

Consultation on Actual Air Navigation Services costs 2020/2021 and

Unit Rates for 2023

Commission Paper 2/2022 14 July 2022

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1. About this Consultation

- 1.1 The Commission for Aviation Regulation is Ireland's independent economic aviation regulator and was established in 2001. Since 1 January 2020, we have been designated as a National Supervisory Authority (NSA) in Ireland for economic regulation with responsibility for Cost Efficiency KPA under the performance and charging schemes of the Single European Sky.
- 1.2 In this document, we are consulting on three aspects required under Implementing Regulation (EU) 317/2019 ("the Regulation") laying down the current performance and charging scheme. The three aspects of the consultation are:
 - the actual costs incurred in the period 2020-2021 associated with the provision of En Route services, and Terminal air navigation services in Ireland at the State Airports Dublin, Cork, and Shannon;
 - the intended unit rates for 2023 of En Route and Terminal services;
 - the costs exempt from the cost risk sharing mechanism relating to 2020/2021.
- 1.3 The consultation consists of two steps. First, a video conference meeting on 4 August 2022 from 14:00 17:00 (Irish Standard Time (IST)). Second, we are seeking written feedback or comments in relation to the 2020/2021 actual costs and the intended 2023 Unit Rates by 11 August 2022. Written feedback should be sent to info@aviationreg.ie. We may correspond with those who make submissions, seeking clarification or explanation of their submissions.
- 1.4 Respondents should be aware that we are subject to the provisions of the Freedom of Information legislation. Ordinarily we place all submissions received on our website¹. If a submission contains confidential material, it should be clearly marked as confidential and a redacted version suitable for publication should also be provided.
- 1.5 We do not ordinarily edit submissions. Any party making a submission has sole responsibility for its contents and indemnifies us in relation to any loss or damage of whatever nature and howsoever arising suffered by us as a result of publishing or disseminating the information contained within the submission.
- 1.6 In preparing this consultation, we:
 - obtained from all relevant parties the actual 2021 detail cost data which, in combination with the actual cost data from 2020, allows us to compare actual costs with determined costs for the combined-year regulatory period 2020-2021.
 - Assessed the drivers of any differences between determined and actual costs for 2020-2021.

¹ While we endeavour to ensure that information on our website is up to date and accurate, we accept no responsibility in relation to the accuracy or completeness of our website and expressly exclude any warranty or representations as to its accuracy or completeness.

- verified the correct calculation of the intended 2023 unit rates for all parties based on the determined costs and the adjustments carried over from previous years.
- verified the correct application of the cost risk sharing mechanism during 2021.
- 1.7 Following this consultation, the 'Costs Exempt' submission will be provided to the European Commission by 1 September. The final Unit Rates and Determined Costs tables will then be submitted to the CRCO ahead of the Enlarged Committee on Route Charges in November.
- 1.8 This document is organised as follows, Section 2 will provide background information and context on the RP3 plan, Section 3 will give an overview of the actual costs, and Section 4 will detail the intended 2023 Unit Rates.

2. Background

- 2.1 In November 2020, in response to the impact of Covid-19 on Air Navigation Provision, Commission Implementing Regulation (EU) 2020/1627 was passed. This legislation contained exceptional measures in response to the impact of COVID-19 and a revised timeline for the submission of updated RP3 performance plans. It also determined that:
 - Cost efficiency targets should cover determined costs for 2020 and 2021 as a single period.
 - Unit rate adjustments from 2020-2021 arising from the late adoption of Performance Plans should be spread over a period of 5 calendar years, though NSAs may extend this to 7 calendar years where necessary to avoid a disproportionate effect of the carry-overs on the unit rates charged to airspace users.
 - Incentive schemes shall cover only the calendar years 2022 to 2024, and that the
 incentive schemes shall produce financial effects in the form of carry-overs and
 subsequent unit rate adjustments only as from the first year following the
 adoption of the performance plan.
- 2.2 Revised Business Plans and investment plans were thus developed by the regulated entities in the first half of 2021. A cost submission in relation to the proposed NSA costs was also provided. These were assessed by the NSA, which then published a consultation on a proposed revised Performance Plan in July 2021.
- 2.3 Following conclusion of the consultation period, the revised RP3 Performance Plan was submitted in October 2021. Following a further adjustment to the Environment KPA targets, in April 2022 the European Commission assessed that the Performance Plan was consistent with the Union-wide targets.
- 2.4 The Performance Plan targets align with the union wide targets for the Environment KPA (1.13% for 2021 to 2024), and for the Capacity KPA, which has targets of 0.01 ATFM delay minutes per flight in 2021 and 0.03 in 2022 to 2024 for En Route, and targets of 0.25 minutes in 2021 and 0.20 in 2022 to 2024 for Terminal.
- 2.5 The Performance Plan outperforms the Union wide targets for Cost efficiency. The weighted average (WA) En Route Determined Unit Cost (DUC) for RP3 is 1.9% lower than the equivalent value implied by the En Route Union-wide DUC target. The Performance Plan also plans to meet the Safety KPA targets in each year of the period.
- 2.6 The Final Performance Plan was adopted by the Member State in May 2022.
- 2.7 As part of the consultation on updating the Performance Plan, the NSA decided that:
 - The Unit Rate adjustments for 2020-2021 would be spread over 7 years rather than 5, to spread the effect of the carry-overs on the unit rates.
 - Allowable changes in actual capital costs of investments compared to determined costs would be adjusted for on a net basis through the RP4

Performance Plan, rather than on an n+2 basis. Updates on the progress of the IAA ANSP's investment programme would be published biannually.²

2.8 All of this material is available on the Commission's website.3

 $^{^2\} The\ first\ update\ is\ here:\ \underline{https://www.aviationreg.ie/regulatory-reporting/iaa-ansp-capital-expenditure-monitoring.1091.html}$ $^3\ \underline{https://www.aviationreg.ie/air-navigation-charges/performance-plan-with-revised-targets-for-rp3.1002.html}$

3. Summary of Actual Costs Incurred in 2020-2021

- 3.1 In this section we consult on the actual costs of air navigation services incurred in 2021 and the difference between the final actual and the determined costs contained in the RP3 performance plan⁴ for the combined regulatory period 2020/2021. This is required under Article 24 (3) of the Regulation.
- 3.2 We have verified the eligibility of the cost categories included for En Route and Terminal services. These are aligned to the categories used for the Determined Costs in the Performance Plan. En Route services cover air navigation in the Shannon Flight Information and Upper Information Regions (FIR/UIR) and exclude the Shanwick Oceanic airspace. Terminal services cover air navigation during approach, landing, take-off and departure provided at Dublin, Cork and Shannon airports.
- 3.3 In real terms (2017 prices)⁵, the total actual costs in 2020-2021 were 1.3% lower for En Route services and 2.8% lower for Terminal services than the real determined costs in the RP3 plan. Actual unit costs were below the determined unit costs by 3.7% for En Route and 6% for Terminal.
- 3.4 Below, we lay out the En Route and Terminal costs by entity in nominal terms.

En Route Costs

3.5 In nominal terms, total actual En Route costs in 2020-2021 were €205.1m, which is €2.2m below the determined costs of €207.3m.

IAA ANSP

- 3.6 The actual IAA ANSP costs of €167.2m represent 82% of the total actual costs and were 1.3% lower than determined costs. This was driven primarily by actual Other Operating costs, which were 9.3% lower than determined costs, due to reductions made in response to Covid-19, which ultimately proved to be more substantial than the benchmark comparators which the NSA used to set the Determined Costs for 2020/2021.
- 3.7 This was offset by Staff Costs being 1.5% higher than determined. Following the beginning of the recovery in air traffic levels towards the end of 2021, the ANSP unwound some of the cost containment measures before the end of the year, leading to higher staff costs relative to the Performance Plan assumption that these would continue to the end of 2021.
- 3.8 Overall, IAA ANSP operating costs were 1.8% lower than determined.
- 3.9 Depreciation costs were very close to the determined figure, with a variance of less than €0.065m. The actual cost of capital is reported as a higher figure than the determined figure, given that the 2020 figure was reported before the NSA re-set the

⁴ Article 2 of the Regulation defines actual cost as "a cost actually incurred in a calendar year for the provision of air navigation services which are subject to certified accounts or, in the absence of such certified accounts, subject to a final audit". Determined costs are the cost base for en route and terminal charges established according to the Regulation prior to the start of each reference period, as part of the performance plans.

⁵ Noting that, as per the Regulation, capital costs are not converted to real prices.

WACC through the RP3 Performance Plan in 2021.

Met Eireann ASD

- 3.10 Met Éireann actual costs of €13.7m represent 6.7% of total ANS actual costs and were 4.3% (€0.6m) higher than determined costs. This was driven primarily by higher than determined staff costs in 2020/2021, which MET has stated is due to its determined costs being calculated based on mid points of salary scales (as per the Business Plan submitted to the NSA), while the actual costs are calculated based on the true points on the salary scale for each relevant staff member. MET ASD currently has a high number of senior staff occupying advanced positions on the scales.
- 3.11 It should also be noted that actual Exceptional Items costs were 4.6% lower than determined, due to the final contribution to EUMETSAT for 2021 being lower than estimated. Other cost lines were in line with the determined costs.

NSA/State/Eurocontrol

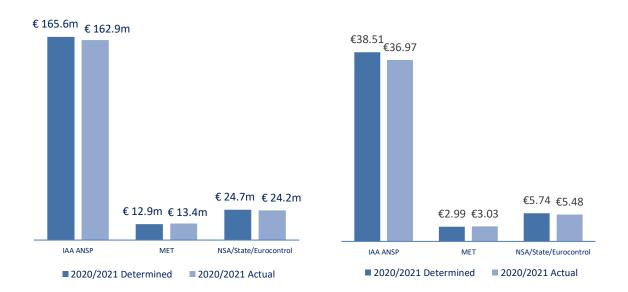
- 3.12 The actual NSA/State/EUROCONTROL costs of €24.2m represent 12% of the total actual costs and were 2.1% lower than determined costs. This was primarily driven by EUROCONTROL costs for 2021 being €0.5m less than determined.
- 3.13 State costs for 2020-2021 were in line with determined costs. NSA costs, overall, were marginally higher (€0.01m) than determined. Within the NSA cost base, staff costs were €0.1m higher than forecast, which is also linked to the early unwinding of cost saving measures within the IAA.
- 3.14 Finally, it should be noted that for the 'detail by service' section of the reporting tables, the actual costs for 2021 have been reported as follows:
 - All NSA costs (both CAR and IAA SRD) are reported as 'Supervision Costs'.
 - State Policy Costs incurred by the Department of Transport and EUROCONTROL are reported as 'Other State Costs'.
- 3.15 We consider this to be the most appropriate categorisation by service. However, in the determined costs, a proportion of NSA costs were included within 'Other State Costs'. This explains the decrease in 'Other State' costs, and corresponding increase in 'Supervision Costs' between actual and determined costs in 2021. This does not affect the total amount of eligible NSA/State/EUROCONTROL costs which were included in the Performance Plan.

Unit costs

- 3.16 Actual 2020-2021 unit costs, in real terms, were €45.48, which is 3.7% (€1.77) lower than the determined unit costs. Unit costs were lower in part because actual service units of 4.4m were 2.5% higher than the forecast service units for 2020-2021 of 4.3m.
- 3.17 Charts 1 and 2 below show the real actual and determined En Route unit costs for each party in 2020/2021.

Chart 3.1: 2020-2021 Actual and Determined En route

Chart 3.2: 2020-2021 Actual and Determined En route Unit Costs



Source: Reported costs in real terms (2017 prices) based on financial data from ANSP, CAR, IAA SRD and Met Éireann.

Terminal Costs

3.18 In nominal terms, total Terminal costs in 2020-2021 were €39.7m which is €1m lower than the 2020-2021 determined costs of €40.7m. Chart 3 below shows the real actual and determined terminal total costs for each party in 2021.

ANSP

- 3.19 The actual ANSP costs of €34.3m represent 86% of the total ANS actual costs and were 3.4% lower than the determined costs.
- 3.20 Actual staff costs across the period were 5.4% higher than determined, while actual operating costs were 8.3% lower. The reasons are similar to those for En-Route, namely the early unwinding of cost savings measures in relation to staff costs, and outperformance of the benchmarked cost savings target specified by the NSA in the Performance Plan. Overall, actual operating costs were within €0.05m of determined operating costs.
- 3.21 Depreciation and Cost of Capital were lower than determined. This was primarily due to a variance in the timing of the capitalisation of the new visual control tower at Dublin Airport. The depreciation profile for this asset assumed capitalisation in July 2021, however this was subsequently delayed until November 2021.

MET ASD

3.22 The actual costs of Met Éireann ASD of €3.4m represent 8.6% of total actual ANS costs and were 4.3% higher than determined costs. This difference was driven primarily by

higher than determined staff costs, for the same reason described above in the En Route section. It should again be noted that METs actual Exceptional costs were lower (by 4.5%) than determined, due to the final contribution to EUMETSAT for 2021 being lower than estimated.

NSA/State Costs

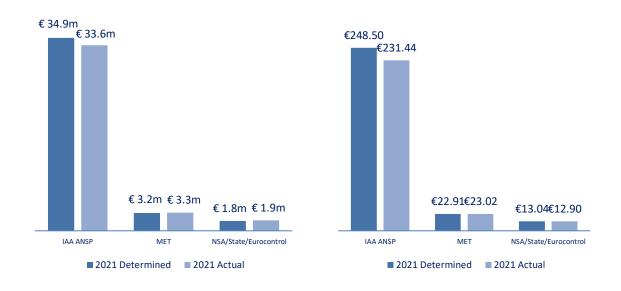
3.23 The actual NSA and State costs of €1.9m represent 4.7% of the Terminal ANS costs and were 2% (or €0.05m) higher than determined costs for 2020/2021. This was similarly driven by the early unwinding of staff cost saving measures within IAA NSA.

Unit costs

3.24 Actual 2020-2021 unit costs, in real terms, of €267.36 were 6% lower than the 2020-2021 determined unit costs of €284.45. Unit costs were lower in part because actual service units of 145.2k was higher than the October 2021 forecast of 140.5k.

Chart 3.3: 2020-2021 actual and determined Chart 3.4: 2020-2021 actual and determined terminal total costs

terminal unit costs



Source: Reported costs in real terms (2017 prices) based on financial data from ANSP, CAR, IAA SRD and Met Éireann

Costs Exempt

- 3.25 This section sets out further detail on potential costs exempt from risk sharing. This must be reported to the European Commission by 1 September, and is ultimately reflected in the Unit Rates across the seven year recovery period for 2020-2021 under recovery. These categories, reported in nominal terms below, are:
 - Investments
 - Pensions costs
 - NSA/State/EUROCONTROL costs

Interest Rates

Investments

- 3.26 For En Route, actual ANSP depreciation costs of €13.9m is aligned to the determined depreciation costs of €13.9m. Actual cost of capital of €4.2m was higher than the determined Cost of Capital costs of €3.6m, because of the revision to the allowed WACC for both 2020 and 2021 as part of the Performance Plan developed in 2021. Differences between actual and determined capital costs arising from changes to the Capex delivery profile will be reconciled at the end of the period.
- 3.27 For Terminal, actual ANSP depreciation costs were 12.4% lower than determined costs, at €5.2m. The principal reason for the variance is the timing of capitalisation of the IAA's new visual control tower at Dublin airport. The Performance Plan assumed that the Tower would be operational in July 2021. The actual operational date was then delayed until November 2021. Actual Cost of Capital of €1.7m was lower than the determined costs of €2.2m. This was largely due to the same reason.

Table 3.1: IAA ANSP actual vs determined Capital Costs for 2020/2021

	Determined (€m)	Actual (€m)
En Route Depreciation	13.9	13.9
Terminal Depreciation	5.9	5.2
En Route Cost of Capital	3.6	4.2
Terminal Cost of Capital	2.2	1.7

Source: IAA ANSP, CAR Calculations

3.28 For En Route, MET ASD actual depreciation of €0.9m for 2020-2021 is equal to determined costs. Similarly for Terminal, actual depreciation of €0.2m for 2020-2021 is equal to determined costs. No cost of capital is charged in relation to MET ASD assets.

Table 3.2: MET ASD actual vs determined Capital Costs for 2020/2021

	Determined (€m)	Actual (€m)
En Route Depreciation	0.9	0.9
Terminal Depreciation	0.2	0.2

Source: MET ASD, CAR Calculations

- 3.29 The difference between actual and determined costs will, where allowable, be adjusted for as part of the RP4 planning process. We will adjust capital costs for the actual profile of capitalisations compared to planned. However, there will be no adjustment for the 2020 actuals being reported on the basis of a higher WACC, before this was re-set to 4% (real) in the revised Performance Plan.
- 3.30 The ANSP is currently progressing its Capital Investment Plan 2020-2024. The three largest projects in the plan, the New Tower Building, the New Tower equipment and fit-out, and the New En Route Contingency Centre were all delivered by the end of 2021.
- 3.31 However, delivery of three of the largest remaining projects has been rescheduled by

- up to a year, these are: COOPANS 2019 Roadmap builds (Q4 2024 instead of Q4 2023), EASDS (Q1 2024 instead of Q2 2023), and New Dublin Radar Replacement (Q4 2023 instead of Q4 2022).
- 3.32 In the development of the Performance Plan, the NSA considered that the planned timeline for the delivery of investments was ambitious and would likely not be met in full. Thus, the capital cost remuneration assumption in the Performance Plan is that 80%, rather than 100%, of the forward programme will be delivered to the planned timeline set out in the update on the delivery of investments.

Pensions Costs

- 3.33 Article 28(3)(c) provides that 'unforeseen and significant changes in pension costs established in accordance with Article 22(4) resulting from unforeseeable changes in national pensions law, pensions accounting law or unforeseeable changes in financial market conditions.'
- 3.34 No such changes have been reported for assessment by the NSA, thus no adjustment is included.
- 3.35 IAA ANSP actual En Route pension costs were €22.1m, slightly higher than the determined pension costs of €21.9m, which is consistent with staff costs being slightly higher than determined. Actual Terminal pension costs were €3.7m, also slightly higher than the determined pension costs of €3.6m.
- 3.36 MET ASD actual En Route pension costs were €0.62m, higher than the determined pension costs of €0.56m, which again links to the staff costs being higher than determined. Actual Terminal pension costs were €0.15m, slightly higher than the determined pension costs of €0.14m.

NSA/State/Eurocontrol Costs

3.37 En Route NSA/State/EUROCONTROL costs for 2020-2021 are €0.5m lower than planned, due to EUROCONTROL costs being significantly lower than provided. This was somewhat offset by NSA costs overall being slightly higher than planned. As set out above, this is due to staff costs in 2021 being €0.1m higher for En Route and €0.04m higher for Terminal.

Table 3.3: Variation in NSA/State/EUROCONTROL Costs

	Determined (€m)	Actual (€m)
Eurocontrol costs	14.5	14.0
Staff costs	3.2	3.3

Source: IAA SRD, CAR, CAR Calculations

Interest Rate on loans

3.38 This is not applicable and no amounts have been proposed to the NSA for assessment.

4. Summary of the Calculation of Intended 2023 Unit Rates

4.1 In this section we consult on the intended 2023 Unit Rates. This is required under Article 30 of the Regulation.

En Route

- 4.2 The intended 2023 unit rate for En Route services is €26.37. This is down 9.5% from the 2022 unit rate of €29.15. This rate is approximately €0.04 lower per unit than would have been the case had adjustments not been applied to the total determined costs for En Route for 2023. The adjustments are defined in the Regulation and serve to reduce the nominal determined costs by approximately €0.2m, before the Unit Rate is calculated. Below we explain the calculation of the unit rate.
- 4.3 Row 11 of Table 4.1 shows that the total costs applicable for the En Route unit rate calculation are €128.8m after adjustments. They are 0.2% lower than the determined costs calculated for 2023, as shown in Row 1 (€129m). Rows 2 to 10 show the applicable adjustments. The adjustments are in two opposing directions, the first set, as laid out in rows 2 to 9, are adjustments caried forward from RP2 to be spread across RP3. The largest of these adjustments is in Row 7 and is largely related to the higher-than-expected traffic growth between 2015 and 2019.
- 4.4 The IAA ANSP has also included in its submitted adjustments the return of capital costs collected in RP2 associated with unspent Capex. The value in the 2023 rate is €0.9 million for the return unspent capex relating to the year 2019 for En Route. The IAA ANSP intends to return such capital costs to airspace users over 7 years commencing in 2023.
- 4.5 The second set is contained solely in row 10. This figure is related to the recovery of losses resulting from the Covid-19 emergency measures and which will be spread over a seven-year period. Overall, these adjustments therefore almost cancel each other out and the Unit Rate for 2023 closely reflects the 2023 Determined Costs divided by the forecast Service Units.

Table 4.1: Applicable En route Unit Rate for 2023

	Total	ANSP	MET	NSA/State
1. Determined costs in nominal terms - VFR excl. (Art. 25(2)(a))	€129m	€107.2m	€7.3m	€14.5m
2. Inflation adjustment: amount carried over to year n (Art. 25(2)(b))	€0.6m	€0.6m	€0.05m	-
3. Traffic risk sharing adjustment: amounts carried over to year n (Art. 25(2)(c))	-€0.6m	-€0.6m	-	-
4. Differences in costs as per Art. 28(4) to (6): amounts carried over to year n (Art. 25(2)(d))	-€0.5m	-	-	-€0.5m
5. Financial incentives: amounts carried over to year n (Art. 25(2)(e))	-	-	-	-
6. Modulation of charges: amounts carried over to year n (Art. 25(2)(f))	-	-	-	-
7. Traffic adjustments: amounts carried over to year n (Art. 25(2)(g) and (h))	-€8.2m	-€4.4m	-€0.8m	-€2.9m
8. Other revenues (Art. 25(2)(i))	-€1.4m	-€1.4m	-	-

 Cross-financing between charging zones (Art. 25(2)(j)) 	-	-	-	-
10. Difference in revenue from temporary application of unit rate (Art. 25(2)(k))	€9.8m	€7.4m	€1.1m	€1.4m
11. Grand total for the calculation of year n unit rate	€128.8m	€108.7m	€7.6m	€12.4m
12. Forecast total service units for year n (performance plan)	4.9m	4.9m	4.9m	4.9m
13. Applicable unit rate for year n	€26.37	€22.27	€1.56	€2.55

Source: Reported En Route tables based on costs as per financial data from ANSP, CAR, IAA SRD, and Met Éireann.

Terminal

- 4.6 The intended 2023 Unit Rate for Terminal services is €162.85. This is up 11% from the 2022 Unit Rate of €146.49. This Unit Rate is €0.38 lower than would have been the case had adjustments not been applied to the total determined costs for the Unit Rate calculation. The adjustments are defined in the Regulation and serve to reduce the nominal determined costs by approximately €2.2m, before the Unit Rate is calculated. Below we explain the calculation of the unit rate.
- 4.7 As with Table 4.1, row 11 of Table 4.2 shows that the total costs applicable for the Terminal unit rate calculation are €28.6m after adjustments. This is 7.1% lower than the determined costs calculated for 2023, as shown in Row 1 (€30.8m). Rows 2 to 10 show the applicable adjustments. The adjustments are in two opposing directions, the first set, as laid out in rows 2 to 9, are adjustments caried forward from RP2 to be spread across RP3. The largest of these adjustments is in Row 7 and is explained by higher-than-expected traffic growth between 2015 and 2019.
- 4.8 Like for En Route, the IAA ANSP has reported a downward adjustment for the return of capital costs associated with unspent Capex relating to RP2. The value of this in the 2023 Unit Rate calculation is €0.5 million.
- 4.9 The figure in Row 10 is related to the recovery of losses resulting from the Covid-19 emergency measures and which will be spread over a seven-year period.

Table 4.2: Applicable Terminal Unit Rate for 2023

	Total	ANSP	MET	NSA/State
1. Determined costs in nominal terms - VFR excl. (Art. 25(2)(a))	€30.8m	€27.7m	€1.8m	€1.3m
2. Inflation adjustment: amount carried over to year n (Art. 25(2)(b))	€0.1m	€0.1m	€0.01m	-
3. Traffic risk sharing adjustment: amounts carried over to year n (Art. 25(2)(c))	-€0.3m	-€0.3m	-	-
4. Differences in costs as per Art. 28(4) to (6): amounts carried over to year n (Art. 25(2)(d))	€0.04m	-	-	-
5. Financial incentives: amounts carried over to year n (Art. 25(2)(e))	-	-	-	-
6. Modulation of charges: amounts carried over to year n (Art. 25(2)(f))	-	-	-	-
7. Traffic adjustments: amounts carried over to year n (Art. 25(2)(g) and (h))	-€3.2m	-€2.7m	-€0.4m	-
8. Other revenues (Art. 25(2)(i))	-€0.7m	-€0.7m	-	-

 Cross-financing between charging zones (Art. 25(2)(j)) 	-	-	-	-
10. Difference in revenue from temporary application of unit rate (Art. 25(2)(k))	€1.8m	€1.3m	€0.3m	€0.2m
11. Grand total for the calculation of year n unit rate	€28.6m	€25.4m	€1.8m	€1.4m
12. Forecast total service units for year n (performance plan)	175.4m	175.4m	175.4m	175.4m
13. Applicable unit rate for year n	€162.85	€144.90	€10.24	€7.71

Source: Reported terminal tables based on costs as per financial data from ANSP, CAR, IAA SRD and Met Éireann.