Stakeholder Consultation for Reference Period 3 of the Performance and Charging Schemes

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Purpose of this Document

This consultation Document, produced by the Safety Regulation Division of the IAA (acting as the National Supervisory Authority for Ireland), seeks stakeholders' views on possible developments for Reference Period 3 (RP3) of the Performance and Charging Schemes.

The feedback received from stakeholders will help inform the NSA's developments of national targets for RP3, and eventually the drafting of the RP3 Performance Plan for the UK-Ireland Functional Airspace Block (FAB) for the period 2020 to 2024.

Views from stakeholders

The IAA (in its role as the National Supervisory Authority for Ireland, and hereafter referred to as the IAA) welcomes views on all the topics discussed in this Document, and questions to guide stakeholders in their responses are provided in the Executive Summary.

Reponses should be sent to RP3NSAStakeholderConsultation@iaa.ie no later than 5pm GMT on 30th January 2018. Any responses received after this date may not be taken into account. Responses may be sent in the format deemed most appropriate by the concerned party.

The responses received from stakeholders will not be published, though it is recommended that any confidential information should be explicitly marked as such.

Executive Summary

Under the existing Performance and Charging Regulations (Commission Implementing Regulations (EU) No 390/2013 and (EU) No 391/2013, respectively), the Safety Regulation Division of the IAA, acting as the NSA for Ireland, together with the UK CAA, acting as the NSA for the UK, is responsible for producing a Performance Plan for the UK-Ireland Functional Airspace Block (FAB) and associated targets at FAB, national, charging-zone and airport level.

Preparations for the third Reference Period (RP3) of the Performance and Charging Schemes are underway, with the Regulation for RP3 expected to be published in June 2018. The main part of this Document (Section 2) discusses the possible evolutions for RP3 under eight separate headings, based on previous discussions at EU level and the Single Sky Committee (SSC) Options for the revision of the Performance and Charging Schemes:

i. Target setting and assessment

ii. Simplification of the Performance Scheme

iii. Geographical scope of Performance Plans

iv. Safety within the Performance Scheme

v. Route design and utilisation, and the Environment KPA

vi. Use of incentive mechanisms and risk sharing mechanisms

vii. Competition in provision of Terminal ANS

viii. Treatment of CAPEX within the Performance and Charging Schemes

The possible evolutions and options presented in this Document are not exhaustive, but reflect the main discussions and information presented at various European fora.

Proposed Timetable

The proposed plan for the development of the RP3 Performance Plan is set out in the timetable below (in bold), along with the key milestones in the Commission's preparations for RP3. It should be noted that this timescale is indicative, and will be refined as the Commission's timeline for RP3 and the form that RP3 takes become clearer, and feedback is received. More detail is provided in Section 3 of this Document.

Milestone/activity	Proposed date(s)*
Publication of IAA Stakeholder Consultation for RP3 of the Performance and Charging Schemes	**30th Nov 2017**
Stakeholder consultation period for RP3 of the Performance Scheme and Charging Schemes	**30th Nov 2017 – 30th Jan 2018**
Adoption of RP3 Regulation	Jun 2018
Adoption of Union-wide RP3 Targets	Dec 2018
IAA stakeholder consultation on draft RP3 Performance Plan	**Jan – Mar 2019**
Submission of proposed RP3 Performance Plan to the State	**May 2019**
State adoption of RP3 Performance Plan and submission to the European Commission	**June 2019**
Commission assessment of RP3 Performance Plans	Jul – Nov 2019
Start of RP3	Jan 2020

*Note that dates may be subject to change.

Key questions for stakeholders

It is requested that stakeholders consider the following questions when preparing their responses to this Document:

- What were your experiences during RP2 of the subjects discussed in Section 2 of this Document, and what impact did they have on you as a stakeholder?
- What are your views on the possible evolutions for RP3 of the Performance Scheme discussed in Section 2 of this Document, and how would they affect you as a stakeholder?
- How would the possible evolutions for RP3 of the Performance Scheme affect the target setting process in Ireland?
- Are there any issues not raised in this document that you deem to be important when preparing for RP3?
- Is the proposed timetable for the development of the Performance Plan for RP3 appropriate?

Document structure

This Document is structured as follows:

- The Section '*Background and context'* provides background and context to the preparations and possible evolutions for RP3 of the Performance and Charging Schemes;
- The Section '*Expected evolutions for RP3'* outlines some of the most significant possible evolutions for RP3 of the Performance and Charging Schemes, based on previous discussions at EU level and focusing especially on the SSC Options for the revision of the Schemes; and
- The Section '*Proposed timetable*' presents and explains our proposed initial timetable for the development of the RP3 Performance Plan.

1 Background and context

Air Navigation Services in Ireland

The Irish Aviation Authority (IAA) is a commercial semi-state company that acts as both the safety regulator and Air Navigation Service Provider (ANSP) for Irish-controlled airspace. Additionally, the IAA is responsible for the oversight of civil aviation security within Ireland.

Each Member State must have a National Supervisory Authority (NSA), as mandated by Regulation (EC) 549/2009. The Safety Regulation Division of the IAA acts as the NSA, supervising the activities of the IAA ANSP functions, which operate entirely independently. The IAA fulfils its responsibilities as an NSA in compliance with Regulation (EC) 550/2009, and is responsible for the certification of ANSPs, safety oversight of ANS, and further oversight responsibilities defined in Annex I of the Common Requirements legislation. The IAA performs its responsibilities in ATM safety oversight with due diligence by complying with the safety regulatory requirements outlined in detail in Regulation (EU) 1034/2011.

Context within the Single European Sky

Ireland, as an EU Member State, has a binding obligation to adhere to all regulation established by the European Commission (EC), including those associated with the Single European Sky (SES). SES was launched in 2000 in response to severe European flight delays and capacity issues experienced in 1999, aiming to enhance air traffic safety, reduce delays, improve services and reduce costs for air transport passengers. The first SES legislation package (SES I) was introduced in 2004, and a second (SES II) was published in 2009.

SES II changed the focus of SES from capacity to performance; a key part of this was the introduction of a Performance Scheme that is applicable across the whole of the EU. The Performance Scheme aims to improve the performance of ANS and network functions; to this end, it contains a set of Key Performance Indicators (KPIs), for which States should set targets, in the Key Performance Areas (KPAs) of Cost Efficiency, Capacity, Safety and the Environment, as well as Performance Indicators (PIs) for monitoring purposes. The Performance Scheme operates over Reference Periods (RPs): RP1 ran from 2012 to 2014 and RP2, the current period, runs from 2015 to 2019.

Performance and Charging Regulations

The objectives of the Performance and Charging Schemes were outlined in the original SES Framework Regulation (549/2004[1], art.11) and the SES Service Provision Regulation (550/2004[2], art. 14 and 15), respectively. Reference Period 2 of the Performance Scheme is officially enacted in Commission Implementing Regulations (EU) No 390/2013 - the Performance Regulation, and (EU) No 391/2013 - the Charging Regulation. These regulations provide the legal sanction and framework for:

- The EC to establish Union-wide targets for the four KPAs;
- NSAs to develop FAB-level Performance Plans and associated targets at national, charging zone, FAB or airport level, which should be consistent with Union-wide targets;
- The Performance Review Body (PRB) to provide support to the development of local and Union-wide targets, and to the assessment of Performance Plans for consistency with Union-wide targets; and
- The Commission to determine the suitability of Performance Plans and local targets, particularly with regard to their contribution to Union-wide targets, and to recommend their amendment when necessary.

The Performance Regulation mandates that there be a full review of the Performance Scheme by the EC before the end of each RP. The review should analyse the suitability of targets and the adequacy of Union-wide progress, as well as inspecting whether the scope and method of

measurement of Key Performance Indicators (KPIs) accurately reflect the condition and progress of ATM. This process is integral to informing the evolution of the structure and targets of future RPs.

Reference Period 3

Preparations for Reference Period 3 (RP3) of the Performance and Charging Schemes have already commenced, with the PRB issuing a White Paper on RP3 Performance Objectives in June 2016 and collating stakeholder comments on this Paper in November 2016. Following this, the EC held its initial stakeholder consultation hearing on RP3 on the 14th of December 2016. The hearing aimed to establish the views of stakeholders from across the aviation industry on the evolution of the Performance and Charging Schemes for RP3.

In March 2017, the Single Sky Committee (SSC) published two options papers for the revision of the Performance Scheme and the Charging Scheme, respectively. These papers identify the key subjects for the revision of the two Schemes ahead of RP3, presenting a preliminary set of proposals that are initial in nature and aim to generate discussion. The contents of the paper are based on the outcomes of the RP3 hearing and the PRB White Paper, the work of the EASA RP3 Working Group, discussions held within the National Supervisory Authority Coordination Platform (NCP), and positions from the Industry Consultation Body (ICB).

Based on these Options papers, the Commission is preparing an impact assessment to analyse the impacts of the proposed options for change. The work done to support this impact assessment has included consulting a range of stakeholders through interviews and a questionnaire. The results of this impact assessment are yet to be published. In addition, a separate study was launched by the Commission to review the effectiveness of incentive schemes in the Performance and Charging Schemes, and to provide recommendations as to how they might evolve for RP3.

The options papers presented by the SSC therefore form the basis of the following discussion on the expected evolutions for RP3 and their impact on target setting within Ireland.

2 Expected evolutions for RP3

Target setting and assessment

As per Articles 14-16 of the Performance Scheme, the EC sets EU-wide performance targets, and subsequently assesses the consistency of national and FAB level targets with these targets.

During RP2, the coordination of these processes was insufficient to prevent long timescales for their completion. Ideally, it would be beneficial for the EC to have some indication of local target ranges before setting the EU-wide targets so as to reduce the number of issues raised during the consistency assessment of Performance Plans. In light of this, the SSC has suggested, as an option for the revision of the Performance Scheme, to make better use of local information when setting Union-wide targets.

Should this amendment be made, local regulators (including the IAA) would be expected to define and communicate their targets for RP3 (or, at least, a range of possible targets) earlier than in past RPs. Although this would require extra work, it would strengthen the role of NSAs by making them a vital part of the definition of EU-wide targets, and ultimately speed up the consistency assessment, helping to avoid the lengthy processes experienced in RP2.

In addition to suggesting better use of local information for Union-level target setting, the SSC has suggested a new mechanism for the revision of Performance Plans and targets. Although a possible design for the process has not been outlined, it should enable simpler revisions of performance targets, while still incorporating stakeholder consultation and a consistency assessment of revised targets.

The IAA is particularly interested in garnering stakeholders' views on the possible consequences of setting targets so far into the future (Union wide targets are set a year in advance of a Reference Period, which lasts for five years). This may bring into question the ongoing validity of underlying Performance Plan assumptions, as economic conditions may change significantly in the intervening period.

Simplification of the Performance Scheme

In the written Stakeholder Comments for the PRB RP3 White Paper (published by the PRB in November 2016), there was a recurrent theme amongst the responses that the Performance Scheme could benefit from simplification, both in terms of its content and the processes involved in its preparation. It was claimed the current system is too complex and places a high degree of administrative burden on stakeholders. The complexity and lack of clarity of the target setting and revision process were particularly emphasised. Stakeholders advocated for a more simple, transparent and straightforward scheme, with more straightforward regulation.

The RP3 hearing held in 2016 supported the idea of simplifying the Performance and Charging Regulations, including potentially reducing the number of KPIs. CANSO especially were of the opinion that the process needs streamlining and clarifying, and that a limited number of KPIs should be focused on.

It has been noted that there are interdependencies between the cost-efficiency KPA and the other three KPAs – specifically that cost increases are unavoidable when improving service quality and safety, while maintaining reasonable costs and profit margins for ANSPs. This, and other interdependencies between KPAs, have instigated a call for better consideration of these interdependencies, and even between KPIs in the same area. This concept is the basis of one of a subset of EC broad policy objectives for RP3, and relates to several of the options put forward by the SSC for the revision of the Performance Scheme.

Interdependencies with the Safety KPA are discussed in more detail later in this Document.

Geographical scope of Performance Plans

As the SSC note in their Options Paper, the drawing-up of Performance Plans at FAB level does not provide a clear link between contributions to the achievement of targets and the responsibility for delivering those contributions. Currently, cost-efficiency KPIs are set at charging zone level (which in most cases is effectively at national level), whereas the Safety, Capacity and Environment KPIs are set at FAB level. This has led to complications when constructing and assessing Performance Plans during RP2, for instance in assessing trade-offs between KPAs, and has led to other undesired consequences.

To address this issue, the SSC has put forward two alternative options to the current system for RP3:

- Performance Plans could be established at national level with national targets; or
- Performance Plans could be maintained at FAB-level, but with national targets.

This would aim to better align the Safety, Capacity and Environment KPIs with the Cost-Efficiency KPI; to better accountability for improving performance; and to make the definition and application of incentive schemes more efficient.

The local effects of these proposed options should be noted by stakeholders, as it is possible that targets for the Safety, Capacity and Environment KPAs will be set at national level (i.e. for Ireland) in RP3. From the perspective of the IAA, as the NSA for Ireland, this would change the responsibilities for the definition of targets and possibly the establishment of a Performance Plan, since the work would no longer be shared with the UK's CAA as part of the UK-Ireland FAB.

It is also worth noting at this point the possible repercussions of Brexit – depending on the nature of the UK's withdrawal from the EU, the definition of targets and the establishment of a Performance Plan may have to take place at national level independent of any developments for RP3.

Safety within the Performance Scheme

Although the retention of safety within the Performance Scheme is widely encouraged by stakeholders, there is some discussion over how it should be targeted and monitored in RP3. The European Aviation Safety Agency (EASA) is responsible for the oversight of safety for aviation within the EU, and so improved links between its processes and the Performance Scheme have been proposed.

In 2016, the EASA RP3 S(K)PI development working group investigated the Safety KPA of the Performance Scheme to identify issues and potential improvements. Their key findings were that:

- There is too much overlap between the Performance Scheme and the current EASA Safety Risk Management Process (SRMP);
- There are interdependencies between the Safety KPA and other KPAs; and
- There are some safety indicators that should not be targeted.

To overcome duplication issues, the EASA working group suggested establishing better links between the EASA and SES processes, with the Performance Scheme containing just a select few Safety KPIs (SKPIs) and the SRMP containing complementary indicators created to support the European Plan for Aviation Safety (EPAS). EASA suggests they take responsibility for the monitoring of S(K)PIs and the additional indicators, amalgamating both sets for the analysis in each annual monitoring report.

The focus of the Performance Scheme would therefore be on ensuring that targets in other KPAs do not adversely impact safety. This would be achieved by modelling of competing forces, but will not be introduced before RP4.

EASA supports the continued use of lagging indicators, which are outcome-based, for monitoring purposes, with only leading indicators, which are process-based, used for targeting. This would protect 'Just Culture' and ensure incident reporting is not discouraged within ANSPs. EASA recommends monitoring separation minima infringement (SMIs), runway incursions (RIs) and over deliveries resulting from flow management.

The effectiveness of ANSP's safety management would still be monitored by a targeted, leading indicator. Three options are proposed for this target, which require further investigation before they can be assessed:

- Use the CANSO Standard of Excellence V2.1;
- Use a cross domain tool developed by EASA and stakeholder groups, either within the Performance Scheme or in the Commission Implementing Regulation (EU) 2017/373;
- Monitor the indicator within the SRMP and remove it from the Performance Scheme altogether (note that this may not be compliant with Regulation (EC) No 549/2004).

Route design and utilisation, and the Environment KPA

Route design and utilisation

The airline's choice of route determines the distribution of a key component of revenue for European ANSPs. Currently, airlines are charged for their use of ANS services according to the airspace that their flight plans specify they will pass through. With the recent decrease in fuel price, there are increased concerns that there is an incentive for airlines to choose less direct routes in order to take advantage of lower-charging airspaces. However, analysis by the EUROCONTROL Central Route Charges Office (CRCO), presented to the SSC/63 in 2016, found the impact of this problem to be very low on a European scale. Furthermore, as the SSC Charging Options Paper notes, the repercussions of re-routings on ANSP revenues strongly influence the Network Manager's proposals for re-routings.

Nevertheless, to minimise the influence of ANS charges on route design and route utilisation, the SCC has proposed a series of options (in addition to the 'status quo'):

- **Base route charges on the actual route taken** (derived from radar tracking) rather than the planned route. This would be calculated by using the real distance travelled against the unit rate for traversed charging zones. It is expected that the impact of this change would be limited in general, but significant for some States[1].
- **Make the route charges independent of the planned or actual routes altogether**, instead basing the charge on the departure and arrival location, the unit rates for ANS between the two locations, and a weight factor. This would eradicate any possible incentive for airlines to favour indirect, cheaper routes, as well as facilitate the acceptance by ANSPs of route changes proposed by the NM. The option would, however, reduce cost-relatedness and could cause uncertainty in ANSP revenues. The SSC suggests this option requires further analysis and is unlikely to be viable for RP3.
- **Enable financial settlements between relevant ANSPs for one-off traffic shifts**. This can be used when route design projects identify changes that would benefit

[1] The analysis by the CRCO predicts a reduction of 0.9% in service units for Ireland.

operations, but cause changes in revenue distribution. This would be limited to a transitional period, for example within a RP.

- **Implement common unit rates** across regions (or the whole of Europe). This is in line with the objectives of the SES, would improve environmental performance, and would limit incentives to take indirect routes. However, the effect of a common charging zone on current ANSP revenue could be contentious, and this option would therefore require extensive evaluation. Vertical divisions of charging zones could encourage common zones in the upper airspace.

Environment KPA

In addition to the effect on ANSP revenue, indirect routes also reduce environmental performance. The choice of measurement for horizontal en-route flight efficiency within the Environment KPA has also been a topic of discussion. The KEP and the KEA are the KPIs that measure en-route flight efficiency of the last filed flight plan trajectory and of the actual trajectory, respectively. The SSC has suggested the demotion of the KEP to a PI for RP3, as this measure is deemed to be not entirely under the control of ANSPs and the NM.

The SSC has also proposed the introduction of new flight-efficiency KPI(s), which would consider the ongoing process for the revision of the Network Function Implementing Rule in relation to airspace management. It has also suggested considering additional PIs for RP3, which could include a KEP-KEA subtraction to monitor horizontal predictability, Additional Fuel Emissions to measure impacts of indirect routing, and vertical flight efficiency. A noise and local air quality (LAQ) PI is not perceived as mature enough for RP3.

Use of incentive mechanisms and risk sharing mechanisms

Through the use of risk management mechanisms and incentives, the Performance Scheme aims to encourage ANSPs to provide services to more traffic and reduce costs. However, there are concerns that the current system is inefficient and can lead to 'gaming' behaviours.

Incentive mechanisms

The definition of the incentive mechanisms employed during RP2, as outlined in Article 15 of the Charging Scheme Regulations, has been perceived to provide too much freedom in the calculation of financial incentives, resulting in multiple interpretations. Moreover, basing incentives on capacity leads to ANSPs being penalised for accepting more traffic (and therefore delays) to improve the efficiency of network operations. The following preliminary options were suggested by the SSC:

- Status quo with additional guidance to better define incentives;
- Review the incentive mechanism (specifically focusing on whether symmetric application of incentives and the size of incentives are appropriate);
- Change the foundations of the incentive scheme from ATFM delay per flight (capacity vs. demand) to actual vs. planned capacity. This would prevent ANSPs with little or zero ATFM delay from being unable to receive bonuses.

Separately, an external study, launched by the Commission to assess the effectiveness of incentive schemes and how they might evolve for RP3, shortlisted three possible measures for RP3:

- **Tailored and targeted incentives led by NSAs**, which should target known problems at the ANSP (potentially including problems outside of delays or under-provision of capacity);

- **A centrally administered delay penalty scheme**, which would involve a centrally-managed approach to delay attribution – automatic rebates could be offered to flights experiencing delays by reducing or waiving their route charges;
- **A scheme that addresses under-provision of capacity**, which would link incentives to a measure of supply (actual vs. planned capacity), with penalties for failing to provide the required capacity. This measure could also include a capital programme to support the delivery of capacity, with penalties for late delivery.

It should be made clear that the first two measures are mutually exclusive, but that each could be combined with the final measure. The first two measures would aim to influence short-term operational behaviours, while the third focusses on longer-term planning decisions.

Traffic risk sharing mechanism

In order to mitigate the impact on variations in traffic on ANSPs (who have a high proportion of fixed costs and are unable to flexibly respond to changes in demand), the traffic risk sharing mechanism shares the risk of traffic variations between ANSPs and Airspace Users.[2] Despite the success of this system, the dead-band is seen as unnecessary, and could incentivise the underestimation of traffic forecasts by ANSPs in order to take extra traffic charges. In addition to the sharing mechanism, the carry-over of costs that are not part of the traffic sharing mechanism but are caused by traffic variations (e.g. regulatory costs) could be capped to just one year. The SSC identify two options in addition to status quo:

- Adjust one or more of the three underlying factors of the mechanism (e.g. remove the dead band, change the sharing keys);
- Maintain the traffic risk sharing, but remove other risk-sharing arrangements (i.e. those for costs that are not part of the mechanism but are caused by traffic variation).

Cost risk sharing mechanism

Currently, the cost risk sharing mechanism works by allocating the difference between actual and determined costs to ANSPs, Member States or the qualified entities concerned; in the case of unexpectedly high uncontrollable costs, a 'cost exempt' mechanism allows the costs to be passed to the following RP.

In addition to being an (unnecessary) administrative burden for NSAs and the EC, the cost exempt mechanism is possibly inconsistent with the principles in the basic regulation. There are some exempt costs that are arguably not outside the control of ANSPs, such as interest rate changes or the impact of financial markets on pensions. There is also a need to distinguish between the determined costs of each stakeholder (excluding MET) and to introduce specific targets for each cost (rather than exempting them from the cost risk sharing mechanism). In addition to the status quo (subject to legal review), the SSC has proposed two options:

- Removal of the cost sharing mechanism altogether (considering that regular revisions of the cost base are already done in the context of RP preparation);
- A mechanism specifically designed for reporting and handling pension costs, due to this being the largest component of exempt costs and being prone to variation. The Commission has encouraged proposals from Member States on this issue.

Inflation risk

Finally, inflation risk is managed according to Article 7(1) of the Charging Regulation. Determined costs are fixed both in real and nominal terms for each year of the Reference

[2] Currently, there is a ±2% traffic variation 'dead band' within which the ANSP will accept the gain or loss in revenues. Up to ±10%, the risk is shared between the ANSP and airspace user (30%/70%, respectively); outside of the ±10% cap, all gain/loss is given to/recovered from the airspace user.

Period. When there is a difference between the planned and actual inflation within a year, the resulting effect on real costs for both ANSPs and Airspace Users is minimised by adjusting the unit rates in the year N+2. When inflation is lower (higher) than expected, the unit rate is increased (decreased) in the year N+2 to compensate.

This risk adjustment is not capped, meaning that when there is deflation (or lower than expected inflation), the adjustment can become considerable, outweighing most other adjustments and becoming the most important risk factor for States and ANSPs.

The SSC presented the following options, in addition to the status quo:

- Only apply inflation to certain costs, for instance non-depreciated costs, or to a percentage of all costs that are subject to inflation, and cap depreciation at 0%;
- Adopt an 'Inflation Risk Sharing' mechanism, similar to the traffic risk sharing mechanism;
- Simplify the scheme altogether by setting cost-efficiency targets in nominal terms and removing inflation adjustments.

Competition in provision of Terminal ANS

A key goal of the SES is to achieve efficient market conditions, or 'contestable markets'. Currently, the existence of market conditions has only been confirmed in one Member State, and it is possible that the assessment of the contestability criteria will be altered for RP3. Furthermore, the reporting for services provided under market conditions is considered confidential and is not published, and there is a resulting lack of price transparency. This can shield markets from competition from other Member States, thus facilitating the abuse of market power. The SSC therefore suggests that appropriate actions should be taken to enable and encourage the introduction of market measures in all Member States.

The discussion surrounding the building of market conditions at the Commission's RP3 Hearing tied in with the consensus that the complexity of the current regulation hinders the achievement of market conditions. There was agreement that simpler regulation would encourage the introduction of more open markets, although it was noted that market forces remain unfeasible for some areas of ANS. It is therefore suggested that tighter regulation is maintained where monopolies exist but is lightened in other areas, which would necessitate the revision of Articles 3, and Annexes I and III of the Charging Regulation.

Should this approach be successful, it could enable the requisite conditions for opening up Terminal ANS (TANS) to competition, in line with the Commission's aim to ensure a gate-to-gate approach to ANS. There remains an issue surrounding the allocation of ANSPs' cost bases between en-route and terminal, with the SSC suggesting the associated part of the Regulation (Articles 5 and 8 of the Charging Regulation) may require revision.

Treatment of CAPEX within the Performance and Charging Schemes

The SSC cites the Charging Scheme Regulation (Article 6(4)) as causing significant underspending in the SES region, due to the pressure it creates on Determined Unit Costs and the resulting cancellation/postponement of investment decisions. This may contribute to the deterioration of future operational service quality (particularly in the event of traffic increases), in addition to leading to double counting in following RPs should unspent CAPEX not be handled correctly.

Stakeholders at the RP3 Commission Hearing agreed that the large quantity of unspent CAPEX was symptomatic of inefficiencies in the current Charging Scheme, and there was a unanimous call for improving the handling of postponed/cancelled investments. However, there is a reluctance to micro-manage ANSPs, given that the Performance Scheme does not aim to supervise the means of achieving targets. The SSC has also questioned the disproportionate

focus on CAPEX as opposed to operating costs, noting the difficulty of separating potential gaming behaviours from general efficiency gains.

As such, the options put forward by the SSC in addition to status quo were:

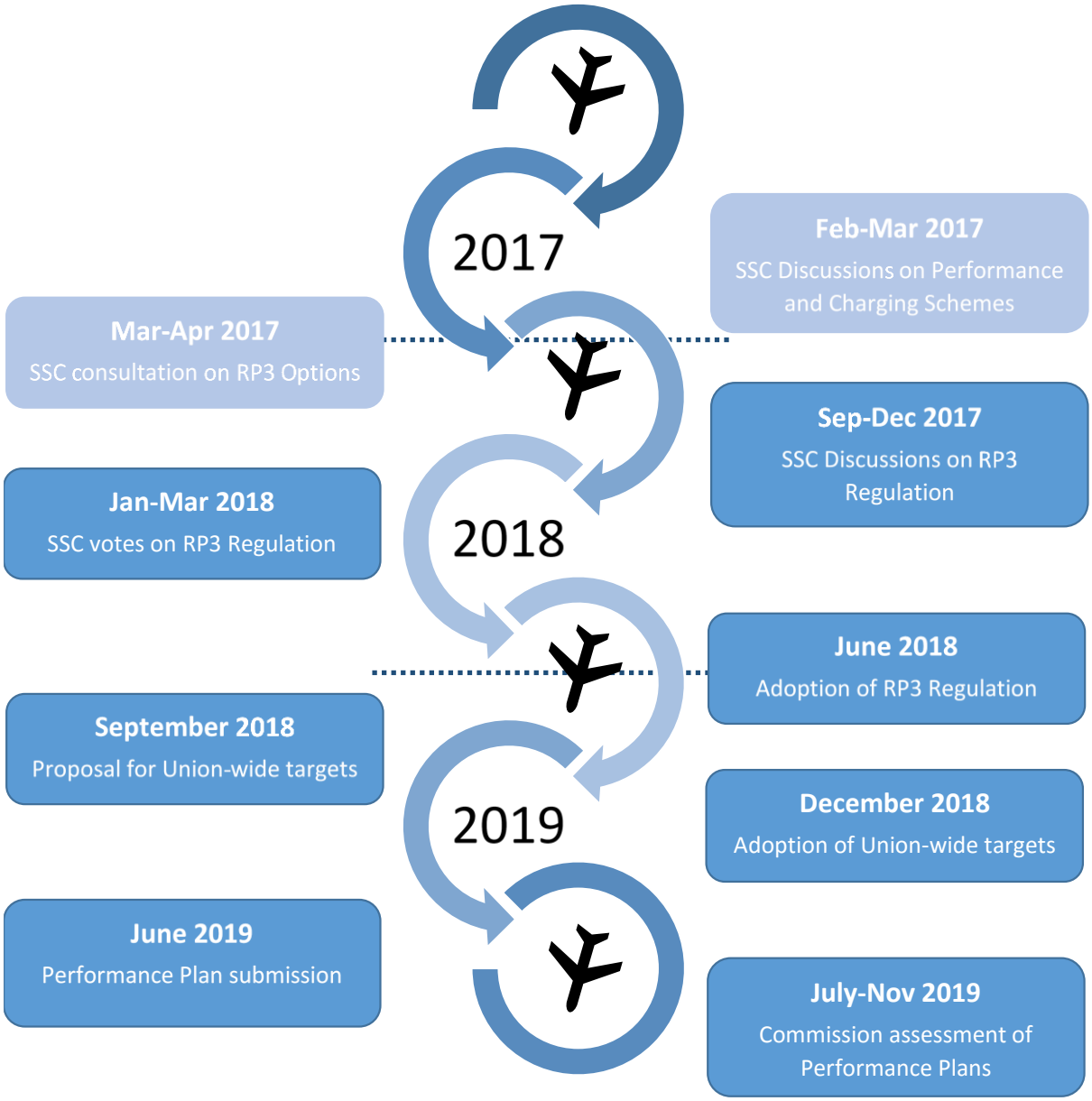
- NSAs and Commission to monitor planned and realised CAPEX in more detail;
- Develop a specific mechanism for handling CAPEX costs, namely depreciation and interest. This could be full cost recovery in N+2/the next RP, or using 'conditional' costs that are only triggered by pre-agreed milestones.

In terms of local impact, any changes to the treatment of CAPEX in EU legislation could directly affect Irish aviation projects. This includes the current Dublin Airport ATM Tower project, which will involve activity across Reference Periods 2 and 3. The IAA therefore hopes to establish stakeholder viewpoints on the appropriate methodology for addressing significant CAPEX projects in the context of the Performance and Charging Scheme.

3 Proposed timetable for the development of the RP3 Performance Plan

EU timeline of preparations for RP3

An indicative timeline of the preparations for RP3 is shown in the graphic below (including preparations already undertaken in 2017). It should be noted that the timeline below may be subject to change, and that more detailed timescales will become available after the adoption of the RP3 Regulation in June 2018.



Proposed IAA timetable

Based on the indicative EU timeline shown in the graphic above, the table below sets out the IAA's proposed activities and milestones for the preparation of the RP3 Performance Plan. It should be noted that these dates are subject to change based on stakeholders' feedback, developments in the EU-wide preparations for RP3, and the evolution of the Performance and Charging Schemes for RP3 (particularly the need to establish FAB-level Performance Plans, which are currently adopted jointly with the UK).

Milestone/activity	Proposed date(s)
Publication of IAA Stakeholder Consultation for RP3 of the Performance Scheme	30th November 2017
Stakeholder consultation period for RP3 of the Performance Scheme	30th November 2017 – 30th January 2018
IAA stakeholder consultation on draft RP3 Performance Plan	January – March 2019
Submission of proposed RP3 Performance Plan to the State (DTTAS)	May 2019
State adoption of RP3 Performance Plan and submission to the European Commission	June 2019
Start of RP3	January 2020