

**Decision Note on  
Revised Irish Performance Plan  
for RP3  
based on October STATFOR Forecasts**

Prepared by the National  
Supervisory Authorities (NSAs)

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## 1. Updating Performance Plan for Revised Forecasts

- 1.1 This document addresses comments received in response to the supplementary consultation on updating the revised RP3 Performance Plan (PP) for the STATFOR October forecast, and sets out the rationale for the decisions made on the relevant points.
- 1.2 The traffic forecast underpinning the draft Performance Plan was based on scenario 2 of the STATFOR May 2021 forecast, as was recommended to NSAs. This is also the forecast upon which the IAA ANSP based its final Business Plan submission. These forecasts differ considerably from the October 2021 forecasts, which were published after the submission of the Performance Plan in October, and which now predict far stronger traffic recovery in 2022 for both En Route and Terminal traffic. The May forecasts are compared to the October forecasts in tables 1.1 and 1.2 below.

**Table 1.1: Irish En Route Service Unit forecast, May 2021 vs October 2021 (in '000s)**

	2019	2020	2021	2022	2023	2024
ENR SU May Forecast (in '000s)	4,641	1,988	2,072	3,202	4,039	4,726
ENR SU Oct Forecast (in '000s)	4,641	1,988	2,312	3,991	4,883	4,893
<b>Change in forecast</b>			12%	25%	21%	4%
Year on Year change- Oct forecast		-57%	16%	73%	22%	0%

**Table 1.2: Irish Terminal Service Unit forecast, May 2021 vs October 2021 (in '000s)**

	2019	2020	2021	2022	2023	2024
TER SU May Forecast (in '000s)	188	71	77	136	163	188
TER SU Oct Forecast (in '000s)	188	71	70	166	175	183
<b>Change in forecast</b>			-8%	22%	7%	-3%
Year on Year change- Oct forecast		-62%	-1%	137%	5%	5%

- 1.3 Thus, in summary, the expected level of traffic by 2024 has not changed dramatically since the May forecast, but rather the profile of that recovery towards 2019 levels is significantly steeper.
- 1.4 In the consultation note published on 3 November, we proposed to update the Performance Plan on the basis of these forecasts, including updating forecasts and targets where necessary to maintain the internal consistency or balance of the Performance Plan. We noted that the scope of the consultation is limited to material changes directly driven by the new forecasts. For example, changes to the capital costs are not in scope given the nature of the investment programme and the nature of the changes to the forecasts.

### *Submissions Received on Updating the Plan for the October Forecasts*

- 1.5 Ryanair broadly supports the proposal to apply the October traffic forecast to the revised RP3 PP, subject to comments in relation to the other proposed adjustments which are discussed in subsequent sections of this note.
- 1.6 British Airways supports the revision of the PP following the publication of the October

forecast, as well as the decision to limit the consultation to areas of material change.

- 1.7 IATA supports the proposal to update the PP.
- 1.8 Aer Lingus fully supports the decision to update the PP to include the October forecast. It also supports the points raised in the IATA submission.
- 1.9 The IAA ANSP Staff Panel welcomes the decision to update the PP to include the October forecast.
- 1.10 IAG fully supports the decision to update the PP to include the October forecast.
- 1.11 The IAA ANSP argues that there is no justification for applying the revised forecasts. The IAA ANSP state several reasons for this, including:
  - Many of the assumptions accompanying STATFOR's May Scenario 2 appear to remain relevant today, particularly in the absence of evidence to the contrary from STATFOR.
  - The IAA ANSP believes that the assumption that business travel will return to pre-pandemic levels in just over 12 months is unjustified, as EUROCONTROL noted in May under scenario 2 there would be a permanent lingering effect on business travel.
  - It also casts doubt on the vaccination effectiveness and herd immunity assumptions, pointing to the high rates of Covid-19 in highly vaccinated areas.
  - It sees no evidence to indicate that there is a strong case for En Route traffic in STATFOR Scenario 2 from October to increase by 25% in 2022 and 21% in 2023 compared to projected increases that were already assumed in STATFOR Scenario 2 from May, given the nature of how the published assumptions have evolved.
- 1.12 Some respondents raised points outside the limited scope of the consultation, such as the general approach taken to developing the Performance Plan, the forecasting methodology, and how this took into account the interdependencies with other KPAs.

### *Decision on Updating the Plan for the October Forecasts*

- 1.13 We have decided to update the Performance Plan based on the most recent STATFOR base forecast. This has been supported by most of the respondents.
- 1.14 In response to the detailed submission from the IAA ANSP on the STATFOR forecasts, we agree that there is a high degree of uncertainty over traffic levels for the rest of RP3. However, we do not consider that this is a sufficient reason to retain the earlier forecasts, which also come with a high degree of uncertainty but do not take into account most recent traffic developments.
- 1.15 Based on up-to-date scheduling developments at Dublin (including the impact of the Government funded airport charges rebate scheme), we believe that there is now a reasonable prospect of terminal traffic reaching, or being close to, the updated forecasts. However, as noted above, there is also a reasonable prospect that traffic

levels may differ significantly. The way the regulation deals with uncertainty is twofold:

- Through the Traffic Risk Sharing mechanism, which will compensate the IAA ANSP should traffic deviate by more than 2% from the forecasts.
- Through the alert thresholds, i.e. if traffic is 10% or more below/above the forecasts, the regulation allows the plan to be re-opened. Should this materialise, we will work with the IAA ANSP, the European Commission and other stakeholders to assess whether the Performance Plan should be re-opened.

1.16 The scope of the consultation is confirmed as an update of the Performance Plan to incorporate the October Service Unit forecasts, including any changes required to maintain the balance and internal consistency of the Plan. This scope does not, therefore, provide for a reassessment of the cost forecasting methodologies themselves.

## 2. Cost Impact of revised Forecasts

- 2.1 In the supplementary consultation, the NSA identified a cost impact due to the revised forecasts of €3.5 million, as set out in Table 2.1. This increase is wholly due to increased IAA ANSP costs. We proposed to update the costs in line with these estimates, to maintain the internal consistency of the Performance Plan.

**Table 2.1: Total Costs using the May Forecast compared to the October Forecast, millions**

Forecast	2020	2021	2022	2023	2024	Total
May	€119.9	€122.9	€143.3	€149.7	€149.5	€685.2
October*	€119.9	€122.9	€145.8	€150.7	€149.5	€688.7
Change	-	-	+€2.5	+€1.0	-	+€3.5

Source: CAR Calculations

\*Note that these figures directly compare modelling output differences between the May and October forecasts, they do not include a minor adjustment to Eurocontrol costs which has also been made in the verification of completeness process.

- 2.2 While most of the IAA ANSP costs are relatively fixed, ATCO related costs are sensitive to changes in traffic. The October forecasts expedite the requirement to bring in new ATCOs, as set out in Table 2.2. This has led to increases in both training costs and staff costs (including overtime costs), as estimated by the Steer Opex model.

**Table 2.2: Required ATCOs with May vs October Forecast**

Forecast	2020	2021	2022	2023	2024
May	301	290	290	301	326
October	301	290	301	319	329
Change	-	-	+11	+18	+3

Source: Steer Opex model, CAR Calculations

### Submissions on Updated Costs

- 2.3 Ryanair believes that we should keep the costs unchanged from the PP as submitted on 1 October. It argues that ANSPs across Europe did not sufficiently reduce their costs in line with traffic during the Covid-19 downturn and they therefore do not see a strong argument for increasing them while traffic remains below 2019 levels. Ryanair also questions the increased staff costs for 2022/2023, as it believes that the IAA ANSP may not have the training capacity to train new staff by this time. Finally, Ryanair requests clarification on the 5% increase forecast for Terminal URs in 2024, despite traffic forecasts decreasing by just 3%.
- 2.4 British Airways notes that the cost increases to support the increased ATCO requirement for 2022 and 2023 will not excessively raise Determined Costs. However, it questions how the necessary training can be delivered, considering the typical lead times associated with ATCO training, particularly to meet 2022 demand.
- 2.5 IATA is concerned that the additional costs proposed may not be representative of what is required for bringing in the required number of new ATCOs in 2022 and 2023. It does not see how, if training recommenced in 2021, 18 ATCOs would be fully trained and available by 2022. IATA is concerned that much of the additional cost proposed might be used on overtime to deliver the required capacity, at a significantly higher

cost. It also notes that by 2023 the cost proposed are above the levels of 2019, while traffic will still be below the 2019 levels. It requests more information on: The training and recruitment of ATCOs post the August consultation, the number of trainees that are expected to be operational by Summer 2022, the number of direct entry ATCOs that have been hired, and the number of sectors that are required to handle the increased traffic. Aer Lingus and IAG support the raising of these questions.

- 2.6 The IAA ANSP Staff Panel considers that the additional ATCO staffing provided for is insufficient and argues that any assumptions that capacity shortfalls can be covered by overtime is unrealistic. It further argues that the additional costs proposed to cover extra staffing costs would be returned in the form of financial penalties due to capacity targets not being met.
- 2.7 The IAA ANSP requests that the NSA commits to revisiting RP4 forecasts over the course of 2022, and to provide guidance to the IAA ANSP on how many ATCOs will likely be forecast in 2025 and 2026 based on updated traffic forecasts.

### *Decision on Updated Costs*

- 2.8 Firstly, as noted above, we have not changed the forecasting methodology from that consulted on and used for the 1 October version of the PP. We have just updated the Service Unit (SU) forecasts, which are inputs in the Opex model, and used the revised outputs from that model to update the allowed costs. Thus, further comments relating to the methodological approach are not in scope of this update to the PP.
- 2.9 In response to Ryanair's clarification request, the Terminal Unit Rate (UR) for 2024 is forecast to increase by a greater proportion than the SU decrease observed in the October forecasts primarily because the temporary unit rate addition (from 2020/2021) is now 11% higher than in the version of 1 October. This is because Terminal SUs for 2021 are 8% lower in the October forecasts compared to the May forecasts, so the revenue gap for 2021 is forecast to be larger. Thus, the amount to be recovered over the 7-year period from 2023 is now expected to be larger. We note that the 2024 UR is still subject to within-period adjustment for factors such as inflation, risk sharing, and offsetting other revenues. Furthermore, if actual Terminal SUs exceed the October forecast for 2021, the ultimate amount of relevant unrecovered revenue will decrease again.
- 2.10 We do not agree that there is a rationale to change the SU forecasts but not the operating costs. Doing so would introduce a basic inconsistency to the Performance Plan building blocks. While the cost reduction which we have assumed in 2020/2021 is inelastic with respect to the reduction in traffic, there is a cost reduction of more than 10%. The cost response to the significantly higher October forecasts is less elastic again.
- 2.11 Regarding the concern expressed by Ryanair, British Airways, and IATA that it may not be possible to train the required number of ATCOs in time to meet demand for 2022 and 2023, we note that the Opex model builds in the actual training constraints in relation to capacity and time required. With the October forecasts, training constraints rather than traffic are now primarily driving forecast ATCO headcounts in 2022 and 2023. This was not the case with the May forecasts.

2.12 It is also important to note that the ATCO numbers which were presented in the consultation document are year-end summaries. In response to the questions from IATA for the NSA:

- The model now assumes that the 11 part-trained ATCOs, where training was suspended in 2020, will be added during 2022. As training is partly completed already, the training timeline is reduced. The model assumes these ATCOs could be brought in by August 2022.
- A further 18 ATCOs are then forecast to be added by year end 2023. Most of the cost increase for 2022 is training costs, for the new ATCOs becoming operational in 2022 and 2023. Where required, further overtime allowances are included for 2022 and 2023, as described in the consultation document. Alternatively, as suggested by IATA, the IAA ANSP may seek to hire more direct entry ATCOs, although these tend to be more expensive than newly trained ATCOs.

2.13 We therefore agree with the IAA ANSP Staff Panel that there is an additional practical challenge for the IAA ANSP in 2022/2023, relative to the 1 October PP. This is addressed in section 4.

2.14 We can work with IAA ANSP on updating the model based on RP4 forecasts, thus providing the indicative number of ATCOs which it would forecast for the years 2025 and 2026.

### 3. Impact on Cost Efficiency KPA

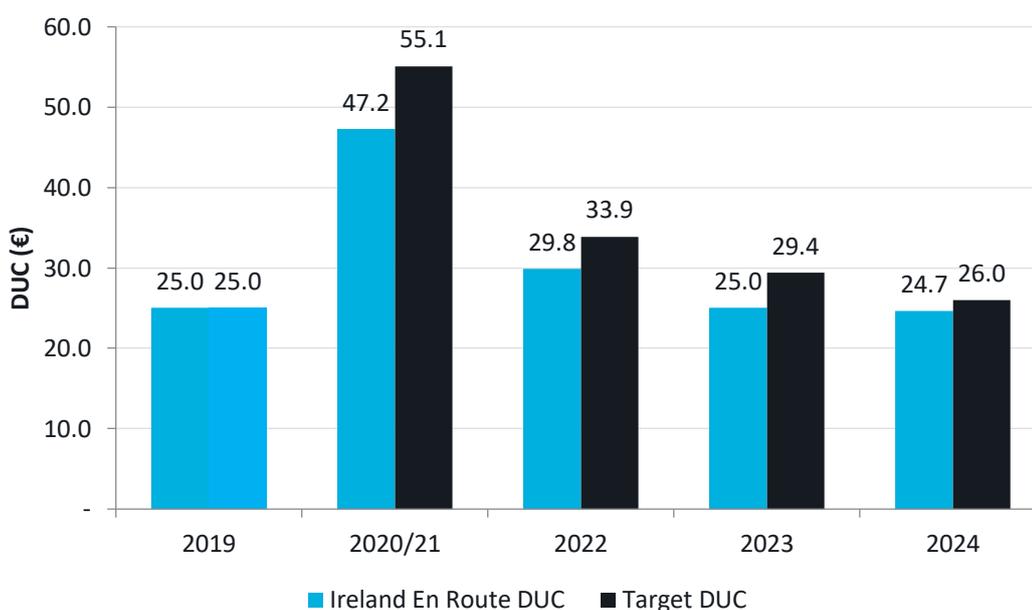
3.1 As set out in Section 2, the October forecast necessitates increases in certain IAA ANSP cost items. The October forecasts impact the Determined Unit Costs and the Unit Rates in two ways; this cost effect, whereby the costs are higher, and a volume effect, whereby the costs are spread across more Service Units (Sus). The volume effect is much greater, due to the small scale of the cost increases, relative to the forecast SU increases.

#### *Determined Unit Cost (DUC)*

3.2 This effect is shown below in Figure 3.1. The DUCs would now be an average of 14% below the European Union-wide target for RP3, with the biggest difference occurring in 2023 where the DUC is forecast to be approximately 15% below the target.

3.3 The primary driver of the DUC performance is traffic, as costs are inelastic. The union-wide target was set on the basis of traffic forecasts from November 2020 which are a year out of date, and much lower than the forecasts now being used. Thus, while the Performance Plan now significantly outperforms the Union-Wide targets in every year, we do not consider it to be an instructive comparison except for 2020/2021.

**Figure 3.1: Cost Efficiency KPA: En Route DUC vs. Union-wide Targets**



Source: CAR Calculations

#### *Unit Rates (URs)*

3.4 The forecast URs based on the October forecast are considerably lower than when they were based on the May forecast.

**Table 3.1: Actual and Forecast Unit Rates, based on October 1 PP and Updated November PP**

Charging Zone		2019	2020/21	2021*	2022**	2023	2024
En Route	October 1	€27.7	€40.6	€27.6	€35.8	€32.3	€29.8

	<b>November</b>	€27.7	<b>€38.4</b>	€27.6	<b>€29.1</b>	<b>€26.8</b>	<b>€28.5</b>
	<b>Change</b>	-	<b>-5%</b>	-	<b>-19%</b>	<b>-17%</b>	<b>-4%</b>
Terminal	October 1	€150.4	€175.5	€162.5	€177.7	€176.1	€174.7
	<b>November</b>	€150.4	<b>€183.3</b>	€162.5	<b>€146.5</b>	<b>€166.8</b>	<b>€182.6</b>
	<b>Change</b>	-	<b>+4%</b>	-	<b>-18%</b>	<b>-5%</b>	<b>+5%</b>

Source: CAR Calculations

\*2021 Unit Rate which is currently in effect, as opposed to the forecast recalculated rate for 2020/2021.

\*\* The 2022 URs are now the final effective rates for 2022, as adjustments have been made to the 'Other Revenues'.

- 3.5 Thus, the new forecasts cause the YoY increase in the En Route UR to now be limited to €1.50 for 2022, or 5%, as opposed to the previous estimated increase of €8. Instead of increasing, the Terminal UR would now see a YoY decrease for 2022 of €16, or 10%. For 2022, we have now also made the required 'Other Revenue' adjustments to the URs, meaning that those presented in Table 3.1 are the effective URs.
- 3.6 The URs vary from the DUCs due to adjustments relating to factors such as inflation, traffic risk sharing, other revenues, and from 2023, the recovery of unrecovered revenues from 2020 and 2021. For 2023 and 2024, the forecast unit rates are currently higher than the DUC due to the impact of this unrecovered revenue. For 2023, this is partly offset by traffic adjustments, while no other adjustments are yet confirmed for 2024.
- 3.7 The 2022 URs have now been finalised, having been adjusted to account for minor 'Other Revenue' adjustments, which are ordinarily adjusted for in year n-1 for setting the URs and are unrelated to the change in traffic forecasts.

## 4. Impact on other KPAs

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4.1 This section addresses the impact of the October forecast on the other KPAs.

### *Safety KPA*

4.2 We did not consider that there is any reason to adjust the Safety KPA targets on the basis of the revised forecasts. No respondent disagreed.

### *Capacity KPA*

4.3 In relation to the capacity targets, we noted that the primary purpose of the increased costs for the IAA ANSP in 2022 and 2023 is to align costs with the new forecasts, without increased levels of ATFM delay. Thus, we did not propose to adjust the capacity targets as this interdependency is addressed within the Opex model.

4.4 We requested views on whether any adjustments to the parameters of the capacity incentive scheme, such as in relation to the pivot values or the penalty/bonus combination, were warranted.

### *Submissions on Capacity KPA*

4.5 Ryanair supports the unchanged capacity targets for RP3.

4.6 British Airways also states that the targets should be maintained.

4.7 IATA fully supports the retention of the capacity targets set out in the 1 October PP, as well as the retention of the penalty only incentive scheme.

4.8 The IAA ANSP proposes a change to the capacity targets and the financial penalties associated with not achieving them as it considers that they are now 'impossible' to achieve. It argues that if the NSA uses the October forecast, the capacity targets should be significantly increased, or alternatively, the associated financial penalties should be suspended in 2022 and 2023 given the extent of the capacity constraints that it expects to arise. It argues that the timeframe is now too short to ensure that resource requirements are realised in time to avoid delays. It also argues that a similar effect will occur in 2023.

### *Decision on Capacity KPA*

4.9 We accept that the significant change in the short-term traffic forecast, and the short timeframe within which the IAA ANSP must now respond to this change, poses an additional practical challenge for 2022 and 2023, relative to the 1 October version of the PP. For example, it is not possible to complete the training of additional new ATCOs in time for the full Summer 2022 peak season. This challenge is recognised by a range of respondents. It is supported by the evidence of the Opex model which, as explained above, is now producing ATCO forecasts which are primarily driven by the training constraints in 2022 and 2023 (but this is not the case for 2024).

4.10 Thus, it is reasonable to take this into account by reducing the level of financial penalty for not meeting the capacity target relative to the 1 October version in 2022 and 2023.

This will avoid overly punishing the IAA ANSP for acting on the best information available to date, ensuring that the penalties remain proportionate to the level of 'blame' attributable to the ANSP for not meeting a target. The IAA ANSP, in its response to the consultation, believes penalties should therefore be suspended entirely. However, it is necessary to maintain a material incentive to meet the capacity targets.

- 4.11 We have confirmed that the regulation allows varied penalties for different years. We have therefore chosen to halve the cap on the En Route capacity incentive scheme penalties to 0.5% of revenue for 2022 and 2023. The other elements of the scheme remain as per the 1 October version. Thus, in summary, if the target of 0.03 minutes is not met, the ANSP will start paying penalties. These will increase on a sliding scale up to 0.05 minutes, from which point it would pay the maximum penalty of 0.5% of Determined costs (about 600k).
- 4.12 For 2024, the penalty remains at 1%, in line with the 1 October version of the Performance Plan, as there is no such practical challenge.
- 4.13 The capacity targets themselves remain unchanged and are in line with the national reference values.

#### **Environment KPA**

- 4.14 In the Performance Plan submitted on 1 October, we noted that the KEA reference values assigned to the IAA ANSP are challenging. The revision of the Union Wide targets and reference values led to a relatively more challenging outcome for the IAA ANSP compared to other ANSPs, particularly for 2023 and 2024. As made clear in its response to the consultation, the IAA ANSP had concerns over its ability to meet the targets. However, we noted that sustainably reducing the environmental impact of aviation is a key goal for Ireland, as it is across the EU. Although the KEA performance is already strong compared to the Union-wide targets, a challenging target will drive a focus for both ANSP and NSA to continuously assess and monitor performance. From that perspective, it is preferable to have a target which, while challenging, seeks to drive performance improvements. Therefore, the Performance Plan as submitted on 1 October adopted the national reference values as the KEA performance targets for RP3.
- 4.15 Whereas the cost forecasts in the Performance Plan as submitted on 1 October were updated for the May traffic forecasts, the national reference values assigned within the Performance Plan template remain in line with the assumptions from the November 2020 forecasts.<sup>1</sup> Similar to the DUC target, these targets are now outdated, but in the opposite direction. The DUC target can now be easily outperformed in all years. However, the KEA target, already acknowledged as being challenging, would be made significantly more challenging by the increased traffic forecast relative to when the EU-wide targets were set.
- 4.16 Article 5.1(b) Commission Implementing Decision (EU) 2021/891 sets Alert Thresholds of 10% variation in Service Units; variation beyond this threshold is considered to

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<sup>1</sup> As communicated by the Network Manager in June 2021.

warrant a review of the performance targets contained in the Performance Plan.

- 4.17 Table 4.1 compares the November 2020 forecasts with the October 2021 forecasts. We note that, for each year 2021-2024, the forecast En Route SUs has now increased by more than 10% relative to the forecast underpinning the Union-Wide targets, which in turn drove the assigned reference value. Consequently, based on the standard set by the Regulation, it is now necessary to consider how to update these targets as a result of the new forecasts.

**Table 4.1: ENR Service Unit Forecasts have changed beyond the alert thresholds ('000s)**

Forecast	2021	2022	2023	2024
November 2020	2,020	3,335	3,884	4,400
October 2021	2,312	3,991	4,883	4,893
<b>Increase</b>	<b>14%</b>	<b>20%</b>	<b>26%</b>	<b>11%</b>

Source: STATFOR, NSA Calculations

- 4.18 The NSA remains of the view that the Environment KPA target should be challenging but achievable. Thus, in the supplementary consultation, we proposed the revised targets set out in Table 4.2 and invited comments from stakeholders on these proposals.

**Table 4.2: Proposed updated KEA Targets, compared to previous targets (percentages)**

	2021	2022	2023	2024
2019 Performance Plan	1.54	1.53	1.53	1.53
October 1 <sup>st</sup> Revised PP	1.13	1.13	1.13	1.13
<b>Target Now Proposed</b>	<b>1.15</b>	<b>1.20</b>	<b>1.22</b>	<b>1.22</b>
% change from 1 Oct PP	+1.8%	+6.2%	+8%	+8%

Note that a lower target equates to improved KEA performance.

### Submissions on Proposed Updated Environment Targets

- 4.19 Ryanair calls for unchanged Environmental targets to incentivise the IAA ANSP to lead European environmental performance. It considers that the union wide targets are not ambitious enough to satisfy the environmental improvements sought by the industry.
- 4.20 British Airways believes that the revised Environmental targets are not sufficiently ambitious, as they reflect only a 'minimal' improvement on 2019 levels and are higher than those proposed in the 1 October PP. British Airways also believes that while forecast traffic has increased significantly for 2022, the adjustments to targets in 2023 and 2024 are unnecessary, as the newer traffic forecasts show minimal variation from the previous iteration.
- 4.21 IATA believes that the revision of targets should be reconsidered. It argues that the IAA ANSP consistently achieved their targets during RP2, when facing traffic that averaged 8% above forecast. IATA believes that the proposed targets represent too great a change, and that instead, the 2021 level could be maintained for the period.
- 4.22 The IAA ANSP welcomes the proposal surrounding the amended environment targets.

### *Decision on Revised Environment Targets*

- 4.23 The NSA remains of the view that the Environment KPA target should be challenging but achievable. As described in the consultation document, our view is that:
- The targets should seek to drive performance improvement. As the last year of 'normal' operations, actual 2019 performance is an appropriate reference point, consistent with the approach to the DUC target. Actual KEA performance in 2019 was 1.24%.
  - The targets should remain considerably more challenging than the reference values assigned in the 2019 performance planning process, which are outlined in Table 4.2.
  - The targets should take into account the change in traffic forecasts, but the change in the targets should not be linear with respect to the change in forecasts. That is, the increase in the target should be of lesser magnitude than the increase in the traffic forecasts set out in Table 4.1.
  - The targets should take into account the most up-to-date data prior to 1 October, in relation to how the traffic recovery is impacting KEA performance. In that context, we note that KEA performance in September 2021 was back up to 1.2%, as traffic levels increase and North <> South traffic flows (which generally have less efficient routings than East <> West traffic flows) are recovering, having decreased relatively more than East <> West flows in 2020.
  - The targets should preferably take into account the profile of the EU-Wide target, which anticipated a slight deterioration in 2023 and 2024.
- 4.24 Having regard for the above considerations, we have decided to adjust the targets to those outlined in table 4.2 above.
- 4.25 In response to Ryanair and British Airways concerns, we continue to believe that if the target transpires to be unachievably low, there is a risk that parties may not seek to attain it, if considered futile. Reasonably achievable targets will create the optimal incentive to actually seek to improve performance.
- 4.26 Regarding British Airways further point on traffic levels in 2023 and 2024, we note that En Route traffic is now forecast to be above 2019 levels in both 2023 and 2024, and in line with the original (2019) RP3 forecast for 2022, whereas the revised targets require improved performance on 2019 notwithstanding increased traffic.
- 4.27 En Route Service Units for 2023 and 2024 are now forecast to be above the original (2019) forecasts for RP3 for 2020 and 2021, and in line with the original forecast for 2022. The original assigned national reference values for Ireland in these years were 1.56, 1.54, and 1.53 respectively. This shows the extent of the disparity between the latest forecasts and the EU wide targets set on the basis of forecasts from November 2020. We continue to set targets which are considerably more ambitious than the national reference values assigned in 2019, which were associated with the same or lower levels of traffic.