

Consultation:

Work Plan

**to Establish an Irish Performance Plan Containing Revised Targets
for the Third Reference Period 2020-2024 ('RP3')**

due 1 October 2021

Commission Paper 10/2020

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Commission for Aviation Regulation

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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.
- 1.2 From 1 January 2020, we have been designated as a National Supervisory Authority (NSA) in Ireland for economic regulation under the performance and charging schemes of the Single European Sky.
- 1.3 In this document, we are consulting with stakeholders on our work plan ahead of Ireland’s submission to the European Commission of a revised performance plan for Reference Period 3 by 1 October 2021. Our work plan focuses on the key performance area of cost-efficiency and has regard to the key areas of safety, capacity and environment.¹
- 1.4 Our proposed work plan follows the provisions set out in “*Commission Implementing Regulation (EU) 2020/1627 of 3 November 2020 on exceptional measures for the third reference period (2020-2024) of the single European sky performance and charging scheme due to the COVID-19 pandemic*”.²
- 1.5 We are seeking your feedback on the timeline and methodologies in our work plan by **20 November 2020**. For details on how to respond to this consultation, see paragraphs 1.12 and 1.13 in this section.
- 1.6 By 15 December 2020 we propose to publish:
- Initial cost data and information about traffic forecasts covering RP3 as per Article 2 of the exceptional measures.
 - A report by the Irish air navigation service provider (IAA ANSP) on its response measures to Covid-19 planned and implemented in 2020 and 2021 as per Article 6.
- 1.7 By the same date, we will submit the above information to the European Commission to support the setting of revised EU-wide targets.
- 1.8 Between November 2020 and September 2021, we propose to assess the local cost-efficiency targets for Ireland’s revised draft RP3 performance plan. Our assessment will follow the methodologies set out in Section 3 of this document.
- 1.9 Between December and June, we propose to organise workshops with stakeholders where we and our external consultants will present and discuss any findings at various stages during the assessment.
- 1.10 In August 2021, we propose to consult with stakeholders on the cost-efficiency targets of the revised draft RP3 plan. As required in Article 24 of Regulation 2019/317, we will provide the required information to stakeholders and to the European Commission at

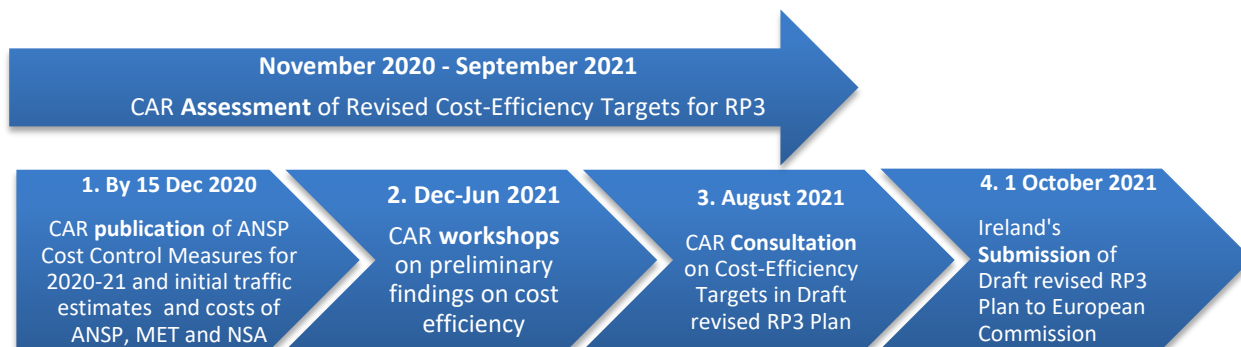
¹ The Safety Regulation Division of the Irish Aviation Authority (IAA SRD) was the NSA for economic regulation up to 2019 and remains as the NSA for all other non-economic regulatory and oversight tasks under the performance scheme.

² eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1627&qid=1604477086805&from=EN

least three weeks before the consultation.³

- 1.11 The consultation on cost-efficiency targets of the revised draft RP3 plan will follow the adoption of revised EU-wide RP3 targets scheduled by 1 May 2021 and is timely ahead of our 1 October 2021 deadline to submit the revised draft plan for Ireland. We summarise the high-level timeline of our work plan in Chart 1.1.

Chart 1.1: High-Level Timeline of our Work Plan



- 1.12 We are seeking written feedback from stakeholders in relation to the timeline and methodologies of our work plan set out in Sections 2 and 3 by **20 November 2020**. Written feedback should be sent to info@aviationreg.ie. We may correspond with stakeholders who make submissions, seeking clarification or explanation of their submissions.
- 1.13 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 website. If a submission contains confidential material, it should be clearly marked as confidential and a redacted version suitable for publication should also be provided. 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.
- 1.14 We will use the feedback from stakeholders to decide on our final work plan. We will publish a decision on our final work plan by 1 December 2020.
- 1.15 The following section consults on the proposed timeline of our work plan which considers the rules and procedures set out by the European Commission in Regulation 2020/1627. Section 3 consults on the proposed methodologies for our cost-efficiency assessment.

³ eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0317&from=EN

2. Proposed Timeline

2.1 In this section we consult on the timeline of our work plan.

15 Dec 2020: Publication of Initial Traffic Forecast and Initial Cost Estimates

2.2 We propose to publish on our website the following information:

- Initial information about traffic forecasts and initial cost data of the Irish air navigation service provider (IAA ANSP), Meteorological services (MET) and NSAs (CAR and SRD) covering RP3, as per Article 2 of Regulation 2020/1627.
- a report by the IAA ANSP on its response measures to Covid-19 planned and implemented in 2020 and 2021, as per Article 6 of Regulation 2020/1627.

2.3 The response measures taken and planned by the ANSPs need to be transparently communicated to stakeholders and should be subject to appropriate monitoring. Early transparency is key to allow for a meaningful engagement with stakeholders and to inform our NSA assessment.

2.4 The publication date coincides with our deadline for submission of this information to the European Commission by 15 December 2020. This information will support the work of the European Commission on the preparation of revised EU-wide targets and our work on the preparation of local targets.

November 2020 to September 2021: CAR Assessment

2.5 Between November 2020 and September 2021, we will review the unit cost level and trend for 2020-2024, including establishing reasonable expectations on cost control measures implemented and planned by the IAA ANSP in response to Covid-19. We will assess the cost base of ANSP, MET and the NSAs (CAR and the Irish Aviation Authority Safety Regulation Division -IAA SRD-). We note that the ANSP accounted for 90% of terminal costs and 83% of en route costs in 2019.

December 2020 to June 2021: Stakeholder Workshops on Preliminary Findings

2.6 Between December 2020 and June 2021, we propose to organise workshops with stakeholders on our preliminary findings on cost efficiency, and on the draft business and investment plans of the ANSP and MET.

2.7 We expect the ANSP and MET to provide:

- draft investment plans for our assessment during Q1 2021,
- draft business plans for our assessment in April 2021 following the publication of draft EU-wide targets in March 2021 and
- final investment and business plans in early June 2021 which take account of stakeholder feedback received from the workshops and the Union-wide targets as adopted by 1 May 2021.

August 2021: Consultation of Revised Cost-efficiency Targets in Draft RP3 Plan

- 2.8 In August 2021, we plan to consult with stakeholders on the proposed revised cost-efficiency targets for the Draft RP3 Plan, which include the determined costs of the IAA ANSP, MET and NSAs (CAR and IAA SRD). Our proposed targets for consultation will have regard to the information provided by the ANSP, MET and NSAs, the initial feedback from stakeholders received to date, the assessment of our consultants and our own assessment.
- 2.9 A consultation in August is timely to meet the 1 October 2021 deadline for Ireland to submit the draft RP3 plan to the European Commission. In September, we will finalise the revised cost-efficiency targets in the draft RP3 plan, having considered the stakeholder feedback received in August 2021.
- 2.10 We will circulate the consultation documents to stakeholders at the end of July 2021, at least three weeks in advance of the deadline for written responses. This timeline is as required under Article 24 of Implementing Regulation 2019/317.
- 2.11 Chart 2.2 summarises the proposed timeline of the consultation in August 2021 on the cost-efficiency area of the revised draft RP3 plan.

Chart 2.2: Proposed Timeline of Consultation on Cost-Efficiency Area of the Revised Draft RP3 Plan



- 2.12 We invite the views of stakeholders on the timeline and scope of our workshops and the consultation in August 2021.
- 2.13 In Section 3 we propose suitable methodologies for our assessment. We will engage external consultants to carry out some aspects of the cost assessments.

3. Proposed Methodologies for our Assessment

3.1 In this section we are consulting on the proposed methodologies of our assessment of revised cost-efficiency targets. Our assessment will take place between November 2020 and September 2021. First, we outline the purpose and considerations of our assessment and then detail the methodologies for each aspect of the cost-efficiency assessment.

Purpose and Considerations of our Assessment

3.2 The purpose of the review is to define a unit cost level and trend for the ANSP rather than to specify or recommend how the ANSP should operate its businesses.

3.3 In determining the unit cost level and trend from 2020-2024, we will consider the appropriate level of costs for 2020 and 2021 and then the drivers of costs with respect to traffic for the rest of the period.

3.4 When reviewing the cost-control measures of the ANSP, we will assess whether it took practical and achievable steps in 2020 and 2021 in response to Covid-19 in respect of:

- reviewing existing and new operating costs, resulting in an efficient level in a timely manner.
- reassessing the need for all capital expenditure, assessing if projects are still required, could be delayed or re-sized and keeping such costs to an efficient level.

3.5 In assessing cost efficiency, we will be mindful of (among other criteria):

- The safe operation of the ATM system; and
- The need to maintain ANS services and capabilities, and to be able to ramp up, efficiently and in a timely manner, when the recovery occurs.

3.6 Working with the IAA SRD, we will consider the interrelation among the performance targets of cost efficiency, safety, capacity and the environment. We will work with the IAA SRD-NSA in line with the Memorandum of Understanding (MOU) that we have in place. Under this framework, CAR and the IAA SRD will work together to effectively and efficiently achieve their respective goals and tasks under their respective NSA roles.

3.7 We will review the aspects below related to the cost efficiency performance area.

Cost Eligibility and Allocation

- 3.8 We will assess the justification of the criteria and methodology used for the allocation of costs between:
- Regulated and non-regulated activities (that is the eligibility of determined costs).
 - En route and terminal services within the regulated activities, in accordance with Article 22(5).

ANSP Opex – Staff Costs

- 3.9 We will assess efficient levels of staff costs at some level of granularity with elements of benchmarking as appropriate. We will assess whether the staff planning processes are robust and dynamic as needed by the changing market situation.

ANSP Opex – Non-staff Costs

- 3.10 We will assess efficient levels of non-staff costs at some level of granularity with elements of benchmarking as appropriate. We will assess various categories of non-staff costs, including:
- Rents and rates – Utilities – Maintenance (IT/other)
 - Travel - Training
 - Facilities management (insurance, security, cleaning, building repairs)
 - Business support (consultancy, legal, professional fees, public relations)
- 3.11 We will assess how capital expenditure should feed into the opex assessment, for example changes in opex due to new capital projects, and how an efficient ANSP would allocate between capex and opex.
- 3.12 We are interested in any views that stakeholders may have on appropriate benchmarks of staff and non-staff costs.

ANSP Capex – Capital Costs

- 3.13 We will:
- ensure there is no double counting of projects financed during RP2
 - assess the timing of all projects proposed for RP3.
 - assess the cost efficiency of projects.
 - assess the appropriate remuneration for depreciation and the cost of capital (WACC).

ANSP Financeability

- 3.14 We will assess the impact of the revised RP3 plan on the financeability of ANSP. The financeability assessment will be an input which may be relevant for the establishment of the cost efficiency targets.
- 3.15 We are interested in any views that stakeholders may have on the appropriate assessment of financeability.

ANSP Restructuring costs

- 3.16 We will assess the efficient level of restructuring costs which meet the requirements in the Regulation.

Government Policy to Split the IAA ANSP from IAA SRD and merge CAR with IAA SRD

- 3.17 We will assess the costs associated with implementing the Government policies and the appropriate method of recovery.

MET and NSA Costs

- 3.18 We will assess the efficient level of MET and NSA (CAR, SRD) operating and capital costs (in line with the above methodologies where appropriate).
- 3.19 We invite the views of stakeholders on the methodologies outlined in this section.