

Note on Terminal Capacity Targets and Incentive Schemes

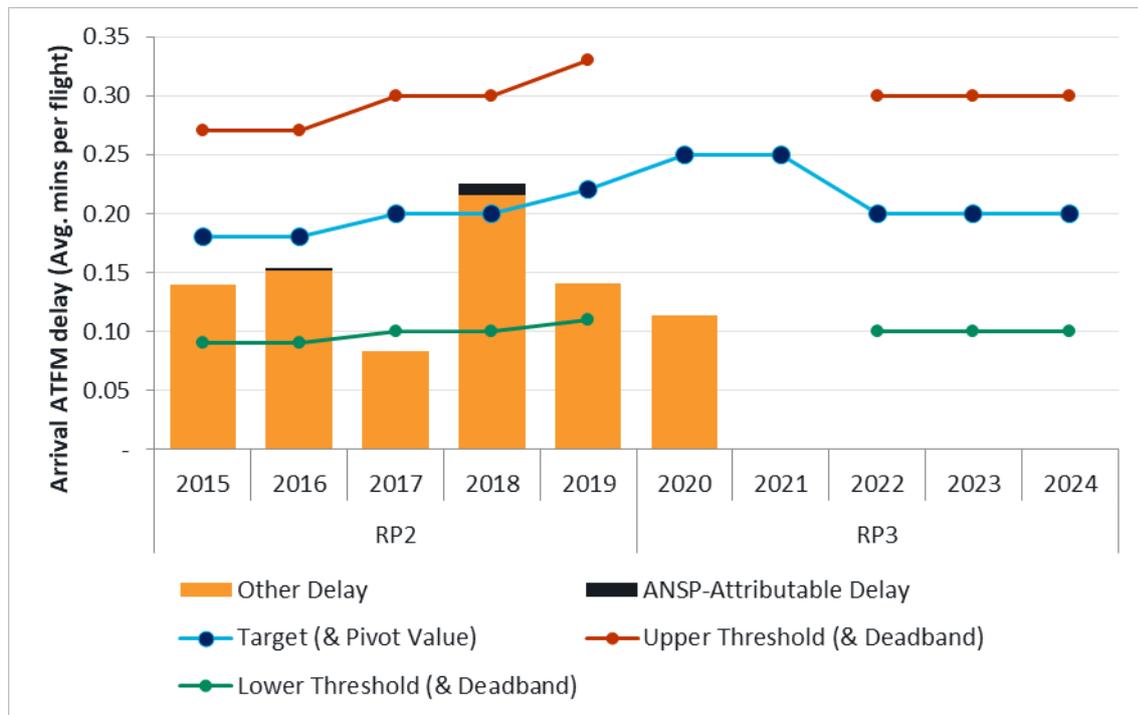
- 1.1 Ireland has adopted the Final Performance Plan for RP3 under Article 16(a) of the Implementation Regulation (EU) 2019/317, which requires member states to adopt and publish their Performance Plans after the European Commission has adopted a decision in application of Article 14(2).
- 1.2 In its decision of 13.4.2022, while the Commission found that the performance targets contained in Irelands Draft Performance Plan were consistent with the Union-wide performance targets, it questioned two aspects of the plan. The NSA has considered these points in connection with the adoption of the Final Performance Plan under Article 16(a) of Regulation (EU) 2019/317.

Terminal Capacity Delay Targets

- 1.3 Firstly, the European Commission has found that the proposed RP3 targets for the average arrival ATFM delay ranging from 0.20 to 0.25 minutes per flight for calendar years 2021 to 2024 are 'significantly higher' than the achieved ATFM delay performance in all but one calendar year of the second reference period ('RP2'), with an average arrival ATFM delay of approximately 0.15 minute per flight observed during that period. The Commission would like Ireland to further justify these targets, or to revise them downwards.
- 1.4 In response to this point we note that in the RP3 Performance Plan, the terminal capacity targets for 2022 to 2024 are set at a level consistent with the average annual terminal delay targets in RP2, at 0.20 minutes. We have not reassessed the 2020/2021 targets as these years have already passed.
- 1.5 In 2020, despite lower levels of traffic, the average minutes of actual ATFM delay per arrival at Dublin airport was only slightly lower than most years in RP2 and remained at a broadly consistent level. This delay was attributed to the same causes as the vast majority of RP2 delay (weather and aerodrome capacity). For an overview of RP2 targets and delay, and RP3 targets, see figure 1 below. Therefore, given that the level of arrival ATFM delay has remained broadly unchanged notwithstanding the traffic reduction, and that nearly all of the delay in RP2 was not attributable to the ANSP, we saw no reason to revise these targets relative to the original RP3 Performance Plan developed in 2019. It is important that the ANSP avoid any material dis-improvement in performance, and we are seeking to achieve this, rather than trying to promote further improvement, as we believe there is very little scope remaining for the ANSP to do so.
- 1.6 We believe that more ambitious targets would instead be more likely to result in the ANSP failing to achieve the targets for events outside of its control, as was the case in 2018. For example, if the target had been set to 0.15 minutes during RP2, this would have additionally resulted in the ANSP not meeting the target in 2016, for reasons not within its control.

1.7 We further note that there was no disagreement among stakeholders on these proposed targets at any point in the consultation process.

Figure 1: RP3 Terminal incentive scheme parameters



Source: PRB assessment of RP3 performance plans (March 2020) & Eurocontrol delay code data (post-op)

Incentive Scheme Penalties

1.8 Secondly, the Commission has expressed concerns over the fact that both the En Route capacity incentive scheme and the Terminal capacity incentive scheme proposed in Ireland's draft performance plan each comprise a maximum financial disadvantage amounting to 0.5% of determined costs. The Commission doubts that the proposed maximum financial disadvantage would have any material impact on the revenue at risk, as required pursuant to Article 11(3), point (a) of Implementing Regulation (EU) 2019/317. Therefore, it argues that Ireland should revise its incentive schemes so that the maximum financial disadvantages stemming from the schemes are set at a level having a material impact on the revenue at risk, which in the Commission's view should lead to a maximum financial disadvantage equal to or higher than 1% of determined costs.

1.9 Firstly, we note that the maximum financial disadvantage for the En-Route incentive scheme for 2024 is 1%, rather than 0.5%.

1.10 We note that the purpose of these schemes is to ensure that the ANSP is sufficiently incentivised to achieve its capacity targets. Determining an appropriate incentive scheme requires us to take account of current performance relative to the capacity targets, the extent to which meeting or exceeding this target is reasonably within the control of ANSP, the scale of a proposed penalty/bonus relative to allowed profit margin, and the level of culpability of the service provider in the event of a failure to

meet the target. This is consistent with the approach we take in relation to other regulated entities, such as Dublin Airport.

- 1.11 For En Route, the ANSP is already outperforming the assigned target. Thus, it would not be reasonable to allow bonuses for outperforming the target, and we set the bonus to zero. For any underperformance, we have adjusted the pivot value down such that the penalty would become payable as soon as the capacity target is not met, rather than allowing the default margin of appreciation. This is to ensure that the focus of the incentive is on meeting the target. We initially considered a 1% penalty to be reasonable for each year, however with the significant change in the October 2021 forecasts for 2022/2023, our modelling showed a significant extra challenge in changing the training profile at that point to bring in sufficient new ATCOs for 2022/2023. This is a mitigating factor in the level of culpability, should the ANSP fail to meet the target in those years. Thus, we have retained a 1% maximum disadvantage for 2024 only, with 0.5% for 2022/2023.
- 1.12 For Terminal, as shown above, the ATFM arrival delay attributable to the ANSP was at or close to zero. It would therefore not be reasonable to set a target seeking further improvement which would penalise the ANSP for factors outside its control. Nor would it be reasonable to have any bonuses, as there is little scope remaining for improvement in delay performance of the ANSP. While the pivot value can be modulated based on ANSP-attributable delay, the deadband and threshold are based on all delay causes; it is therefore not possible to implement a properly ANSP-attributable delay incentive scheme, which would be more appropriate in this case.
- 1.13 We consider our approach more appropriate for the IAA ANSP than schemes aligned to the default approaches, where there may be higher penalties but also a higher pivot value, and bonuses.
- 1.14 We do not agree that the proposed maximum financial disadvantage would not have any material impact on the revenue at risk. The lowest financial disadvantage, 0.5% of determined costs, would equate to approximately €600k in nominal prices. This works out as approximately 11% of the ANSPs average yearly allowed return on capital. We do not believe that a company operating in a competitive environment would consider this quantum of remuneration to be immaterial.