required for new engineering headcount and training required for new systems coming into operation over the course of RP3.

### Telecommunications

- ❖ The cost of telecommunications has been understated by €1.4m for 2022 to 2024. The proposed NSA allowance fails to take account of the IAA ANSP’s implementation of step changes in technology (synchronous to IP networks) and increasing asset base (new tower and parallel runway).
- ❖ Technology Change: IAA ANSP is migrating to IP Networks from Synchronous Networks. It is necessary to run the two Networks in parallel as part of the transition. IAA ANSP has CAPEX plans with projects in progress for migration to IP networks and is now faced with inadequate OPEX to proceed. This migration is needed for two reasons (i) Telecom providers are ceasing their synchronous networks making the transition an absolute requirement (ii) IP networks offer more resilience and are lower cost – this will benefit the airlines in the longer-term.
- ❖ Asset Base: IAA ANSP also has step changes for New Tower and Parallel Runway in Dublin, the En-Route Contingency Centre in Shannon, the New north Dublin radar facility. ✕
- ❖ If the NSAs do not recognise these cost requirements, IAA ANSP will need to slow dramatically its transition to IP networks. This delay to modernisation and progression would appear to be at odds with the very ethos of the SES. This delay will lead to a longer reliance on aging networks and the risk that telecom providers will cease critical lines required for connectivity to remote radar and communications sites before the IP transition is completed. This would cause ATM service impacts, reduced capacity and ATC traffic delays. ✕

### Maintenance

- ❖ On category specific issues, the consultation proposes to reduce IAA ANSP’s required maintenance costs by €5.1m over the period 2022 to 2024, despite the increased footprint and the need for the following:
  - Addition Localiser Systems Dublin
  - Additional Glide Path Systems Dublin
  - Additional IRVR Systems Dublin
  - Additional DME Systems Dublin
  - Additional ASMGCS Systems Dublin
  - New En-Route Contingency Centre Shannon
  - New enhanced EASDS System Nationally
  - Enhanced Maintenance contract with Thales (COOPANS partnership joint procurement)



- ❖ This will impact on service quality and ability to service required national infrastructure such as the new second runway at Dublin airport.
- ❖ Steer's modelling has not accounted for the individual maintenance contracts in place and the required increase in both the quantum and cost of these projects. Consequently, this is driving a revenue shortfall of €5.1m over the period 2022 to 2024 that is specifically attributable to maintenance.
- ❖ The Thales ARCFA II (Amended Re-stated COOPANS framework Agreement) framework agreement establishes the contractual arrangements between the COOPANS partners and Thales for an initial five-year period and was shared with CAR in advance of the consultation. The agreement provides for ongoing services to the ANSP in the support and maintenance of its air traffic management system. ✕ Both the position of Steer and the NSAs is unclear in relation to this cost requirement.
- ❖ The facilities management contract is currently being tendered. This consultation does not provide a sufficient allowance for the inevitable increase in the cost of facilities management compared to 2019 as a result of an increased footprint of the IAA ANSP (new en route contingency centre and new visual control tower at Dublin airport) and the increase in outsourced costs, along with increased costs for specialised cleaning now required as a long term impact of COVID. Insufficient justification has been provided and the ANSP is placed in an impossible position where its efficient costs following a tender process are higher than those allowed by the regulator. It needs to be considered if such an approach is in compliance with the Performance and Charging regulation where all legitimate costs of business are fully eligible.
- ❖ Moreover, Facilities Management providers now need to be fully trained on IAA ANSP's sustainability plan, which is a key priority of Government. They will be required to have their own plan, align their practices to our plan, and support the company in driving its sustainability objectives. This is an unavoidable cost in facilities management that has arisen out of sustainability requirements. The move away from a reactive service to a proactive asset management service further increases the cost. Unless the full cost required by the IAA ANSP is provided for, then the ANSP will have to reduce its sustainability ambition, at a time when climate change and Government policy demands a strong response.
- ❖ It is not clear from the consultation material why it has not accepted market trends in relation to the costs of facilities management. It is also not clear from the consultation material how it has accounted for IAA ANSP's estimated requirement of 60 other maintenance contracts in total.

- ❖ Should the NSAs continue on the basis of the proposals in the consultation, IAA ANSP will need to cancel or reduce the terms in some of its maintenance contracts. This will lead, following system failures, to reduced restoration response capability. In worst case scenarios traffic delays due to system outages will ensue.

### Spares

- ❖ The step changes outlined above mean that additional spares over and above those required in 2019 will be required over the course of RP3 due to the increase in systems including Localiser Systems Dublin, Glide Path Systems Dublin, IRVR Systems Dublin, DME Systems Dublin, ASMGCS Systems Dublin, New En-Route Contingency Centre Shannon, New enhanced EASDS System Nationally.
- ❖ If the NSA submits a Draft Performance Plan on the basis of its consultation (a reduction of €1.6m) IAA ANSP will need to significantly reduce expenditure on spares. An inadequate stock of spares will increase the probability of a required spare not being in stock leading to longer system outages and reduced systems availability. Reduced systems availability is another contributor to ATC traffic delays. Neither Steer nor the NSAs appear to have accounted for this in its interdependency analysis.

### Power

- ❖ Steer's analysis has led the NSAs to propose a reduction in IAA ANSP's cost requirement by €1.6 million from 2022 – 2024 and in doing so it does not sufficiently consider the increasing IAA footprint which includes CEROC, the new radar site, the new Dublin Tower, the new runway equipment and services with the bulk of the costs being incurred in 2022 onwards. In addition, utility rates are increasing at a significantly higher rate compared to general inflation.
- ❖ Should the NSAs submit Ireland's Draft Performance Plan on the basis of its proposals, IAA ANSP will be unable to provide for energy efficient alternatives to fossil fuel solutions, nor will it be able to ensure that appropriate power loads can be facilitated at the existing and new facilities. There may also be an impact on power consumption requirements for critical State facilities.

### Rent and rates

- ❖ The NSAs have proposed to disallow required costs for rent and rates amounting to €1.3 million over the period 2022-2024, by simply holding the cost requirements at 2019 levels. This is not a reasonable approach to take on the basis that the IAA ANSP's headquarters in Dublin city is subject to an upward only rent review. ✗
- ❖ ✗ It is unacceptable that Steer's methodology is favoured by the NSAs as it holds the relevant costs constant since 2019 and does not consider evidence of rates increases applied in recent valuations. Steer's methodology has also overlooked rates that will be payable as a result of CEROC, the new radar site at Tooman and the new tower at Dublin Airport during RP3.

### Computing

- ❖ Required computing costs are being reduced by €4.7m over the period 2022 to 2024, which is driven in large part by a decision to revert to 2019 costs from 2022 with computing costs slightly lower in 2022. Moreover, the evidence we provided in relation to computing costs has been dismissed in place of an inflation rate that is half of what the evidence indicated. Justification for such a change has not been provided. In fact, one of our larger computing contracts is 36% higher in 2021 than in 2019 – standard consumption increases by the business and cost increases by ✗. There are other categories of computing costs that have increased by 31% over the same period, while cyber costs are also increasing at a rate much faster than Steer have modelled.
- ❖ In modelling the required costs for computing, Steer has applied a 5% annual increase over 2019 actuals compared to the 10% growth provided for by the IAA ANSP Business Plan based on evidence in RP2. Steer has also added a cost efficiency factor which results in a total cost shortfall of €4.7m over the period 2022-2024.

- ❖ It is unclear why Steer has not taken into account the additional costs to be incurred in relation to enhanced cyber security protection and monitoring. While we welcome the approved allowance by the NSA for 'NIS' expenditure, this expenditure addresses cyber defence in air traffic management systems only. It does not address the cost of cyber in the ANSP's business computing applications. This cost has been included under the heading of 'Computing'.
- ❖ The increasing consumption of cloud services by IAA ANSP is driving higher costs. For example, the cost of ☒ has increased by 41.5% over the last two agreements. A new agreement is due to be signed in 2023. Meanwhile, annual ☒ expenditure has increased by, on average, 19% in the years 2016 to 2021.
- ❖ Data growth is driving computer back-up/storage costs upwards while additional systems have been introduced to support the back-up of cloud hosted data.
- ❖ The ICT department has a heavy reliance on a framework agreement to support and complement its inhouse resources. The cost of these resources is increasing annually as labour constraints force higher costs.
- ❖ Hardware maintenance costs are increasing in response to changes to the complexity of the network infrastructure. New services in support of remote working is increasing costs while critical hardware maintenance contract costs including outsourced support continue to increase.
- ❖ The significant step changes for ICT are set out below.
- ❖ As opposed to 2019 where there was a single IAA with functional separation in place, from 2022 onward there will be a legally separated ANSP / Regulator. This means that where there were previously single contracts for both organisations with associated economies of scale, there will now need to be separate contracts. We have budgetary estimates ☒ and costs are increasing. The separation is government policy, therefore the IAA ANSP request that adequate account be taken of the costs being incurred.
- ❖ There is a growing trend to move away from buying systems using capital expenditure as more and more companies are selling Software as a Service (SaaS). This move is leading to increases in OPEX and decreases in CAPEX. On this basis we request a facility to convert CAPEX allocations to OPEX allocations where we have to purchase SaaS. SaaS is also happening within ATM operations as well as ICT.
- ❖ Aspects of the computing costs relate to Cyber Security enhancements and NIS compliance. ☒.
- ❖ Should the NSAs proposals be submitted to Europe in their current form, IAA ANSP will need to cancel or reduce the terms in some of its computing contracts. This may lead to higher cyber security risk, lower cyber security compliance scores, and reduced system restoration capability following ICT system outages.

### Insurance

- ❖ Steer is proposing annual insurance costs of c€0.6 million lower than the requirement identified by IAA ANSP. This represents a cumulative variance of €1.7 million over the three years 2022 to 2024.
- ❖ IAA ANSP believes that there is no justification for Steer's lower projection of insurance costs. Adequate insurance cover is critical to the business. The aviation liability market continues to harden following years of rating reductions. Insurance premia are continuing to increase despite the reduced exposures due to COVID-19. Reduced capacity in the aviation liability market coupled with significant claims means that premium increases are set to continue for the foreseeable future.
- ❖ The insurance market for financial lines is extremely challenging with less capacity in the marketplace driving material increases in premiums while at the same time reducing cover. There are no indications that the market will change any time soon.
- ❖ As our buildings and equipment portfolio is increasing during RP3, this will drive an increase in premiums while planned increases in staffing and staff costs will also drive up the cost of the ANSP's employer liability cover. This does not appear to have been considered by Steer.
- ❖ IAA ANSP is requesting that Steer fully considers the relevant evidence in its modelling of insurance costs. If an alternative allowance is provided, then the NSAs and Steer must justify it with appropriate evidence.

**Building repairs**

- ❖ Our building footprint is increasing due to the new Tower Building at Dublin, CEROC Facility, Radar building North Co. Dublin, and the Parallel Runway and all associated equipment buildings for Glide Paths (GP), Localisers (LOC), Distance Measuring Equipment (DME).
- ❖ The age of the IAA ANSP's existing buildings is also increasing, with older buildings requiring more maintenance.
- ❖ If the NSA submits a Draft Performance Plan on the basis of its proposals, IAA ANSP will need to reduce its building repair budget. This will lead to buildings falling into disrepair, which impacts both the staff and the systems which are operational within the buildings. In a worst-case scenario, there will be service impacts to IAA ANSP customers.

**Security**

- ❖ The consultation is proposing that IAA ANSP's required security costs would face a shortfall of  $\text{€} \times$  million from 2022-2024. Steer have completely disregarded the existence of a 5-year security contract entered into by the IAA in 2019 following a competitive tender. This contract includes annual rate increases and takes account of the ANSP's new facilities – the visual control tower at Dublin airport and the en route contingency centre.
- ❖ IAA ANSP is required to ensure compliance with current regulations as well as the annually revised NCASP requirements; have a detailed risk management, audit and training programme in place for all of its facilities, assets and people.
- ❖ In proposing this modelled cost requirement, it appears the methodology was insufficient to account for step changes in our security requirements with new regulations introduced e.g. we have to comply with the NIS Directive and also the Security aspects of EU Regulation 2017/373 as outlined in D.010.
- ❖ In addition, the IAA ANSP Business Plan makes provision for new security costs from 2022 stemming from the restructuring of the IAA which will see the ANSP charged by the NSA for the cost of providing security services within The Times Building.
- ❖ The IAA has competent, trained and PSA licenced contract security personnel across all of its Operational Centres as well as a security control room for the active monitoring and protection of its large property portfolio across the country. Costs of security personnel at these locations are contractually binding until Q4 2024 following a public procurement competition.
- ❖ The scope of the IAA's property portfolio and the remote location of its sites requires that security systems and controls are upgraded on a periodic basis. IAA ANSP commenced a process in RP2 of security upgrades which must continue through RP3 from a CAPEX and OPEX perspective in order to ensure full compliance with regulations.
- ❖ On a standalone basis, the NSAs proposals in relation to security greatly compromise IAA ANSP's ability to comply with legal and regulatory obligations for security management services.

**Professional fees**

- ❖ Steer's modelling has led to the NSA proposing to remove  $\text{€}0.8$  million in required professional services fees during 2022 to 2024 due to the rigid alignment with costs incurred in 2019. We disagree with this allowance on the basis that it makes no allowance for additional costs of annual reporting that has been required by CAR, it does not support additional costs of pension provision including triennial actuarial valuations in 2021 and 2024 and legislative changes to pensions including the EU Directive IORP II which was recently transposed into Irish law.

**Cleaning**

- ❖ Cleaning costs have been understated by  $\text{€} \times$  for 2022 to 2024. The scope of the cleaning services includes standard building cleaning services, specialised cleaning of plant and equipment rooms, and

decontamination cleaning introduced due to the COVID-19 pandemic across the entire property portfolio of main sites as well as periodic cleaning of remote sites.

- ❖ With COVID-19 to become part of life going forward provisions for decontamination cleaning will be part of the cleaning contract during the RP3 period to ensure IAA ANSP meets its statutory health and safety obligations to its staff by providing a safe place to work.
- ❖ The current facilities management contract which provides for the cleaning services was extended from 2020 to March 2022 due to COVID-19 and the need to ensure consistency during that period at IAA ANSP Operational centres. ✂.
- ❖ Steer's methodology bypasses this reality and the NSA's proposal could undermine IAA ANSP's ability to meet its requirements to ensure appropriate cleaning services are provided for.

#### **Concluding views on non-staff Opex**

- ❖ The above line items represent necessary and justified costs of business, required to open up the capacity and efficiency provided by the new runway. The consultation approach which does not provide for these costs to be recovered will result in a situation where other costs have to be diverted in order to cover the shortfall e.g. reduced training which would have an impact on quality of service.
- ❖ At the consultation meeting, the ANSP raised the issue of software as a service (SaaS). Over the course of RP3, it is very likely that some capital projects will be supplied as software as a service. This will result in an increase in Opex for which no allowance is currently included. The ANSP proposes that where an anticipated capital project becomes software as a service that the annual capital cost included in depreciation and cost of capital is transferred to Opex to support the required level of expenditure and provide certainty to the ANSP that it can continue to progress its capital investment programme.
- ❖ IAA ANSP raised a point at the RP3 Stakeholder Consultation meeting in relation to this unprecedented methodology developed by Steer and endorsed by the Irish NSAs, and IAA ANSP took the opportunity to query why this approach is markedly different to the approach taken by Steer on behalf of the CAA in the UK in 2019. While this question remains unanswered, it continues to be relevant given the level of scrutiny upon which the Steer analysis withstood during the appeal in the UK. Notwithstanding the pandemic, IAA ANSP is therefore unclear why CAR required Steer to develop a brand-new methodology and overall approach, which has led to a much greater reduction in the identified cost requirement compared to the equivalent in the UK during 2019.
- ❖ A number of stakeholders agreed with CAR at the consultation meeting that it is worse to underestimate the WACC because of the adverse impact on investment. IAA ANSP also agreed with this but has been keen to develop this argument beyond the appropriate WACC and apply it to the overall plan for the ANSP, whereby the consequences of the NSAs underestimating the required cost base for IAA ANSP far exceed the consequences of overestimating the required cost base, particularly under circumstances in which unspent Capex is subsequently returned to airspace users in accordance with the Regulation for RP3.

## 5. Depreciation

Depreciation	2020	2021	2022	2023	2024	Total
ANSP Requirement	9.1	11.8	16.4	19.1	19.3	<b>75.6</b>
NSA Consultation	8.8	11.1	13.3	14.2	13.5	<b>60.8</b>
<b>Shortfall</b>	<b>0.3</b>	<b>0.8</b>	<b>3.1</b>	<b>4.9</b>	<b>5.8</b>	<b>14.8</b>
<b>% Reduction</b>	<b>-3%</b>	<b>-6%</b>	<b>-19%</b>	<b>-26%</b>	<b>-30%</b>	<b>-20%</b>

- ❖ Unavoidable costs in RP3 that are eligible and justified should not be deferred.
- ❖ The consultation proposes to make a programme level reduction of 20% to forecast capitalisations over the period 2021-2024. We are not aware that this type of approach has been taken anywhere else in Europe under the Performance Regulations. The NSAs are aware of operationally critical major projects, including the replacement of the Emergency Air Situation Display System, that have recently received Board approval to proceed to tender with a specified budget. Should this project be delivered efficiently, the NSAs are proposing to defer 20% of this cost to RP4 and that is despite the NSAs *“broadly accepting the merits of the proposed capital investment plan and associated level of expenditure”*.
- ❖ The regulatory grounds upon which this proposal is based is highly questionable. The consultation doesn't really explain why this is being proposed, particularly as the Regulations provide for any Capex underspend to be returned to airspace users. The NSAs appear to have justified this 20% reduction on the basis that the timeline proposed is ambitious, but they are nonetheless proposing to allow a lower number of engineers and operations support that have been included in the ANSP's RP3 Plan.
- ❖ IAA ANSP incurred unsustainably low levels of capital expenditure in RP2 and stakeholders were understandably critical of this despite a firm commitment to voluntarily return this underspend to customers. The ANSP's RP3 Investment Plan is predominantly based on obsolescence and regulatory compliance and the NSA proposals to apply such a significant programme level reduction will expose additional risk in terms of systems availability which in turn may impact on service delivery.
- ❖ It is important that IAA ANSP emphasises at this time that an inability to fully deliver the proposed capital investment programme will create a risk to operations and service delivery due to an inability to provide for buildings and systems, and add additional risk to our ability to comply with legal and regulatory obligations. By agreeing with the ANSP's Plan on the one hand but then marking it down by one-fifth on the other, the NSAs will make a critically important Investment Plan even more difficult to achieve, while seeking to avoid regulatory accountability by deferring any surplus costs to RP4.

### Extended Asset Lives

- ❖ The consultation proposes to extend the asset life of several Buildings to 40 years without accounting for structural work that is typically required on the building after 30 years to ensure longevity. It also needs to be recognised that substantial work to connected structures, such as lattice towers, would be required after approximately 15 years. A further consideration relates to the fabric of the building, glass, cladding, flooring and bathrooms which would not have an asset lifetime equivalent to what is being proposed by CAR. Mechanical and Electrical aspects are also relevant in this regard and typically have an asset life of 8 years as opposed to the 40 being proposed by the NSAs. The total cost for the new Dublin Tower comprises a material element of mechanical and electrical expenditure with asset lives of 8 to 12 years and not 40 years. Similarly, for the Dublin Tower, costs of approximately €1.6m were incurred since 2008 in relation to architectural, design and other original fees that now have a 40-year asset life attached to them as part of the proposals by the NSAs.
- ❖ Conditional Survey Works have a standard life of 10 years and the proposed 20 would be far too excessive even though it may sometimes be possible to achieve 12 years on some aspects.
- ❖ It is proposed that the Fire Suppression System would have its asset life extended to 15 years without any awareness it has to be changed every 10 years in line with a fire safety legislative requirement.



- ❖ In relation to Energy Works, is it the case that solar panels might achieve 15 years, but other aspects of this project include LEDs, which have an expected life of 6 years and pumps which have an expected life of 8 years. To place a blanket asset lifetime of 15 years on Energy Works is unreasonable.
- ❖ At the stakeholder consultation meeting, CAR stated they agree with most of the asset lives proposed by IAA ANSP. It is important to clarify that the differing views of the NSA in relation to asset lives has resulted in approximately €8m of revenue being deferred beyond RP3. Many of the judgement calls by CAR on asset lives are either not substantiated with evidence, contain inconsistencies or have not accounted for regulatory requirements.
- ❖ We would also like to note that there are multiple inconsistencies between CAR's public consultation document and CAR's published model in relation to the asset lives being proposed by IAA ANSP. It is important that this is corrected in the final documentation.

## 6. Cost of Capital

Cost of Capital	2020	2021	2022	2023	2024	Total
ANSP Requirement	2.6	5.7	8.9	10.4	10.4	<b>38.0</b>
NSA Consultation	1.6	3.3	7.3	8.3	8.2	<b>28.7</b>
<b>Shortfall</b>	<b>1.0</b>	<b>2.4</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>9.3</b>
<b>% Reduction</b>	<b>-37%</b>	<b>-42%</b>	<b>-19%</b>	<b>-20%</b>	<b>-21%</b>	<b>-25%</b>

- ❖ The one area in which we have relied on external consultants for the RP3 process was for the cost of capital exercise, whereby First Economics updated its report prepared for the original RP3 Plan in 2019.
- ❖ The consultation proposes to disallow €9.3m of costs identified in the ANSP's RP3 Plan on the basis of the First Economics report. This delta between the ANSP's Plan and the consultation is driven by a judgement call on the appropriate asset beta for IAA ANSP.
- ❖ An asset beta of more than 1 implies an investment has more systematic / undiversifiable risk compared to the overall market whereas an asset beta of less than 1 implies that an investment has less systematic / undiversifiable risk compared to the overall market.
- ❖ First Economics recommended as asset beta of 0.68 within a range of 0.65-0.70 based on specific evidence from other jurisdictions, and IAA ANSP having a relatively small asset base in addition to heightened sensitivity of profit to variations in costs and volumes.
- ❖ By comparison, CAR has proposed a lower asset beta of 0.50. In doing so, it relies primarily on airport comparators despite acknowledging the only post COVID estimate for an ANSP increased considerably. CAR states that *While COVID-19 is clearly a significant negative shock, which has reduced demand and revenues within the aviation sector, it is not clear that this means ANSPs are any more sensitive to systemic risk than they were prior to COVID-19.*
- ❖ CAR further states that *as was the case prior to COVID-19, ANSPs under the SES charging scheme are permitted to charge airspace users at a level sufficient to cover their costs, including the revenue lost in 2020 and 2021 through revised performance plans.*
- ❖ This represents another inconsistent feature of the consultation, which confirms that the SES charging scheme permits charges that are at a sufficient level to cover costs but at the same time this consultation is proposing to disallow significant levels of costs that are unavoidable without having a detrimental impact on our service and business continuity. One might speculate whether the approach of disallowing eligible costs is itself a factor that warrants a higher asset beta.
- ❖ In relation to its asset beta estimate, CAR also notes ANSPs are less exposed to revenue risk through SES regulation (particularly over the long-term), although this is somewhat offset by lower permitted operating margins (due to smaller asset bases relative to operating costs) and higher operating leverage, both of which increase sensitivity to systemic risk.
- ❖ Firstly, CAR is focussing on the long term whereas the period 2022-24 is what is relevant. There will be an opportunity in 2023 to consider the appropriate asset beta for 2025-2029. Secondly, the consultation appears to recognise the key evidence put forward by First Economics for a higher asset beta, but it nonetheless does not have any bearing on the estimate being proposed.
- ❖ Finally, even though the consultation proposes to reduce our return on capital in 2020 and 2021 by almost 20%, we agree that the return on equity should not be waived during this period. IAA ANSP has already voluntarily deferred charges over the period February-May 2020 and notes that the RP3 regulation has been revised in a manner that means under recoveries from 2020 and 2021 will not be recouped until 2027 at the earliest, or 2029 in line with what is being proposed in this consultation.

Further evidence supporting our position in relation to the Cost of Capital is presented below.

- ❖ The main source of IAA ANSP's exposure to systematic risk is the variation that the ANSP's profits will show in the face of unexpectedly low or unexpectedly high traffic volumes. IAA ANSP could suffer a loss of 33%

profit over the period 2022-24 if volumes turn out to be 2% below traffic forecasts or a 73% loss in profit with a 10% traffic shock<sup>4</sup>.

- ❖ We are not aware of any other regulated aviation business that has such thin margins, and which faces such severe consequences in the face of relatively small variations in traffic.
- ❖ By way of comparison, under the terms of CAR's 2019 airport price cap decision, daa would have had to see traffic fall short of forecasts by more than 10% in order to suffer a one-third loss of profit and by more than 25% in order to suffer a three-quarters loss of profit. This is clear evidence that IAA ANSP and daa have materially different risk profiles and should have materially different betas.
- ❖ The consultation uses NERL's asset beta as a possible comparator. However, the consultation has not cited the correct asset beta value. Following an extensive nine-month investigation in 2019/20, and after examining the same comparator basket used in this consultation, the UK's Competition & Markets Authority found that NERL's beta was 0.57.
- ❖ The following statements made by the CMA should also be noted: *"We gave weight to ENAV's beta, but we recognised that there were reasons why ENAV was likely to be lower risk than NERL" and "...it did not seem to us to be implausible that NERL could have a cost of equity at 60% gearing consistent with a beta of one or higher."*
- ❖ Our cost of capital report identified two other possible ANSP comparators including Airservices Australia (asset beta: 0.55) and Airways New Zealand (asset beta: 0.60)<sup>5</sup>. The omission of these ANSPs from CAR's comparator set biases the sample towards asset-heavy airports and results in an under-estimation of IAA ANSP's beta.
- ❖ This is not the first time that CAR has made an estimate of our asset beta. In 2002, 2007 and 2011 CAR used an asset beta of 0.65 and we are not aware of any reason as to why our beta is lower now than it was ten years ago.
- ❖ In summary, we believe that our evidence demonstrates that CAR has materially under-estimated our asset beta. The relatively thin profit margin (due to a small asset base and high operating costs) and high operating leverage is a much more important differentiating factor than CAR acknowledges in its consultation document, even after allowing for the single European sky traffic risk sharing scheme.
- ❖ The resulting higher exposure to systematic risk needs to be recognised properly through the acknowledgement of an asset beta that is appreciably higher than 0.50.

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<sup>4</sup> The loss of profit has been calculated using the revenues and return provided in CAR's draft determination and after applying the SES traffic risk-sharing mechanism.

<sup>5</sup> Airways New Zealand (2019), Airways' proposed pricing for the 2019-22 period

## 7. Safety

- ❖ The consultation appears to have little regard for the significant changes which have occurred in safety management and oversight since 2019 or the risks or impacts associated with material cost requirements being disallowed. Steer appears to have taken a wholly inconsistent approach in this regard when reviewing NSA cost requirements.
- ❖ The consultation does not make any meaningful link between cost and safety and instead refers to the ANSP's business plan, which states that the ANSP will never compromise on safety. In doing so, the consultation fails to recognise the integrated nature of the ANSP business plan and the interconnectedness of safety, capacity, environment and cost efficiency. These interlinkages were recognised by the IAA NSA in RP2 and in the 2019 RP3 planning process.
- ❖ The consultation proposes to disallow costs identified in the ANSP Plan as being required for EU Regulation 2017/373 purposes without providing sufficient reasoning. IAA ANSP is therefore of the view that the consultation fails to recognise the impact on the business arising from the new approach to and oversight of safety brought about by the implementation of EU Regulation 2017/373 in 2020.
- ❖ Even with a certain level of compliance related costs being accounted for by Steer in its scenario, the magnitude of proposed cuts elsewhere across the business means that there will be insufficient revenue for the overall cost of doing business, which will impact all KPAs. In effect, by removing costs elsewhere, Steer is undermining the level of compliance costs that have been allowed in theory. For example, to cover actual costs in areas where an under-allowance has been provided, the ANSP will have to take costs from somewhere.
- ❖ Consistent with our RP3 Plan, IAA ANSP is determined that the NSA's proposals would not have any impact on the day-to-day safety of operations under any circumstances. However, without adequate resourcing, ongoing issues with quality, consistency and compliance, which have been repeatedly identified by IAA SRD in recent years in areas such as safety case submissions, quality-related issues, non-conformances management, the prolonged 18-month Regulation (EU) 2017/373 certification process etc. will continue and will negatively impact our EoSM score. This has already happened in 2020. Issues with quality, consistency and compliance are proving to be time consuming and resource intensive and are leading to delays in our ability to implement certain changes. Addressing these issues will require resources. Our planned staffing increases in safety, quality and compliance are specifically intended to address these issues by supporting the introduction of an integrated management system as recommended by Regulation (EU) 2017/373:

*Traditionally, separate management systems were developed to address issues such as safety, quality, environment, health and safety, finance, human resources, information technology and data protection. However, it is foreseen that more and more the services providers will establish integrated management systems following the harmonised set of requirements in this Regulation. The Regulation does not require that the different management systems are integrated but it facilitates their integration. (Reg (EU) 2017/373 GM1 ATM/ANS.OR.B.005).*

## 8. Environment

- ❖ On 2 June 2021, the European Commission published Implementing Decision (EU) 2021/891. Recital 15 states, *“In light of the lower traffic levels expected over RP3, which should enable additional flight efficiency improvements, the Union-wide performance targets in the key performance area of environment for the years 2021 and 2022 should be revised to further reduce the ATM impact on environmental performance. The targets for the years 2023 and 2024 should however be maintained, considering the expected recovery of air traffic towards the end of RP3 as well as the impact on horizontal flight efficiency of elements which are beyond the control of air navigation service providers, including the flight planning and operational decisions of airspace users.”*
- ❖ The Environment is of utmost important however, it is the view of IAA ANSP that there is a disproportionate reduction in KPA targets for Ireland in comparison with those proposed at SES level.
- ❖ The principles applicable at Union-wide level should apply at local level, allowing for Ireland’s target to change from 1.13%<sup>6</sup> to 1.53% in both 2023 and 2024, which reflects the original target set for these years in 2019.
- ❖ The RP3 target 2021-2024 [1.13] is based on the 2020 performance [1.13] which was not a typical year in terms of traffic levels and traffic flows. The reduced traffic levels and the associated reduction in traffic complexity contributed to a substantial improvement in the horizontal flight efficiency performance of most ANSPs across Europe. IAA ANSP supports setting ambitious targets to drive improved performance, but such targets need to be realistic and achievable. The performance of IAA ANSP in the most recent year of normal traffic was 1.24 [2019]. There are no measures left within the control of the IAA ANSP to materially improve horizontal flight efficiency with further improvements largely dependent upon the introduction of FRA by our neighbouring ANSPs and with the accompanying system upgrades to enable full cross border FRA.
- ❖ Recently, Ireland has been ranked in the top 2 performers throughout the Network for Horizontal Flight Efficiency. The environmental performance is primarily monitored using indicators based on horizontal en-route flight efficiency (HFE), which compare the length of actual (KEA) or planned (KEP) flight trajectories to the corresponding “achieved” distance.
- ❖ IAA ANSP is not responsible for inefficiency due to airline flight plan filing preferences including low en-route charges, North Atlantic track structure, military activity, winds and adverse weather and inefficient interfaces between adjacent States.

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<sup>6</sup> The consultation refers to an actual KEA performance in 2020 of 1.11%. The correct figure is 1.13%. It must also be noted that the target for 2020 was set pre-pandemic so the 2020 actual is not comparable to the 2020 target nor is it a reliable basis upon which to set the target over the period 2021-2024.

## 9. Capacity

- ❖ Capacity issues are understandably a major concern of our customers and it has been somewhat reassuring that the European Commission has recognised the importance of ANSPs receiving the necessary financial resources to get through the downturn and ensure they are fully ready for the recovery.
- ❖ Unfortunately, the NSAs and Steer have not considered capacity in the same regard. There is a shortfall of 16 ATCOs in 2023 in the consultation followed by a shortfall of 3 ATCOs in 2024. However, the assumption by Steer means it is not possible to have 30 ATCOs in place in the year to 2024 meaning the true shortfall in 2024 is much higher.
- ❖ It is also concerning that the proposals result in the ANSP's RP3 Plan being reduced by more than €70m so even though the NSAs have indicated that IAA ANSP can develop its organisation as it sees fit, it is overly constrained in all aspects of the business including staff.
- ❖ In 2019, eight (8) High Level en-route sectors were regularly required to safely handle the summer traffic levels during the core hours. The opening hours of the eight (8th) High Level sector has a staffing requirement of 8 ATCOs. IAA requested EUROCONTROL NM to run a macro delay simulation of two staffing assumptions:
  1. a reduction of one enroute sector [limited to 7 High Level ENR sectors] &
  2. a reduction of two enroute sectors [limited to 6 High Level ENR sectors]



- ❖ These scenarios resulted in Network area delays of 70,000 to 100,000 and 300,000 to 400,000 minutes respectively. Even if the lower delay figures are chosen from each scenario, this equates to 0.15 to 0.64 minutes delay per flight when averaged over the year assuming no ATFM delays in off-peak months. Both scenarios would lead to the IAA ANSP far exceeding the proposed RP3 target of 0.03 minutes delay per flight. This delay target, 0.03 mins, equates to approximately 14,000 mins of delay. The CAR proposal includes a reduction in the 2023 ATCO staffing total of 16 or 5.1%. Such a reduction will inevitably restrict our ability to man the eight High Level ENR sector in 2023 and will result in the regular imposition of ATFM delays during peak hours for westbound aircraft departing from European airports.
- ❖ This will also impact our environmental performance as reduced capacity and environmental performance are inextricably linked. In such circumstances, it is inevitable that some aircraft will either:
  - get delayed on the ground at European airports,
  - be offered reroutes within Irish controlled airspace,
  - be offered reroutes around Irish controlled airspace *or*
  - be offered routings within Irish controlled airspace with flight levels capped.
- ❖ All of these outcomes lead to longer routes and less efficient flight profiles which will contribute to increased fuel burn and CO2 emissions.
- ❖ According to the NM, the situation will be similar at Dublin with delays of 45,000 – 60,000 forecasted if staffing shortages limits sector opening to 3 sectors [instead of 4].
- ❖ For the Network Operations Plan [NOP] 2022-2024, the Network Manager stated that it is important to detect, at an early stage, any potential problems in the network for the Summer 2022. The Network Director

of Operations [NDOP] meeting in June 2021 highlighted the close link between the capacity required and resource availability.

- ❖ To put this into context, the cost of 8-16 ATCOs per annum is a small fraction of the overall reduction in cost requirements, representing well below 5%. Therefore, while on paper the NSAs have sought to allow almost enough ATCOs, its methodology for assessing Opex requirements has resulted in many multiples being removed from the ANSP's cost requirement.
- ❖ Throughout this revised RP3 review process, we have found ourselves disagreeing with CAR on the topic of having a history of low delays, which was said to be potentially indicative of inefficiencies. Through engagement with customers during both the original and revised RP3 planning process, we learned that a small minority of customers signalled an unwillingness to incur costs for zero delays. It appears that CAR is continuing with this approach in the consultation, despite the evidence presented by IAA ANSP and feedback provided by customers.
- ❖ A history of no delays is no guarantee that there will be no delays in the future particularly if cost allowances are not sufficient to meet the cost of business. We are requiring the NSAs to recognise the costs that need to be incurred by IAA ANSP in order to have enough staff to support the recovery. As it stands, decisions on training need to be made very soon due to the lead time on ATCOs and the approach to this consultation has overly constrained IAA ANSP in this regard.

## 10. Questions for the National Supervisory Authorities

- ❖ We have included a range of questions for the NSAs covering concerns over the model, the methodology, the consultation process, the lack of evidence or justification for positions and the lack of consideration of risks and consequences of lower than required allowances (among other concerns). In addition, there are also specific questions that require addressing.
- ❖ Why has it not reviewed ANSP costs in line with the relevant Regulations<sup>7</sup>? This question is being asked because IAA ANSP does not consider that NSA proposals based on a hypothetical scenario (one of three) by Steer meets the following criteria.
  - a) Cost Eligibility: Eligible costs incurred by ANSPs are recoverable through user charges. There is no evidence that Steer considers cost eligibility in its model, nor is there any evidence that the NSAs have considered cost eligibility when proposing costs as proposals are informed by the Steer model.
  - b) Verification of the detailed justification by the ANSP: the ANSP has been required to provide a detailed justification of its required costs but the NSAs and Steer have pursued a methodology that is largely independent of the ANSP Business Plan i.e. the general approach from 2022 is to reinstate 2019 costs and add CPI thereafter but this does not sufficiently account for step changes in costs that have been justified. The consultation is lacking transparency on where an ANSP cost requirement has not been justified.
  - c) Take account of the relevant local circumstances: The NSAs have a duty to review IAA ANSP proposals from an Irish perspective and specifically to account for local circumstances. There is no evidence in the consultation material that the NSAs have accounted for local circumstances and it is clear from the Steer methodology that local circumstances have been overlooked e.g. restructuring costs disallowed for IAA ANSP, but which are allowed for IAA NSA.
  - d) Interdependencies: Recital 17 of Commission Implementing Regulation (EU) 2019/317 requires that given the strong links between the different key performance areas, the interdependencies between performance targets should be duly taken into account for the purposes of target setting, having regard to the overriding safety objectives. The consultation material has not had regard to this. In addition, the NSAs have not provided sufficient detail in terms of a description or explanation of the interdependencies and trade-offs between the other key performance areas, or the assumptions used to assess those trade-offs.
  - e) RP3 Comparator Group: Article 9(4) of Commission Implementing Regulation (EU) 2019/317 confirms that the EC has established comparator groups of air navigation service providers with similar operational and economic environments, for the purposes of assessing performance targets in the Key Performance Area of Cost-Efficiency. Despite examining the RP3 Comparator Group in Steer's Background Analysis, there is a complete disconnect to the scenario modelled by Steer, and chosen by the NSAs, which instead focuses on ANSPs not in IAA ANSP's RP3 Comparator Group.

2. During August, IAA ANSP discovered errors in the modelling, which has formed the basis for the revised RP3 Consultation. Will stakeholders have an opportunity to assess the final modelling outputs post-consultation, and if not, what assurances are there that the final models will be without errors? This question is of critical importance given the EC review process typically doesn't consider such models as part of its RP3 review.

3. There are certain ANSPs in our RP3 Comparator Group that have completely avoided payroll reduction measures and others incurring double digit increases in pension costs, while complying with the relevant regulations. From an IAA ANSP perspective, we implemented a phased cost containment programme beginning in March 2020 in the absence of regulatory guidance and without any awareness of developments in Latvia and Slovenia, which led to significant company-wide payroll reduction measures, including up to 30% for senior management. Why have Steer and the Irish NSAs deemed this to be insufficient without directly considering what has taken place in circumstances specific to Ireland?

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<sup>7</sup> Article 15 (2) of Regulation (EC) No 550/2004 specifies that eligible costs are to be recovered through user charges, and this is also specified in Article 22(1) of Commission Implementing Regulation (EU) 2019/317.



## 11. Conclusion

- ❖ Stakeholders have not had time to spend a large part of August reviewing all of the material. Given the impact on the IAA ANSP, we have reviewed it in detail and it is evident that this consultation is severely lacking in appropriate justification and leads to an outcome that will impact the quality of service and resilience of the IAA ANSP service. It is noted that the outcome coincidentally corresponds to the Union wide cost efficiency targets 2019-2024.
- ❖ The NSAs have completely relied on an unprecedented methodology developed by Steer in addition to the nature of errors associated with the modelling. Equally concerning is the lack of analysis on interdependencies and the link between cost efficiency and other KPAs being almost entirely dismissed. Further the approach does not seek to justify any cost allowances not provided for or recognise that these cost reductions will have an impact on service.
- ❖ IAA ANSP has identified new costs since 2019 amounting to approximately €68m whereas the NSAs consultation reduces the identified cost requirement in the ANSP Plan by approximately €74m. Nonetheless, the consultation document states that if the IAA ANSP is unable to fully meet the cost efficiency targets, performance in the other KPAs does not need to be degraded.
- ❖ The RP3 consultation is one that is also lacking in sufficient accountability. Steer has regularly pointed to what is simply a scenario and a chosen methodology when blatant errors were brought to its attention. So, for example, Steer does not necessarily appear to be disagreeing with costs incurred due to contractual increments – it simply has not included them in its modelled scenario. Furthermore, Steer might not necessarily disagree with legitimate new cost items since 2019 being required – but its chosen methodology hinges on 2019 costs doesn't really examine step changes in the manner in which CAR requested IAA ANSP to present them. Steer has not examined the implications of shortcomings associated with its chosen methodology, nor has it identified any limitations with its approach.
- ❖ Most importantly, Steer has not examined required costs on the basis of eligibility or whether they are reasonable and justified. Instead the NSAs approved its methodology which very simply benchmarks IAA ANSP costs to Latvia and Slovenia in 2020-2021, and then pegs costs in 2022-2024 to actual costs in 2019.
- ❖ Despite extensive evidence in the ANSP's Plan, the consultation notes that if the IAA ANSP is unable to fully meet the cost efficiency targets, performance in the other KPAs does not need to be degraded. It also notes that the scenario developed by the NSAs allows IAA ANSP to develop its organisational structure as it sees fit – that is, despite reducing the cost requirement by 11% in total and despite calling out cost items (e.g. payroll) which are permitted under its scenario. Bizarrely, the NSAs have pointed to IAA ANSP's ability to borrow and separately the scope that exists to reopen RP3 (a third time).
- ❖ IAA ANSP is of the view that the time constraints associated with the RP3 Planning Process has resulted in errors and inconsistencies featuring in the consultation that might otherwise have been picked up had there been more time. We received a final draft Steer report just one week before the consultation opened, which was based on a Draft ANSP Plan from April 2021 and Traffic Forecasts from November 2020. It was clear there was insufficient time to update the analysis in time for the consultation publication date. Consequently, there is a long list of errors included in the material including, for example, Steer working on ATCO training numbers from the ANSP's Draft Plan (Nov'20 traffic forecasts) but working on ATCO numbers from the Final RP3 Plan (May'21 traffic forecasts).
- ❖ IAA ANSP is seeking assurances that the models upon which the consultation is based will be free of all errors post-consultation and that this is demonstrated to the relevant stakeholders. IAA ANSP is also seeking assurances that the modelling methodology will not overlook known constraints and eligible cost increases since 2019. Finally, IAA ANSP is requesting that there is an emphasis placed on unavoidable efficient costs and in the event that a cost requirement is being disallowed, that there is an analysis of the implications from a compliance, business continuity or quality of service perspective.
- ❖ IAA ANSP is seeking support for its revised RP3 Plan, which provides for the continued high quality, safe, low delay service yet maintains our unit rate as one of the lowest in Europe – in line with what customers require. The consultation position introduces huge risks into the system which are unquantified, and which will be long lasting – into RP4.

## Appendix 1: Errors in the Consultation Material

- ❖ There are two models as part of this consultation process (i) the published CAR model and (ii) the confidential Steer model that is not published. This section identifies certain errors within both.
  - ❖ The primary issue with the Opex modelling is that the methodology is unprecedented in an RP context, flawed and fails to appropriately assess IAA ANSP's cost requirements on a bottom up perspective.
1. The consultation has been designed on the basis of IAA ANSP having pre-tax profit of €21m in 2024 but correcting for an error means that pre-tax profit in 2024 is €8m. The published model includes a profitability analysis for IAA ANSP which incorrectly includes deferred revenue to 2029 as profit in the RP3 years.
  2. The published model incorrectly links the Dublin Tower to an en route allocation percentage. Once this is corrected for, the cost of capital figures consulted upon are revised in all of the RP3 years.
  3. In the published model, the cost comparison tab incorrectly excludes the difference attributable to the Dublin Tower. It suggests the ANSP Depreciation figure is being reduced by €11m but the correct figure is €14.5m.
  4. The Opex modelling has incorrectly assumed that almost all ATCOs are at the top of the scale, thereby reducing the eligible costs for grade progression. The consultation specifies that certain other categories of staff are modelled at the top of the scale but has remained silent on the treatment of ATCOs.
  5. The following three issues have been raised with CAR in relation to the modelling of corporate services staff despite information that was provided (i) Steer fail to account for the treatment of corporate services staff that will transition to new roles under the restructuring process. (ii) it does not account for a related charge to the NSA that will revert to the ANSP and (iii) Steer is modelling on the basis of headcount rather than FTEs.
  6. Steer has modelled training and ATCO requirements consistently on the basis of the ANSPs RP3 Plan, but upon reviewing the detail in the model it becomes clear that the training requirements have not been updated to account for revisions to an earlier draft RP3 Plan based on Nov'20 traffic forecasts.
  7. In order to have enough ATCOs for traffic in 2024, the NSAs are proposing to support Steer in allowing 30 additional ATCOs in 2024 and leaving IAA ANSP 16 ATCOs short in 2023. Training 30 ATCOs in one year is not possible as the maximum class size is 24 based on simulator capacity. For 30 students to qualify in one year a class of 40 would be required based on expected failure and attrition rates. It would also be very difficult to conduct on-the-job training in the live environment with 30 students simultaneously.
  8. In relation to our required insurance costs, the consultation is proposing to proceed with a total shortfall of 28% (€2.8m) without any consideration for the nature of this insurance cost, whereby increases are driven by premiums in the aviation liability market.
  9. A failure to account for certain payroll costs and double counting in relation to overtime has necessitated the use of a so-called scaling factor in Steer's model, which recalibrates unknown issues with an incorrect model.
  10. There has not been enough time to comprehensively review the two additional sensitivities being consulted on in relation to traffic growing at + and – 10%. However, the modelling describes the two scenarios as STATFOR Scenario 1 and 3 respectively and it is not clear what is being done. On 23 August, we received additional information in relation to these sensitivities and while headcount increases in a +10% traffic scenario it is not logical that line items such as computing would remain unchanged. Given the evolution of traffic, it is very likely that the RP3 Performance Plan will be updated to reflect more optimistic traffic forecasts from STATFOR in October, and we are concerned that the Plan will be finalised on the basis of a sensitivity that has not been sufficiently consulted upon or understood by stakeholders.
  11. On pension costs, there is an error in the calculation which overstates the number of staff exiting the 1996 scheme through attrition and entering the hybrid scheme. The cumulative change is being fed into the model, whereas the absolute change in staff in each year is what is required.
  12. The published model indicates that €70m is being removed from IAA ANSP's RP3 Plan on one tab but separately indicates that €74m is being removed from the same Plan.
  13. In the published model, the cost comparison tab indicates that a reduction of €71.198m is being proposed as part of the consultation. This is on the basis of depreciation being €61.238m. However, the adjacent tab on Total Costs indicates that CAR's position on depreciation as part of the draft determined costs is that it

equates to €60.753m. The published model has also indicated that the ANSP's planned depreciation is €75.749m but this figure should be €75.588 in line with our RP3 Plan. Similarly, for cost of capital, our final RP3 Plan includes a total of €38.033m but the published model indicates that €35.106 has been sought by the ANSP. Consequently, the actual reduction being proposed is €74.449m and not €71.198m as stated.

14. The published model recognises the return of the under recovery of revenue during the emergency years for MET and NSA, but it does not take account of the return of RP2 adjustments carried forward to 2022 and 2023 due to lower traffic.

## Appendix 2: PRB Factsheet for Ireland in 2019

IAA ANSP requests that the NSAs fully consider the actual performance of IAA ANSP in the final year of RP2 in addition to the actual level of costs that were required to achieve this performance. IAA ANSP incurred actual costs of €117.8m in 2019 and despite the legitimate and eligible new costs since 2019, the NSAs are proposing to allow costs of just €132.5m in 2023 and €136.6m in 2024. Included in these lower cost bases are new costs not present in 2019, and IAA ANSP is therefore taking this opportunity to confirm that service delivery will be severely impacted if the NSAs continue to disregard on a forward looking basis the actual costs that were required in 2019.



## Ireland Factsheet

### Comments from the Performance Review Body:

#### Safety:

- Ireland has achieved the target level in all Management Objectives (MOs) since 2018.
- IAA achieved the target level for all MOs since 2016.
- Ireland and IAA have achieved the RP2 targets for the application of the Risk Classification Scheme since 2015 and remain above the targets since then.
- The occurrences reported show the normal fluctuations and were continuously below the Union-wide average over RP2. Rate of Runway Incursions (RIs) decreased over RP2.

#### Environment:

- Ireland contributed positively towards UK-Ireland FAB's actual horizontal flight efficiency environment targets (KEA) and the planned horizontal flight efficiency (KEP) targets were also achieved.
- Since Free Route Airspace (FRA) was introduced below FL245 in November 2017, KEA continued to improve.
- Terminal vertical flight efficiency improved as more flights completed fully continuous climb/descent at all three of Ireland's regulated airports in 2019 compared to 2015.
- On average, airspace users spent 9.69 additional minutes per flight taxiing out or in terminal airspace which is worse than 2018 and 2015. High additional taxi-out and holding times at Dublin airport are a result of infrastructure deficiencies at the aerodrome.

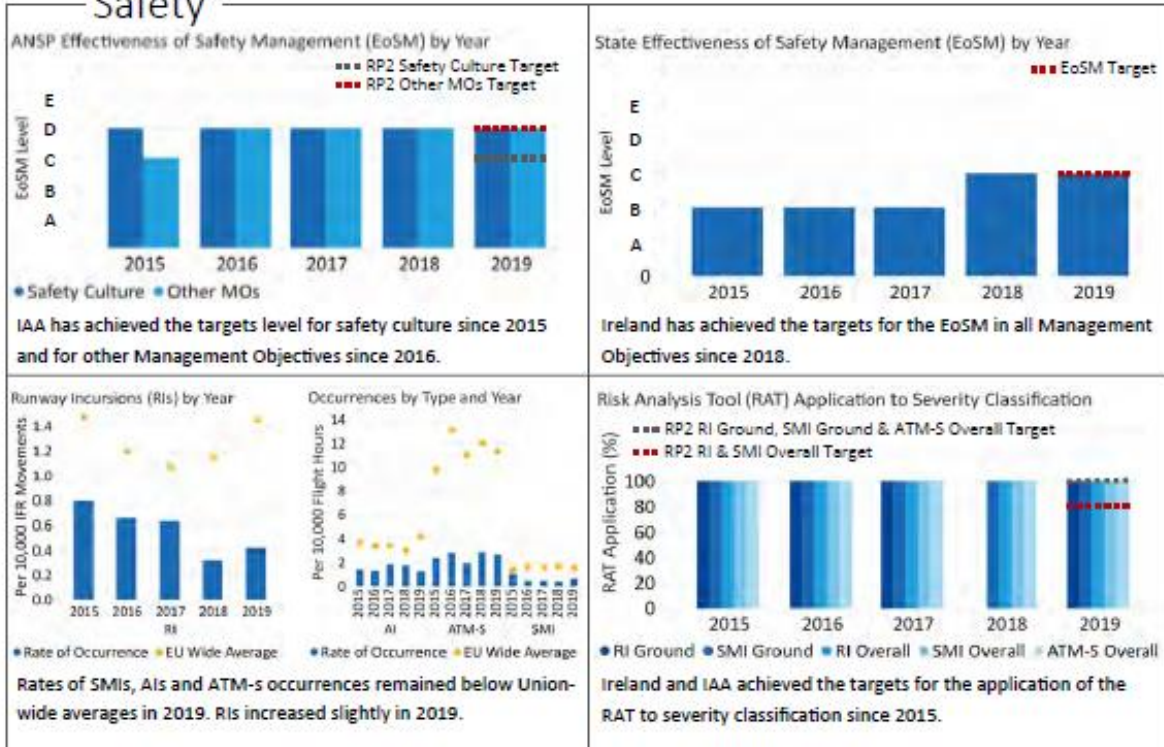
#### Capacity:

- Ireland contributed positively towards UK-Ireland FAB's en route Air Traffic Flow Management (ATFM) delay per flight targets in 2019 with effectively zero average ATFM delay per flight, remaining below both the FAB (0.26 minutes per flight) and national (0.14 minutes per flight) targets.
- The number of instrument flight rules (IFR) movements in 2019 was 2% higher than in 2018 and the evolution of IFR movements remained above the STATFOR high growth forecast throughout RP2.
- Average en route ATFM delay showed very slight increase during RP2 yet remained well below the target in 2019. 'Other' (63% of total delay) and ATC equipment (33% of total delay) were the main delay causes in 2019.

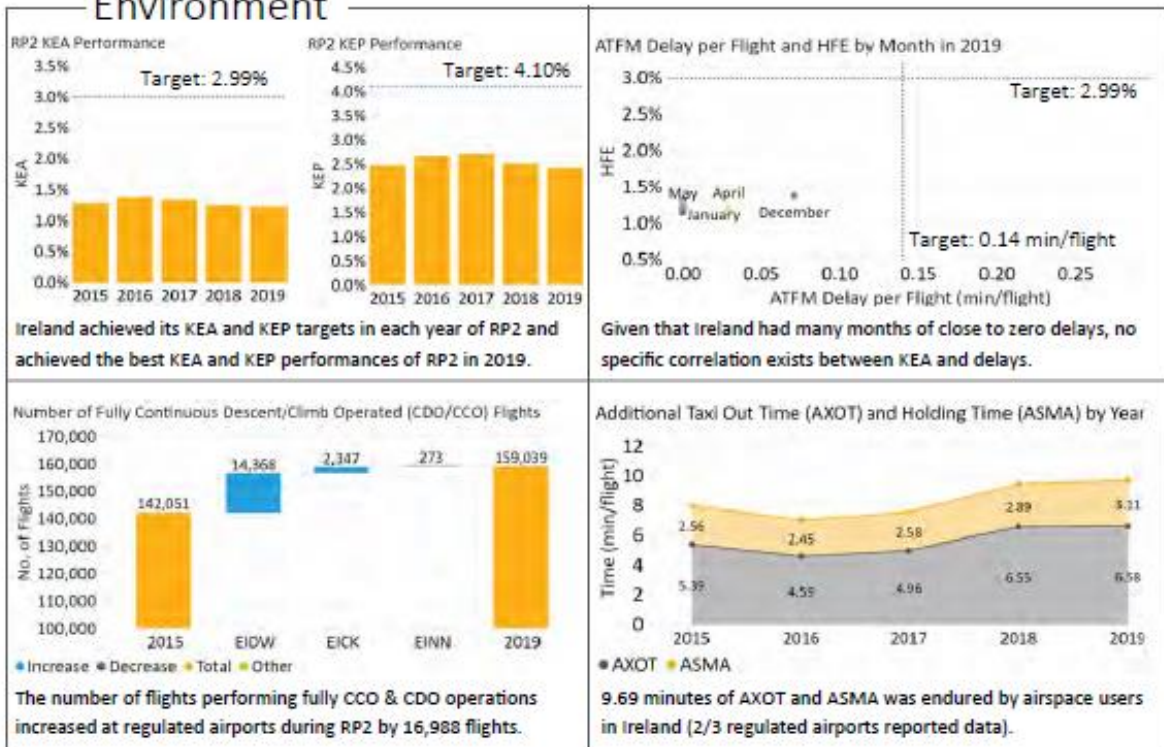
#### Cost-efficiency:

- Ireland achieved the en route cost-efficiency target in 2019 with the actual unit cost (23.69€<sub>2009</sub>) being lower than the determined unit cost (27.87€<sub>2009</sub>). Ireland achieved the en route cost-efficiency targets in each year of RP2.
- In 2019, en route actual costs were below the determined costs by -7.5%. The main driver of the difference has been the staff costs due to unforeseen retirements and late recruitment.
- In 2019, Ireland underspent -8M€<sub>2009</sub> in CAPEX (-64M€<sub>2009</sub> over RP2). Ireland did not invest around 60% of the planned amounts over RP2. The justification provided is that staff were redeployed from project development in order to manage traffic in operations.
- As a result of the underinvestment, in 2019 Ireland charged +7.6M€<sub>2009</sub> (+10.1M€<sub>2009</sub> over RP2) in cost of capital and depreciation for investments not materialised. It is imperative for Ireland to take into accounts these amounts when developing the RP3 performance plan.

## Safety

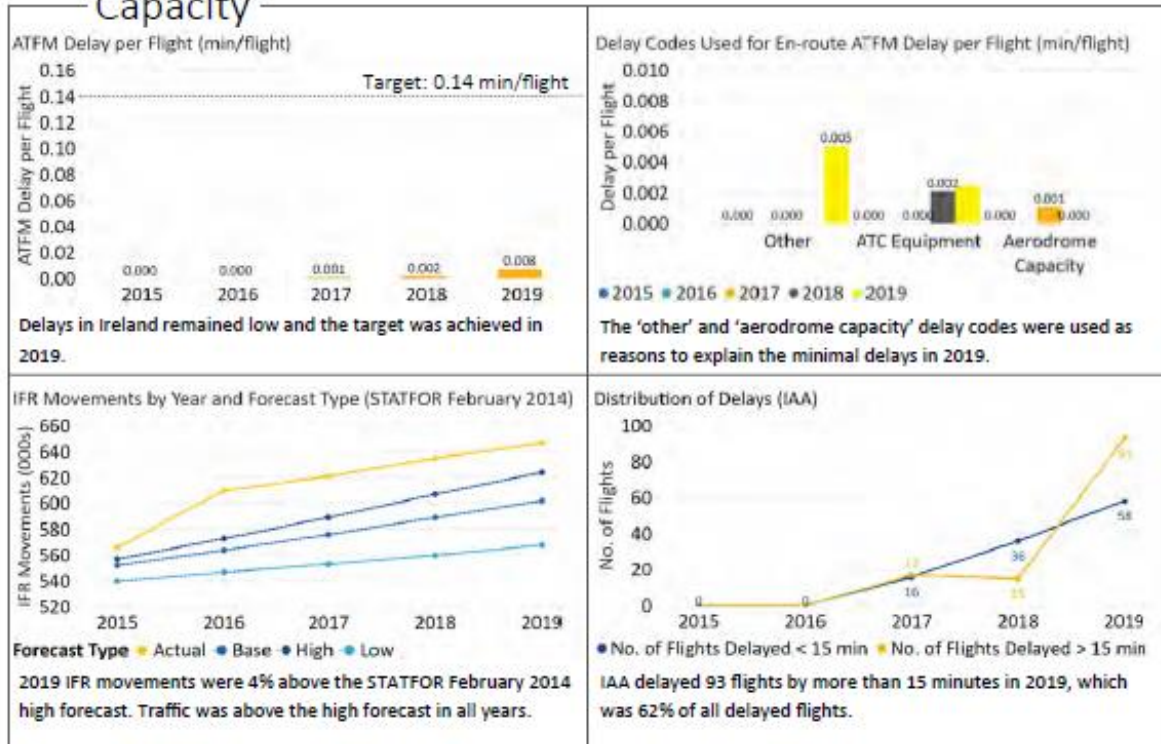


## Environment

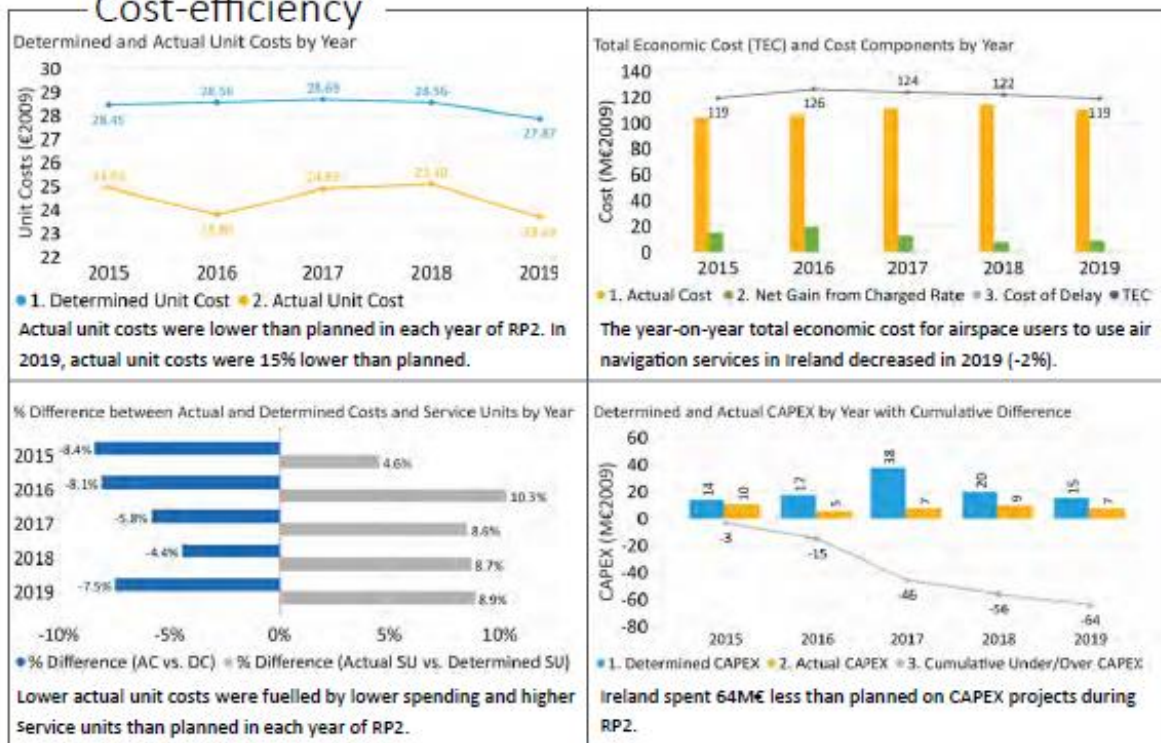




## Capacity



## Cost-efficiency



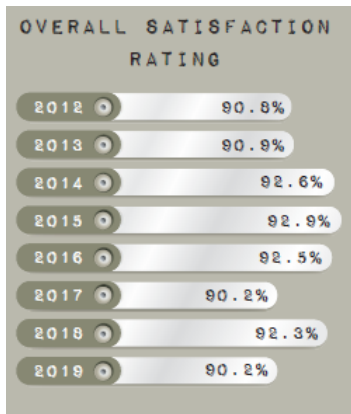
### Appendix 3: IAA ANSP Customer Feedback

IAA ANSP is keen to understand to what extent the NSAs have considered recent feedback from customers of IAA ANSP and whether an assessment has been done in terms of the impact on service delivery should a State Performance Plan be submitted to Europe on the basis of its current methodology.

It appears that during the revised RP3 Consultation, a small number of customers are noting that they are unwilling to pay high costs for the continuation. This places the burden of proof on the NSAs to demonstrate that the cost of no delay in Ireland is excessive but also to demonstrate that the costs of delay that will follow under its proposals do not exceed the benefits of those proposals.

Looking at customer satisfaction with the IAA ANSP through the lens of the 2019 independent online survey, as conducted by Brussels based consultancy, Schuman Associates. This survey was completed by 30 of the ANSP largest customers, responsible for 82% of total ATM revenues and 83% of flights in Irish airspace. 2019 was the last pre-COVID year with record levels of traffic across the IAA’s units.

- Average level of customer satisfaction in 2019 was 90.2%
- 97% of customers said that IAA ANSP offered excellent or very good customer service
- 87% of customers said that IAA ANSP offered excellent or very good levels of service delivery
- 63% of customers said that IAA ANSP offered excellent or very good value for money



Overall levels of customer satisfaction have been above 90% since 2012

The Schuman survey asked our customers to rank a number of service delivery features as most important to their business. The most popular feature was Low Level of Delay with Operational Resilience in 2<sup>nd</sup> place and Low User Charges in 3<sup>rd</sup>.



## 2019 Customer Feedback

The Schuman survey allowed our customers to submit comments and suggestions about what they thought of the ANSP and the services it provided. The following are a sample:

**Jet2.com** said *“Continue to recruit and train the required numbers of controllers to replace the retiring ones and to ensure continuity of supply so that the correct staffing levels can be maintained to manage the airspace in the most efficient way”*.

**easyJet** said *“Ensure robust staffing levels are maintained, service remains safe and value for money”*

**Air Transat** said *“Anything that helps us save time and hence money is appreciated”*

**Delta Airlines** said *“Continue good cost control and providing good value for those monies”*

**FedEx** said *“Keep doing what you’re doing!”*

**Lufthansa** said *“Lufthansa appreciates the very robust and reliable high-quality ATM service”*

**Ryanair** said *“The IAA has reduced Ryanair ATC delays by 15% vs 2018 (YTD) and in general been responsive to our needs in the past 12 months. Moreover, they have started to address some of the key issues highlighted by Ryanair operations team in 2019. Despite this is a good starting point, the IAA should keep investigating and ensure these issues are totally solved in 2020 (for example, excessive delays, inefficient RVP procedures and A-CDM failures).*

**Aer Lingus** said *“Reduce Taxi-out Times to Main Runways”*

**Swiss** said *“Environmental performance on track - intention to meet the targets as indicated in the performance plan. Zero Delay Performance during the last couple of years”*.

**British Airways** said *“The IAA continues to deliver a high levels of ATC service. Continue what you are doing”*.

**United Airlines** said *“All things of an operational nature, with assistance to our operation in all areas are good ... Keep on doing what you do. The service was very good/excellent”*.

## Additional Information

In 2020, having been advised about the IAA ANSP’s cost containment initiatives, Ryanair said *“We note the IAA’s deferral of student controller training programmes and the cost savings that this has generated. We trust that the IAA has done so in a manner that facilitates adequate staffing levels as the industry grows following Covid-19 to minimise controllable delays”*.

When discussing the integration of operations on the parallel runway in Dublin, Ryanair said it wanted to see *“reduced taxi times from those experienced in 2019, and a significant reduction in local ATC delays”*.

During a virtual meeting in 2020, Emirates said that the ANSPs must be supported so that they are ready for when the recovery starts.

In a virtual meeting in 2020, FedEx confirmed *“On time performance is the Number 1 priority”*

During a virtual meeting in 2021, ✂

The above feedback from 2020 and 2021, which was from outside the consultation process, indicates that our customers, and the European Commission, recognise that ANSPs must have sufficient ATCOs, ready to handle the traffic volumes when they return and that they recognise the benefits of an ATM service that does not impose delay on its customers.