Modification of condition 21 of the air traffic services licence held by NATS En Route plc

CAA Formal Proposals under section 11(2) of the Transport Act 2000

CAP 1024
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April 2013
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SECTION 1
Introduction

Purpose of this document

1.1 This document invites comments on the CAA's formal proposals to modify condition 21 of the air traffic services licence held by NATS (En Route) plc (NERL). This condition controls NERL's charges for Eurocontrol En Route Services. The current condition allows over or under recovery against the price control in any one year to be phased over the following two years with an initial adjustment to charges one year in arrears (N+1) with a subsequent further correction in the following year (N+2). The CAA's proposal prevents a preliminary adjustment for over or under recovery in respect of 2013 to take place in 2014. It also allows for 2014 charges to make a final correction to the preliminary over or under recovery of 2012 charges based as far as possible on actual data rather than estimates.¹

1.2 The EU Charging Regulation² has been modified so that from 1 January 2015 corrections will not be allowed before N+2. The modification now being proposed to NERL's licence is designed to bring forward that approach so that it will also have effect for charges in 2014. In practice this will postpone adjustment for over or under recovery relating to 2013 until after 1 January 2015, corresponding to the start of Reference Period 2 (2015-2019) under the EU performance scheme.

Views invited

1.3 Under section 11(1) of the Transport Act 2000 the CAA may modify the conditions of a licence if its holder consents to the modifications. NERL, as the licence holder, has given its consent to the modified condition in Appendix 1.

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¹ A preliminary adjustment had been made in the calculation of 2013 for under recovery in 2012 under the existing condition based on estimates.

² The Current Charging Regulation 1794/2006 will be repealed with effect from 1 January 2015. The final text, agreed at the Single Sky Committee on 7 March 2013, is now undergoing the Commission's internal processes and will be published in the Official Journal of the European Union in due course.
1.4 Under section 11(2) of the Transport Act 2000, before making modifications to the licence, the CAA must publish a notice setting out, amongst other things, the proposed modifications and state the period (of not less than 28 days) within which representations may be made regarding the proposed modifications. Accordingly, this document constitutes such a notice and the CAA would welcome comments on the proposed modifications. Any comments should be sent, if possible by e-mail, to Mike Goodliffe at mike.goodliffe@caa.co.uk by 22 May 2013. Alternatively, comments may be sent by post to:

Mike Goodliffe, Regulatory Policy Group, CAA
4th Floor, CAA House, 45-59 Kingsway, London WC2B 6TE

1.5 The CAA would expect to make responses available on its website for other interested parties to read as soon as practicable after the period for written comments has expired. Any material that is regarded as confidential should be clearly marked as such. Please note that the CAA has powers and duties with respect to information under section 102 of the Transport Act 2000 and the Freedom of Information Act 2000.

1.6 If you have any questions on this document please contact Mike Goodliffe on 020 7453 6226 (or, by e-mail, to mike.goodliffe@caa.co.uk).

**Next steps**

1.7 The CAA is allowing 28 days for comments on this document. Subject to the scale and nature of the responses received the CAA plans to publish its final decision on the proposed modification to condition 21 during May 2013. This will allow the submission that NERL is required to make to Eurocontrol by 1 June 2013 on its provisional charges for 2014 to take account of any modification.
SECTION 2
Proposals

Background

2.1 At the time of the 2013 charges setting process in November 2012 there was some debate as to whether under or over recoveries due to traffic risk sharing and outturn inflation could be adjusted on the basis of forecasts in the following year (N+1) rather than two years after (N+2) when the actual values for year N had been reported.

2.2 The text of the EU Charging Regulation at the time allowed recovery “no later than N+2” and therefore did not seem to preclude a phased recovery. However, a revision to the Charging Regulation has been agreed by the EC and the Member States through the Single Sky Committee so that the recovery or under recovery will not take place before N+2 and over recoveries will be returned to users in N+2. This change has legal effect from 1 January 2015. To avoid further uncertainty, the CAA has proposed, and NERL has agreed, to modify the charging condition in the NERL licence so that this revised approach to over and under recoveries would take effect from 1 January 2014.

2.3 Because the price condition will have to be further modified before 1 January 2015 to give effect to the outcome of the RP2 process (covering the period 2015-2019), the CAA proposes to make the minimum adjustments now that are necessary to implement the change for the calculation of 2014 charges.

Outline of changes proposed

2.4 The CAA proposes to amend the terms in condition 21 of NERL’s licence relating to:

- the adjustment to correct for cumulative variances in inflation;
- the adjustment for under or over recovery due to traffic risk sharing;
- the adjustment to correct for the recovery of under recoveries carried forward from the period before 2011 due to variances in traffic volumes in the year in RP1 in which they were to be recovered;

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3 This included correspondence on this issue between the European Commission and the CAA.
the timing of recovery of financial incentives for service quality.

2.5 In each case the CAA proposes changes affecting charges for 2014 which would:

- prevent recovery of sums in 2014 (N+1) relating to 2013 (N) based on estimates; while
- making the final recovery of sums relating to 2012 (N) in 2014 (N+2) (after taking account of any preliminary adjustment in 2013 (N+1) which were based on estimates.

2.6 The CAA has also decided to make two further changes which are to the benefit of users and to which NERL has agreed:

- to specify that the price condition establishes the maximum amount that NERL can charge. This would put it beyond doubt that NERL can charge below the price cap at its own discretion; and
- linked to this to make a change to the price control formula to make it clear that if NERL does charge below the price cap it can elect, at its own discretion, to identify that difference as a discount which would then not be considered as an under recovery eligible for subsequent correction in year N+2. NERL made such a discount in respect of charges for 2013.

Effect on 2014 Charges

2.7 The impact of the proposed change on 2014 charges will depend on the outturn traffic, inflation and performance indicators subject to incentives. This data will not be known until 2013 is completed but on the basis of current STATFOR⁴ and inflation forecasts the total effect is likely to be substantial with allowable charges in 2014 possibly of the order of £60 million less than they would otherwise have been.

2.8 This change will not affect the amount of under recovery specified in the price condition carried forward from the previous regulatory price control period before 2011, which will still be eligible to be recovered in 2014 under the price condition in the licence. This amounts to some £35 million.

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⁴ Eurocontrol's Statistics and Forecast Service.
Recovery in RP2 of over and under recoveries arising in 2013 and 2014

2.9 The current price condition in the licence is specific to the period 2011-2014. It will have to be substantially re-specified, with data based on the outcome of the RP2 process, before it can define the maximum charges for RP2. This major re-specification will be determined at the end of the process for performance plans in RP2 required by the EU Performance and Charging Regulations. The CAA will not therefore specify the precise algebra to give effect carrying forward any under or over recovery from 2013 and 2014 into RP2 at this time.

2.10 The CAA, however, recognises that NERL and its financiers require comfort that the relevant sums relating to 2013 and 2014 will indeed be eligible for recovery. The CAA would therefore expect to carry forward the sums implied for recovery in RP2 to the full extent permitted by the Charging Regulation and consistently with the requirements of the Transport Act 2000.

2.11 While the CAA is not proposing detailed changes to the licence condition for RP2 as part of this document, it recognises that there are particular issues around ensuring that the sums are recovered. Any recovery based on recouping a fixed sum over a forecast number of service units will be subject to variance due to the difference between actual service units from the forecast made, especially when the forecast is made at the start of the Reference Period and therefore, by the end of that period, is a number of years out of date. There will continue to be a challenge to make an exact recovery over time or at least for recovery to converge on the correct amount with a residual which is not material. There are two aspects of the approach adopted which will influence the effectiveness of this recovery mechanism:

- whether there is one round of under or over recovery or multiple rounds (or even a rolling form of recovery): after only one round of correction there might still be material balances e.g. if there was an over recovery of 10% (traffic risk sharing, inflation and incentives) in year N and service units are 10% below forecast in year N+2, then there would be a residual of over recovery of 1% (10% x 10%) after the first round of adjustment in N+2. This would reduce considerably if there were a further adjustment of the adjustment in N+4 for the variance in actual and forecast service units in year N+2; and
the extent to which any remaining under or over recover (following one or multiple rounds of recovery) can be considered as de minimis, or should be logged for subsequent recovery.

The CAA recognises that this is not unique to the UK and that other EU Member States will face the same issue. While the CAA has not reached a definitive view, a minimum degree of change would be to conduct two rounds of recovery. In order that these are based on actual rather than estimated data these would be at year N+2 and N+4. The CAA would however have regard to any pan EU-wide solution to this issue to emerge from the RP2 process.
Condition 21: Control of Eurocontrol Service Charges

A1 The proposed modifications to the condition are highlighted in the following pages.
APPENDIX 1

Condition 21: Control of Eurocontrol Service Charges

1. Without prejudice to Condition 25 (Suspension and Modification of Charge Control Conditions), for each Eurocontrol Relevant Year beginning on 1 January 2011, 2012, 2013 and 2014, the Maximum Permitted Average Charge Per Service Unit shall be calculated as follows:

\[
\text{Maximum Charge}_t = \frac{\text{DC}_t + \text{RS}_t + \text{PRE2011}_t - \text{VFR}_t + \text{INF}_t + \text{FI}_t}{\text{ForecastSU}_t} - \text{DISCOUNT}_t
\]

where:

<table>
<thead>
<tr>
<th><strong>Maximum Charge</strong> (_t)</th>
<th>means the <strong>Maximum</strong> Permitted Average Charge Per Service Unit in Eurocontrol Relevant Year (t).</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\text{DC}_t)</td>
<td>means the Determined Costs for the Eurocontrol Relevant Year (t) in nominal terms as set out as follows:</td>
</tr>
<tr>
<td>Year (t)</td>
<td>£</td>
</tr>
<tr>
<td>2011</td>
<td>564,546,000</td>
</tr>
<tr>
<td>2012</td>
<td>583,376,000</td>
</tr>
<tr>
<td>2013</td>
<td>619,785,000</td>
</tr>
<tr>
<td>2014</td>
<td>627,398,000</td>
</tr>
<tr>
<td>(\text{RS}_t)</td>
<td>means the Traffic Risk Sharing element from previous years calculated as follows:</td>
</tr>
<tr>
<td>Year (t)</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>As calculated in accordance with Paragraph 2 of this condition.</td>
</tr>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>(\text{PRE2011}_t)</td>
<td>means the correction factor for the over- or under- recoveries incurred up to and including the year 2011 and for delay bonuses and penalties in respect of performance in 2010 to be calculated in accordance with Paragraph 5.</td>
</tr>
<tr>
<td>(\text{VFR}_t)</td>
<td>means the expected cost of services to traffic operating under Visual Flight Rules as set out as follows:</td>
</tr>
<tr>
<td>Year (t)</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>0</td>
</tr>
</tbody>
</table>
| INF<sub>t</sub> | means an adjustment to correct for cumulative variances in the value of the HICP (all items) index acting on the determined costs, to be added to the amount of revenue to be recovered in relevant Eurocontrol year t compared to the reference values established before the reference period calculated as follows:

\[
INF_{2011} = 0
\]

For \( t = 2012 \) or \( 2013 \):

\[
INF_t = INF_{est, t-1} \left( \frac{1 + INT_{t-1}}{100} \right) + INF_{cor, t-2} \left( \frac{1 + INT_{t-1}}{100} \right)^2
\]

except that \( INF_{2011} = 0 \).

For \( t = 2014 \):

\[
INF_{2014} = INF_{cor, 2012} \left( \frac{1 + INT_{2013}}{100} \right)^2
\]

| DISCOUNT<sub>t</sub> | means an adjustment where NERL at its own discretion decides to recover less than it would otherwise be allowed to recover and has declared to the CAA that it will not pursue this as under-recovery in subsequent years.

**Where:**

For \( t = 2011 \) and \( 2012 \):

\[
DISCOUNT_t = 0
\]

For \( t = 2013 \):

\[
DISCOUNT_{2013} = £0.4765
\]

For \( t = 2014 \):

\[
DISCOUNT_{2014} = 0, \text{ or any such discount that NERL at its own discretion may declare to the CAA in writing.}
\]

<p>| Where | ( INT_{t-1} ) | means the average of the yield (expressed as an annual percentage interest rate) on 3 month Treasury Bills published weekly by the UK Debt Management Office, during the 12 months from 1 September in Relevant Year ( t-2 ). |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\text{INFest}_{t-1}$</td>
<td>means the preliminary adjustment to correct charges for cumulative variances in the value of the HICP (all items) index of inflation up to August in Relevant Eurocontrol Year $t-1$ and the estimate of cumulative inflation to Eurocontrol relevant year $t-1$ which shall be calculated as follows:</td>
</tr>
<tr>
<td></td>
<td>$\text{INFest}<em>{t-1} = \left( \frac{\text{HICP}</em>{\text{Aug}(t-1)}}{\text{FHICP}<em>{t-1}} - 1 \right) \text{DC}</em>{t-1}$</td>
</tr>
<tr>
<td></td>
<td>except that $\text{INFest}_{2010}=0$</td>
</tr>
<tr>
<td>$\text{INFcor}_{t-2}$</td>
<td>means a correction to the preliminary adjustment made in year $t-1$ for variances in year $t-2$ which shall be calculated as follows:</td>
</tr>
<tr>
<td></td>
<td>$\text{INFcor}<em>{t-2} = \left( \frac{\text{HICP}</em>{t-2}}{\text{FHICP}<em>{t-2}} - 1 \right) \text{DC}</em>{t-2} - \text{INFest}<em>{t-1} \frac{\text{ActualSU}</em>{t-1}}{\text{ForecastSU}_{t-1}}$</td>
</tr>
<tr>
<td></td>
<td>$\text{INFcor}<em>{t-2} = \left( \frac{\text{HICP}</em>{t-2}}{\text{FHICP}<em>{t-2}} - 1 \right) \text{DC}</em>{t-2} - \text{INFest}<em>{t-1} \frac{\text{EstimateSU}</em>{t-1}}{\text{ForecastSU}_{t-1}}$</td>
</tr>
<tr>
<td></td>
<td>except that $\text{INFcor}_{2010}=0$</td>
</tr>
<tr>
<td>$\text{HICP}_{\text{Aug}(t-1)}$</td>
<td>means the monthly value of the HICP (all items) index, (2005=100) in respect of the UK published by Eurostat for August in relevant year $t-1$.</td>
</tr>
<tr>
<td>$\text{HICP}_{t-2}$</td>
<td>means the HICP (all items) annual average index (2005=100) in respect of the UK published by Eurostat for Eurocontrol Relevant Year $t-2$.</td>
</tr>
<tr>
<td>$\text{FHICP}_{t}$</td>
<td>means the reference values of the HICP (all items) index (2005=100) in respect of the UK for Eurocontrol Relevant Year $t$ established prior to the control period, consistent with the projections in nominal prices which shall be:</td>
</tr>
</tbody>
</table>

Part III – Conditions Relating to the Charge Control: Condition 21
Forecast\(SU_t\) means the forecast of Service Units for relevant year \(t\) established at the beginning of the reference period as set out as follows:

<table>
<thead>
<tr>
<th>Year (t)</th>
<th>2011</th>
<th>9,796,788</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>10,150,531</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>10,492,826</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>10,860,246</td>
</tr>
</tbody>
</table>

Estimate\(SU_{t-1}\) means the Licensee’s best endeavours estimate of Service Units for relevant year \(t-1\) made when setting charges for year \(t\).

Actual\(SU_t\) means the Service Units as recorded by the Central Route Charges Office of Eurocontrol for relevant year \(t\).

\(FI_t\) means the Financial Incentives relating to performance as calculated in accordance with Paragraphs 6-18 of this condition.

**Calculation of the traffic risk sharing element**

2. \(RS_t\) shall be calculated as follows:

\[
\begin{align*}
RS_{2011} &= 0 \\
For t = 2012 or 2013: \\
RS_t &= \left[ RS_{est_{t-1}} \left(1 + \frac{INT_{t-1}}{100}\right) \right] + \left[ RS_{core_{t-2}} \left(1 + \frac{I_{t-1}}{100}\right)^2 \right] \\
For t = 2014: \\
RS_{2014} &= \left[ RS_{core_{2012}} \left(1 + \frac{I_{2013}}{100}\right)^2 \right] \\
\end{align*}
\]

Except that \(RS_{2011} = 0\)

Where \(RS_{est_{t-1}}\) means the Licensee’s estimate of the revenue risk sharing shortfall or over recovery in Eurocontrol Relevant year \(t-1\) based on the Licensee’s best endeavours estimate of the Service Units made when setting charges for year \(t\) which shall be calculated as set out in Paragraph 3.
### RScor\(_{t-2}\)

**Definition:**

A correction to adjust for the difference between the Licensee’s best estimate of Service Units in year \(t-2\) and the actual service units made when setting charges for year \(t\) which shall be calculated as

\[
RScor_{t-2} = \left[ \frac{\text{RSact}_{t-2} - \text{RSest}_{t-2}}{\text{ForecastSU}_{t-1}} \right] \times \frac{\text{ActualSU}_{t-1}}{\text{RSact}_{t-2} - \text{RSest}_{t-2}}
\]

**Except that RScor\(_{2010}\) = 0**

Where

**RSact\(_{t-2}\):**

The risk sharing relating to Eurocontrol Relevant year \(t-2\) based on the actual number of Service Units which shall be calculated as set out in Paragraph 4.

**INT\(_{t-1}\):**

The average of the yield (expressed as an annual percentage interest rate) on 3 month Treasury Bills published weekly by the UK Debt Management Office, during the 12 months from 1 September in Relevant Year \(t-2\).

**I\(_{t-1}\):**

The average of the yield (expressed as an annual percentage interest rate) on 3 month Treasury Bills published weekly by the UK Debt Management Office, during the 12 months from 1 September in Relevant Year \(t-2\) where the value of \(RScor_{t-2}\) is positive, or 300 basis points above this average rate where the value is negative.

### 3. RSest\(_{t-1}\)

**Calculation:**

For relevant years 2012, 2013 and 2014

**Where:**

\[
0.98 \leq \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} \leq 1.02
\]

\(RSest_{t-1} = 0\)

**Where:**

\[
1.02 < \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} \leq 1.10
\]

\[
RSest_{t-1} = -0.7 \left[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} - 1.02 \right] [EDC_{t-1}]
\]
<table>
<thead>
<tr>
<th>Condition</th>
<th>Formula</th>
</tr>
</thead>
</table>
| Condition 21 | \[ 0.90 \leq \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} < 0.98 \] 
\[ R_{\text{Est}t-1} = -0.7 \left[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} - 0.98 \right] \left[ \text{EDC}_{t-1} \right] \] |
| Condition 21 | \[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} < 0.90 \] 
\[ R_{\text{Est}t-1} = - \left[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} - 0.90 \right] \left[ \text{EDC}_{t-1} \right] + 0.7 \left[ 0.08 \left( \text{EDC}_{t-1} \right) \right] \] |
| Condition 21 | \[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} > 1.10 \] 
\[ R_{\text{Est}t-1} = - \left[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} - 1.10 \right] \left[ \text{EDC}_{t-1} \right] - 0.7 \left[ 0.08 \left( \text{EDC}_{t-1} \right) \right] \] |
| Condition 21 | \[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} < 0.90 \] 
\[ R_{\text{Est}t-1} = -0.7 \left[ \frac{\text{EstimateSU}_{t-1}}{\text{ForecastSU}_{t-1}} - 0.98 \right] \left[ \text{EDC}_{t-1} \right] \] |

4. \( R_{\text{Act}t-2} \) shall be calculated as follows:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Formula</th>
</tr>
</thead>
</table>
| Condition 22 | \[ 0.98 \leq \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} \leq 1.02 \] 
\[ R_{\text{Act}t-2} = 0 \] |
| Condition 22 | \[ 1.02 < \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} \leq 1.10 \] 
\[ R_{\text{Act}t-2} = -0.7 \left[ \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} - 1.02 \right] \left[ \text{ADC}_{t-2} \right] \] |
| Condition 22 | \[ 0.90 \leq \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} < 0.98 \] 
\[ R_{\text{Act}t-2} = -0.7 \left[ \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} - 0.98 \right] \left[ \text{ADC}_{t-2} \right] \] |
| Condition 22 | \[ \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} < 0.90 \] 
\[ R_{\text{Act}t-2} \] |
\[ RS_{act_{t-2}} = \left[ \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} - 0.90 \right] \text{[ADC}_{t-2}] + 0.7[0.08(\text{ADC}_{t-2})] \]

Where:

For \( \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} > 1.10 \)

\[ RS_{act_{t-2}} = \left[ \frac{\text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} - 1.10 \right] \text{[ADC}_{t-2}] - 0.7[0.08(\text{ADC}_{t-2})] \]

Where:

\[ \text{ADC}_{t-2} = \left( \frac{\text{HICP}_{t-2}}{\text{FHICP}_{t-2}} \right) \text{DC}_{t-2} \]

---

**Calculation of over or under recoveries incurred up to and including Eurocontrol Relevant Year 2011**

5. \( \text{PRE2011}_t \) shall be calculated as follows:

\[ \text{PRE2011}_t = \text{SMOOTH}_t + \text{SMOOTHADJ}_t + \text{OTHER}_t + \text{CORR}_t \]

Except that:

\( \text{PRE2011}_{2010} = 0 \)

- **SMOOTH}_t** means the provisional allowance in nominal terms made by the CAA based on a forecast in respect of the over- or under-recoveries up to 2010 and for delay bonuses and penalties in respect of performance in 2010 to be recovered in year \( t \):

<table>
<thead>
<tr>
<th>Year ( t )</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>12,019,000</td>
</tr>
<tr>
<td>2013</td>
<td>7,716,000</td>
</tr>
<tr>
<td>2014</td>
<td>35,247,000</td>
</tr>
</tbody>
</table>

- **SMOOTHADJ}_t** means an adjustment to the provisional allowance to take effect in relevant year 2012 for the difference between the actual over- or under recoveries up to 2010 and for delay bonuses and penalties in respect of performance in 2010 and the forecasts made in setting SMOOTH}_t for all years 2011 to 2014 inclusive. SMOOTHADJ}_t shall be calculated as follows:

<table>
<thead>
<tr>
<th>Year ( t )</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>As calculated below.</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
</tr>
</tbody>
</table>
For relevant year 2012:

\[
\text{SMOOTHADJ}_{2012} = +[(\text{MACR}_{2010} - (\text{ActualSU}_{2010} \times £0.37) - \text{TCR}_{2010})
- \text{EST}_{\text{REC}}_{2010} \times \left(1 + \frac{\text{INT}_{2011}}{100}\right)^2 \]
- \left[(\text{S}_{2010} \times \text{FLIGHTS}_{2010}) + \text{EST}_{\text{BONUS}}_{2010}\right]
\]

Where:

\(\text{MACR}_{2010}, \text{TCR}_{2010}, \text{S}_{2010}, \text{FLIGHTS}_{2010}\) have the meanings defined in Condition 21 of the Air Traffic Services Licence for NATS En Route plc which was in effect on 1 July 2010;

\(\text{EST}_{\text{REC}}_{2010}\) is the estimate of the relevant under recovery in year 2010 used to determine \(\text{SMOOTHADJ}_t\) and defined as follows:

\[
\text{EST}_{\text{REC}}_{2010} = £33,156,000
\]

\(\text{EST}_{\text{BONUS}}_{2010}\) is the estimate of the relevant under recovery in year 2010 used to determine \(\text{SMOOTHADJ}_t\) for all years defined as follows:

\[
\text{EST}_{\text{BONUS}}_{2010} = £10,004,000
\]

\(\text{OTHER}_t\) means the recovery of the Licensee’s over- or under recovery of elements of the UK National Eurocontrol Rate paid to third parties due to variances in traffic in relevant year 2011 which shall be calculated as follows:

<table>
<thead>
<tr>
<th>Year (t)</th>
<th>(\text{OTHER}_t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>As calculated below.</td>
</tr>
<tr>
<td>2013</td>
<td>As calculated below</td>
</tr>
<tr>
<td>2014</td>
<td>0</td>
</tr>
</tbody>
</table>
For relevant year 2012:

\[
OTHER_{2012} = TOTNONNERL_{2011} \left( 1 - \frac{\text{EstimateSU}_{2011}}{\text{ForecastSU}_{2011}} \right) \left[ 1 + \frac{\text{INT}_{2011}}{100} \right]
\]

For relevant year 2013

\[
OTHER_{2013} = TOTNONNERL_{2011} \left( \frac{\text{EstimateSU}_{2011} - \text{ActualSU}_{2011}}{\text{ForecastSU}_{2011}} \right) \left[ 1 + \left( \frac{I_{2012}}{100} \right)^2 \right]
\]

Where:

\( TOTNONNERL_{2011} \) is the total revenue to be recovered by parties other than the Licensee as part of the Eurocontrol UK Unit rate in respect of relevant year 2011 calculated as follows:

\( TOTNONNERL_{2011} = £82,129,000 \)

\( CORR_t \) means a term to correct the PRE2011, term for under or over recovery in recovery of this term in the preceding year due to variances in traffic volumes. \( CORR_t \) shall be calculated as follows:

For \( t = 2011 \)

\( CORR_{2011} = 0 \)

For \( t = 2012 \) and \( 2013 \)

\[
CORR_t = \text{PRE2011}_{t-1} \left( 1 - \frac{\text{EstimatedSU}_{t-1}}{\text{ForecastSU}_{t-1}} \right) \left[ 1 + \frac{\text{INT}_{t-1}}{100} \right] + \text{PRE2011}_{t-2} \left( \frac{\text{EstimatedSU}_{t-2} - \text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} \right) \left[ 1 + \left( \frac{I_{t-1}}{100} \right)^2 \right]
\]

For \( t = 2014 \)

\[
CORR_{2014} = \text{PRE2011}_{2012} \left( \frac{\text{EstimatedSU}_{2012} - \text{ActualSU}_{2012}}{\text{ForecastSU}_{2012}} \right) \left[ 1 + \left( \frac{I_{2013}}{100} \right)^2 \right]
\]

\( \text{INT}_{t-1} \) means the average of the yield (expressed as an
annual percentage interest rate) on 3 month Treasury Bills published weekly by the UK Debt Management Office, during the 12 months from 1 September in Relevant Year t-2.

\[ I_{t-1} \]

means the average of the yield (expressed as an annual percentage interest rate) on 3 month Treasury Bills published weekly by the UK Debt Management Office, during the 12 months from 1 September in Relevant Year t-2 where the value of (EstimateSU_{t-2} - ActualSU_{t-2}) is positive, or 300 basis points above this average rate where the value is negative.

**Calculation of financial incentives**

6. In respect of Eurocontrol Relevant Year 2011:

\[ F_{I_t} = 0 \]

In respect of \( F_{I_t} \) for Eurocontrol Relevant Years t, 2012 and 2013

\[ F_{I_t} = FT_{1_{t-1}} + FT_{2_{t-1}} + FT_{3_{t-1}} + KFI_{t-2} + FEMM_{t-1} \]

In respect of \( F_{I_t} \) for Eurocontrol Relevant Year t, 2014 and 2014

\[ F_{I_t} = KFI_{t-2} \]
\[ F_{t} = F_{T1,t-1} + F_{T2,t-1} + F_{T3,t-1} + K_{Ft-2} + F_{EMM,t-1} \]

Subject to:

\[ \begin{align*}
F_{T1,2011} + F_{T2,2011} + F_{T3,2011} & \leq \frac{\text{CHAW}_{Aug2011}}{198.1} \cdot 9,360,000 \\
F_{T1,2011} + F_{T2,2011} + F_{T3,2011} & \geq \frac{\text{CHAW}_{Aug2011}}{198.1} \cdot 19,020,000 \\
F_{T1,2013} + F_{T2,2013} + F_{T3,2013} & \leq \frac{\text{CHAW}_{Aug2013}}{198.1} \cdot 9,360,000 \\
F_{T1,2013} + F_{T2,2013} + F_{T3,2013} & \geq \frac{\text{CHAW}_{Aug2013}}{198.1} \cdot 19,020,000 \\
F_{T1,2014} + F_{T2,2014} + F_{T3,2014} & \leq \frac{\text{CHAW}_{Aug2014}}{198.1} \cdot 9,360,000 \\
F_{T1,2014} + F_{T2,2014} + F_{T3,2014} & \geq \frac{\text{CHAW}_{Aug2014}}{198.1} \cdot 19,020,000 \\
F_{EMM,2012} & \geq \frac{\text{CHAW}_{Aug2012}}{198.1} \cdot 4,800,000 \\
F_{EMM,2013} & \geq \frac{\text{CHAW}_{Aug2013}}{198.1} \cdot 4,800,000 \\
F_{EMM,2014} & \geq \frac{\text{CHAW}_{Aug2014}}{198.1} \cdot 4,800,000 \\
F_{EMM,2012} & \leq \frac{\text{CHAW}_{Aug2012}}{198.1} \cdot 2,400,000 \\
F_{EMM,2013} & \leq \frac{\text{CHAW}_{Aug2013}}{198.1} \cdot 2,400,000 \\
F_{EMM,2014} & \leq \frac{\text{CHAW}_{Aug2014}}{198.1} \cdot 2,400,000
\end{align*} \]

Where:

- \( F_{T1,t-1} \) means the element of bonus or penalty relating to measure \( T1_{t-1} \) in respect of relevant year \( t-1 \) as calculated in Paragraphs 7 and 8.
- \( F_{T2,t-1} \) means the element of bonus or penalty relating to measure \( T2_{t-1} \) in respect of relevant year \( t-1 \) as calculated in Paragraphs 9 and 10.
- \( F_{T3,t-1} \) means the element of bonus or penalty relating to measure \( T3_{t-1} \) in...
Part III – Conditions Relating to the Charge Control: Condition 21

respect of relevant year \( t-1 \) as calculated in Paragraphs 13 and 14.

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>KFI_{t-2}</td>
<td>means the correction of the financial incentives for the differences between actual performance in relevant year ( t-2 ) and forecast performance in year ( t-2 ) as calculated in Paragraph 17.</td>
</tr>
<tr>
<td>FEMM_{t-1}</td>
<td>Means the element of financial incentives relating to measure FEMS_{t-1} in respect of relevant year ( t-1 ) as calculated in Paragraph 20.</td>
</tr>
</tbody>
</table>

In respect of all the elements of the Financial Incentives:

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensee Attributable En Route ATFM Delay</td>
<td>means En Route ATFM Delay attributed to the Eurocontrol Business (subject to adjustment in accordance with methods approved by the CAA) other than where the cause is recorded as: Weather, Airport Operations (en route holding), Military Activity, Non ATC Equipment, Other ANSP Industrial Action, Accident/Incident, Aerodrome Capacity, De-icing or Special Event. (Special Event shall not include the Olympic Games or Paralympic Games for this purpose.)</td>
</tr>
<tr>
<td>En Route ATFM Delay</td>
<td>means en route air traffic flow management delay calculated by the central unit of ATFM as defined in Commission Regulation (EC) No 255/2010 on ATFM and expressed as the difference between the take-off time requested by the aircraft operator in the last submitted flight plan and the calculated take-off time allocated by the central unit of ATFM.</td>
</tr>
<tr>
<td>AFLIGHTS_{t-1}</td>
<td>means the actual aggregate number of flights in relevant year ( t-1 ) to be calculated by reliance on figures of chargeable flights reported to the CAA by the Central Route Charges Office of Eurocontrol (subject to any adjustment in accordance with methods approved by the CAA).</td>
</tr>
<tr>
<td>FLIGHTS_{t-1}</td>
<td>means the licensee’s best endeavours estimate of AFLIGHTS_{t-1} made at the time of setting charges for relevant year ( t ).</td>
</tr>
<tr>
<td>CHAW_{Aug(t-1)}</td>
<td>means the value the CHAW retail Price Index published by the Office of National Statistics with respect to August in Eurocontrol Relevant Year ( t-1 ).</td>
</tr>
</tbody>
</table>

The Calculation of \( FT_{1, t-1} \)

7. For the purpose of Paragraph 6, the term \( FT_{1, t-1} \) shall be calculated in accordance with the following formulae where Eurocontrol Relevant Years \( t-1 \) are 2011 and, 2013 (relating to penalties or bonuses in 2012 and 2014 respectively):
Where $T_{1,t-1}$ means the Licensee’s best endeavours estimate of the average Licensee Attributable En Route ATFM Delay in seconds per flight in year $t-1$ made at the time of setting the Eurocontrol service charge for Eurocontrol relevant year $t$.

Where $T_{1,t-1}$ is greater than or equal to $T_{1Upper,t-1}$

and: $T_{1,t-1}$ is greater than or equal to $MaxT_{1,t-1}$

Where:

$MaxT_{1,2011}=44$
$MaxT_{1,2013}=45$
$MaxT_{1,2014}=45$

then $FT_{1,t-1} = T_{1PenRate_{t-1}}(MaxT_{1,t-1} - T_{1Upper_{t-1}})FLIGHTS_{t-1}$

Where: $T_{1,t-1}$ is greater than or equal to $T_{1Upper_{t-1}}$ and:

$T_{1,t-1}$ is less than $MaxT_{1,t-1}$

then $FT_{1,t-1} = T_{1PenRate_{t-1}}(T_{1,t-1} - T_{1Upper_{t-1}})FLIGHTS_{t-1}$

Where: $T_{1,t-1}$ is greater than $T_{1Lower,t-1}$ and less than $T_{1Upper,t-1}$

then $FT_{1,t-1} = 0$

Where: $T_{1,t-1}$ is less than or equal to $T_{1Lower,t-1}$

then $FT_{1,t-1} = T_{1BonusRate_{t-1}}(T_{1Lower_{t-1}} - T_{1,t-1})FLIGHTS_{t-1}$

Where $T_{1PenRate_{t-1}}$ means the penalty rate for the reduction of revenues relating to the T1 score in the relevant year $t-1$ (to take effect in relevant year $t$) calculated as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$-0.0648 \left( \frac{CHAW_{Aug(2011)}}{198.1} \right)$</td>
</tr>
<tr>
<td>2013</td>
<td>$-0.0648 \left( \frac{CHAW_{Aug(2013)}}{198.1} \right)$</td>
</tr>
</tbody>
</table>
T1BonusRate\textsubscript{\(t-1\)} means the bonus rate for the increase of revenues relating to the T1 score in the relevant year \(t-1\) (to take effect in relevant year \(t\)) calculated as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>T1BonusRate\textsubscript{(t-1)}</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>(0.1053 \left( \frac{CHAW\textsubscript{Aug(2011)}}{198.1} \right))</td>
</tr>
<tr>
<td>2013</td>
<td>(0.0948 \left( \frac{CHAW\textsubscript{Aug(2013)}}{198.1} \right))</td>
</tr>
<tr>
<td>2014</td>
<td>(0.0948 \left( \frac{CHAW\textsubscript{Aug(2014)}}{198.1} \right))</td>
</tr>
</tbody>
</table>

\(T1Upper\textsubscript{\(t-1\)}\) is the value of the T1 score in relevant year \(t-1\) above which a penalty becomes payable calculated as follows:

\[T1Upper\textsubscript{\(t-1\)} = T1Par\textsubscript{\(t-1\)} + 2.5\]

\(T1Lower\textsubscript{\(t-1\)}\) is the value of the T1 score in relevant year \(t-1\) below which a bonus becomes payable calculated as follows.

\[T1Lower\textsubscript{\(t-1\)} = T1Par\textsubscript{\(t-1\)} - 2.5\]

\(T1Par\textsubscript{\(t-1\)}\) is defined in Paragraph 18.
8. For the purpose of Paragraph 6, the term $FT_{t-1}'$ shall be calculated in accordance with the following formulae where relevant year $t-1$ is 2012 (relating to penalties or bonuses in 2013):

$$FT_{2012} = FT_{games}' + FT_{other}'$$

<table>
<thead>
<tr>
<th>$FT_{games}'$</th>
<th>means the element of bonus or penalty relating to measure $T_{t-1}'$ relating to the period 1 July to 15 September 2012 inclusive.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$FT_{other}'$</td>
<td>means the element of bonus or penalty relating to measure $T_{t-1}'$ relating to the aggregate of the two periods 1 January to 30 June 2012 inclusive and 16 September to 31 December 2012 inclusive.</td>
</tr>
</tbody>
</table>

Subscript $s$ means either “games” or “other” for all terms in the relevant expression such that the relevant expression applies to either the “games” or the “other” period.

Subject to An absolute limit on penalties and bonuses arising from the calculation of $FT_{games}'$ and $FT_{other}'$ such that:

$$FT_{MaxPenalty_{2012}} = -£4,800,000 \times \frac{CHAW_{Aug(2012)}}{198.1}$$
and

$$FT_{MaxBonus_{2012}} = £2,340,000 \times \frac{CHAW_{Aug(2012)}}{198.1}$$

Where $T_{games}'$ is greater than or equal to $T_{Upper_{games}}$ then

$$FT_{games}' = \max \left( \left( T_{PenRate_{2012}} \times (T_{games}' - T_{Upper_{games}}) \times FLIGHTS'_{games} \right), \left( FT_{MaxPenalty_{2012}} \times \frac{2.5}{12} \right) \right)$$

Where $T_{other}'$ is greater than or equal to $T_{Upper_{other}}$ then

$$FT_{other}' = \max \left( \left( T_{PenRate_{2012}} \times (T_{other}' - T_{Upper_{other}}) \times FLIGHTS'_{other} \right), \left( FT_{MaxPenalty_{2012}} \times \frac{9.5}{12} \right) \right)$$

Where: $T_s$ is greater than $T_{Lower_s}$ and less than $T_{Upper_s}$ then

$$FT_{s}' = 0$$
<table>
<thead>
<tr>
<th>Condition</th>
<th>Expression</th>
</tr>
</thead>
<tbody>
<tr>
<td>T1 games</td>
<td>T1 games</td>
</tr>
<tr>
<td>is less than or equal to</td>
<td>T1 games</td>
</tr>
<tr>
<td>T1 games</td>
<td>games = MIN</td>
</tr>
<tr>
<td>FT1 games</td>
<td>T1BonusRate &lt;sup&gt;2012&lt;/sup&gt; (T1 games - T1 games)</td>
</tr>
<tr>
<td>FT1 games</td>
<td>FLIGHTS games</td>
</tr>
<tr>
<td>FT1 Max Bonus &lt;sup&gt;2012&lt;/sup&gt; &amp; 2.5 &amp; 12</td>
<td></td>
</tr>
<tr>
<td>Where:</td>
<td></td>
</tr>
<tr>
<td>T1 games</td>
<td>games</td>
</tr>
<tr>
<td>then</td>
<td></td>
</tr>
<tr>
<td>FT1 games</td>
<td>=</td>
</tr>
<tr>
<td>MIN</td>
<td>T1BonusRate &lt;sup&gt;2012&lt;/sup&gt; (T1 games - T1 games)</td>
</tr>
<tr>
<td>FT1 Max Bonus &lt;sup&gt;2012&lt;/sup&gt; &amp; 2.5 &amp; 12</td>
<td></td>
</tr>
<tr>
<td>Where:</td>
<td></td>
</tr>
<tr>
<td>T1 other</td>
<td>is less than or equal to</td>
</tr>
<tr>
<td>then</td>
<td></td>
</tr>
<tr>
<td>FT1 other</td>
<td>=</td>
</tr>
<tr>
<td>MIN</td>
<td>T1BonusRate &lt;sup&gt;2012&lt;/sup&gt; (T1 other - T1 other)</td>
</tr>
<tr>
<td>FT1 Max Bonus &lt;sup&gt;2012&lt;/sup&gt; &amp; 9.5 &amp; 12</td>
<td></td>
</tr>
<tr>
<td>Where:</td>
<td></td>
</tr>
<tr>
<td>T1PenRate &lt;sup&gt;2012&lt;/sup&gt;</td>
<td>means the penalty rate for the reduction of revenues based on the T1 score relating to Eurocontrol relevant year 2012 calculated as follows:</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>T1PenRate &lt;sup&gt;2012&lt;/sup&gt; =</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>£0.0648 &amp; CHAW Aug(2012) &amp; 198.1</td>
</tr>
<tr>
<td>T1BonusRate &lt;sup&gt;2012&lt;/sup&gt;</td>
<td>means the bonus rate for the increase of revenues based on the T1 score relating to Eurocontrol relevant year 2012 calculated as follows</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>T1BonusRate &lt;sup&gt;2012&lt;/sup&gt; =</td>
<td></td>
</tr>
<tr>
<td>£0.1053 &amp; CHAW Aug(2012) &amp; 198.1</td>
<td></td>
</tr>
<tr>
<td>T1Upper games</td>
<td>means the value of the T1 score in the games period in Eurocontrol relevant year 2012 above which a penalty becomes payable calculated as follows:</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>T1Upper games = T1 Par Pen games + 2.5</td>
<td></td>
</tr>
<tr>
<td>T1Lower games</td>
<td>means the value of the T1 score in the games period in Eurocontrol relevant year 2012 below which a bonus becomes payable calculated as follows:</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>T1Lower games = T1 Par Bonus games - 2.5</td>
<td></td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| \( T1_{Upper\_other} \)    | means the value of the T1 score in the other period in Eurocontrol relevant year 2012 above which a penalty becomes payable calculated as follows:  
\[
T1_{Upper\_other} = T1_{Par\_other} + 2.5
\]
| \( T1_{Lower\_other} \)    | means the value of the T1 score in the other period in Eurocontrol relevant year 2012 below which a bonus becomes payable calculated as follows:  
\[
T1_{Lower\_other} = T1_{Par\_other} - 2.5
\]
| \( T1_{Par\_Pen\_games} \) | means the par value of the T1 score for calculating penalties for the games period in Eurocontrol relevant year 2012 as calculated in Paragraph 18. |
| \( T1_{Par\_Bonus\_games} \) | means the par value of the T1 score for calculating bonuses for the games period in Eurocontrol relevant year 2012 as calculated in Paragraph 18. |
| \( T1_{Par\_other} \)      | means the par value of the T1 score for the other period in relevant year 2012 as calculated in Paragraph 18. |
| \( FLIGHTS'_{\_games} \)  | means the number of FLIGHTS\(_{2012}\) falling in the period of the Games as specified above. |
| \( FLIGHTS'_{\_other} \)  | means the number of FLIGHTS\(_{2012}\) falling outside the period of the games as specified above calculated as:  
\[
FLIGHTS'_{\_other} = FLIGHTS\(_{2012}\) - FLIGHTS'_{\_games}
\] |
The Calculation of $FT_{t-1}$

9. For the purpose of Paragraph 6, the term $FT_{t-1}$ shall be calculated in accordance with the following formulae where Eurocontrol relevant years t-1 are 2011 and 2013 (relating to penalties or bonuses in 2012 and 2014 respectively):

<table>
<thead>
<tr>
<th>Where</th>
<th>$T_{2,t-1}$ means the Licensee's best endeavours estimate of the weighted delay score per flight calculated as set out in Paragraph 11.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where</td>
<td>$T_{2,t-1}$ is greater than or equal to $T2_{Upper,t-1}$ and:</td>
</tr>
<tr>
<td></td>
<td>$T_{2,t-1}$ is greater than or equal to $MaxT_{2,t-1}$</td>
</tr>
<tr>
<td></td>
<td>Where $MaxT_{2,2011}=123.5$ $MaxT_{2,2013}=126$ $MaxT_{2,2014}=126$</td>
</tr>
<tr>
<td>then</td>
<td>$FT_{t-1} = T2_{PenRate,t-1}(MaxT_{2,t-1} - T2_{Upper,t-1})FLIGHTS_{t-1}$</td>
</tr>
<tr>
<td>Where</td>
<td>$T_{2,t-1}$ is greater than or equal to $T2_{Upper,t-1}$ and:</td>
</tr>
<tr>
<td></td>
<td>$T_{2,t-1}$ is less than $MaxT_{2,t-1}$</td>
</tr>
<tr>
<td>then</td>
<td>$FT_{t-1} = T2_{PenRate,t-1}(T_{2,t-1} - T2_{Upper,t-1})FLIGHTS_{t-1}$</td>
</tr>
<tr>
<td>Where</td>
<td>$T_{2,t-1}$ is greater than $T2_{Lower,t-1}$ and less than $T2_{Upper,t-1}$</td>
</tr>
<tr>
<td>then</td>
<td>$FT_{t-1} = 0$</td>
</tr>
<tr>
<td>Where</td>
<td>$T_{2,t-1}$ is less than or equal to $T2_{Lower,t-1}$</td>
</tr>
<tr>
<td>then</td>
<td>$FT_{t-1} = T2_{BonusRate,t-1}(T2_{Lower,t-1} - T_{2,t-1})FLIGHTS_{t-1}$</td>
</tr>
<tr>
<td>Where</td>
<td>$T2_{PenRate,t-1}$ means the penalty rate for the reduction of revenues relating to the T2 score in Eurocontrol relevant year t-1 (to take effect in relevant year t)</td>
</tr>
<tr>
<td></td>
<td>$t-1$</td>
</tr>
<tr>
<td></td>
<td>2011 $\left(\frac{CHAW_{Aug(2011)}}{198.1}\right) = \£0.0452$</td>
</tr>
<tr>
<td>------</td>
<td>--------------------</td>
</tr>
<tr>
<td>2013</td>
<td>(-£0.0452 \times \frac{\text{CHAW}_{\text{Aug}(2013)}}{198.1})</td>
</tr>
<tr>
<td>2014</td>
<td>(-£0.0452 \times \frac{\text{CHAW}_{\text{Aug}(2014)}}{198.1})</td>
</tr>
</tbody>
</table>

**T2BonusRate_{t-1}**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>£0.0689 \times \frac{\text{CHAW}_{\text{Aug}(2011)}}{198.1}</td>
</tr>
<tr>
<td>2013</td>
<td>£0.0632 \times \frac{\text{CHAW}_{\text{Aug}(2013)}}{198.1}</td>
</tr>
<tr>
<td>2014</td>
<td>£0.0632 \times \frac{\text{CHAW}_{\text{Aug}(2014)}}{198.1}</td>
</tr>
</tbody>
</table>

**T2Upper_{t-1}**

Is the value of the T2 score in Eurocontrol relevant year \(t-1\) above which a penalty becomes payable calculated as follows:

\[
T2Upper_{t-1} = T2Par_{t-1} + 5
\]

**T2Lower_{t-1}**

Is the value of the T1 score in Eurocontrol relevant year \(t-1\) below which a bonus becomes payable calculated as follows:

\[
T2Lower_{t-1} = T2Par_{t-1} - 5
\]

**T2Par_{t-1}**

Is defined in Paragraph 18.
10. For the purpose of Paragraph 6, the term $FT_{t-1}$ shall be calculated in accordance with the following formula where Eurocontrol relevant year $t-1$ is 2012 (relating to penalties or bonuses in 2013):

$$
FT_{2012} = FT'_{\text{games}} + FT'_{\text{other}}
$$

<table>
<thead>
<tr>
<th>FT'\text{games}</th>
<th>means the element of bonus or penalty relating to measure $T_{2,t-1}$ relating to the period 1 July to 15 September 2012 inclusive.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FT'\text{other}</td>
<td>means the element of bonus or penalty relating to measure $T_{2,t-1}$ relating to the aggregate of the two periods 1 January to 30 June 2012 inclusive and 16 September to 31 December 2012 inclusive.</td>
</tr>
</tbody>
</table>

Subscripts means either “games” or “other” for all terms in the relevant expression such that the relevant expression applies to either the “games” or the “other” period.

Subject to An absolute limit on penalties and bonuses arising from the calculation of $FT'_{\text{games}}$ and $FT'_{\text{other}}$ such that:

$$
FT'_{\text{MaxPenalty,2012}} = -£9,600,000 \frac{\text{CHAW}_{\text{Aug}(2012)}}{198.1}
$$

and

$$
FT'_{\text{MaxBonus,2012}} = £4,680,000 \frac{\text{CHAW}_{\text{Aug}(2012)}}{198.1}
$$

Where $T_{\text{games}}$ is greater than or equal to $T_{\text{Upper}}_{\text{games}}$ then

$$
FT'_{\text{games}} = \max\left(\frac{(T_{\text{PenRate,2012}} (T_{\text{games}} - T_{\text{Upper,\text{games}}}) \text{FLIGHTS'_{\text{games}}})}{2.5}, \frac{FT_{\text{MaxPenalty,2012}}}{12}\right)
$$

Where $T_{\text{other}}$ is greater than or equal to $T_{\text{Upper,other}}$ then

$$
FT'_{\text{other}} = \max\left(\frac{(T_{\text{PenRate,2012}} (T_{\text{other}} - T_{\text{Upper,\text{other}}}) \text{FLIGHTS'_{\text{other}}})}{9.5}, \frac{FT_{\text{MaxPenalty,2012}}}{12}\right)
$$

Where: $T_s$ is greater than $T_{\text{Lower}}$ and less than $T_{\text{Upper}}$ then

$$
FT_s = 0
$$

Where: $T_{\text{games}}$ is less than or equal to $T_{\text{Lower}}_{\text{games}}$ then

$$
FT'_{\text{games}} = \min\left(\frac{(T_{\text{BonusRate,2012}} (T_{\text{Lower,\text{games}}}} - T_{\text{games}) \text{FLIGHTS'_{\text{games}}})}{2.5}, \frac{FT_{\text{MaxBonus,2012}}}{12}\right)
$$
<table>
<thead>
<tr>
<th>Where:</th>
<th>( T_{other} ) is less than or equal to ( T_{Lower_{other}} )</th>
</tr>
</thead>
</table>
| then | \[
FT2'_{other} = \min \left( \frac{T_{BonusRate}^{2012} (T_{Lower_{other}} - T_{other})}{FLIGHTS_{other}} \right) \]
| | \[
FT2\text{MAXBonus}_{2012} \]

Where

- \( T_{PenRate}^{2012} \) means the penalty rate for the reduction of revenues based on the T2 score relating to Eurocontrol relevant year 2012 (to take effect in relevant year 2013) calculated as follows:

\[
T_{PenRate}^{2012} = - \frac{0.0452 \times (CHAW_{Aug(2012)})}{198.1}
\]

- \( T_{BonusRate}^{2012} \) means the bonus rate for the increase of revenues based on the T2 score relating to Eurocontrol relevant year 2012 (to take effect in relevant year 2013) calculated as follows:

\[
T_{BonusRate}^{2012} = \frac{0.0689 \times (CHAW_{Aug(2012)})}{198.1}
\]

- \( T_{Upper_{games}} \) means the value of the T2 score in the games period in Eurocontrol relevant year 2012 above which a penalty becomes payable calculated as follows:

\[
T_{Upper_{games}} = T_{ParPen_{games}} + 5
\]

- \( T_{Lower_{games}} \) means the value of the T2 score in the games period in Eurocontrol relevant year 2012 below which a bonus becomes payable calculated as follows:

\[
T_{Lower_{games}} = T_{ParBonus_{games}} - 5
\]

- \( T_{Upper_{other}} \) means the value of the T2 score in the other period in Eurocontrol relevant year 2012 above which a penalty becomes payable calculated as follows:

\[
T_{Upper_{other}} = T_{Par_{other}} + 5
\]

- \( T_{Lower_{other}} \) means the value of the T2 score in the other period in Eurocontrol relevant year 2012 below which a bonus becomes payable calculated as follows:

\[
T_{Lower_{other}} = T_{Par_{other}} - 5
\]
The Calculation of $T_{2_{t-1}}$

11. $T_{2_{t-1}}$ shall be calculated as follows:

$$T_{2_{t-1}} = \sum w_{p,b} d_{p,b}$$

For all flights in year $t-1$

Where:

<table>
<thead>
<tr>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morning Peak</td>
<td>means flights in relevant year $t-1$ with an off-block estimated time $\geq 0400$ and $&lt; 0800$ UTC in Summer (April –October inclusive) and between $\geq 0500$ and $&lt; 0900$ UTC in Winter (January -March inclusive and November-December inclusive).</td>
</tr>
<tr>
<td>Evening Peak</td>
<td>means flights in relevant year $t-1$ with an off-block estimated time $\geq 1500$ and $&lt; 1900$ UTC in Summer (April –October inclusive) and $\geq 1600$ and $&lt; 2000$ UTC in Winter (January-March inclusive and November-December inclusive).</td>
</tr>
<tr>
<td>Other</td>
<td>means flights in relevant year $t-1$ with an off-block estimated block time not in the morning peak and not in the evening peak.</td>
</tr>
</tbody>
</table>

And $b$ denotes bands of delay for each flight where

- $d_{p,1}$ means the Licensee Attributable En Route ATFM Delay for each flight in seconds up to and including 15 minutes per flight in relevant year $t-1$ of flights which fall into relevant period $p$ as defined above.
- $d_{p,2}$ means the Licensee Attributable En Route ATFM Delay in seconds over 15 minutes but less than or equal to 30 minutes per flight in relevant year $t-1$ of flights which fall into relevant period $p$ as defined above.
Part III – Conditions Relating to the Charge Control: Condition 21

\[ d_{p,3} \]
means the Licensee Attributable En Route ATFM Delay in seconds over 30 minutes but less than or equal to 60 minutes per flight in relevant year \( t-1 \) of flights which fall into relevant period \( p \) as defined above.

\[ d_{p,4} \]
means the Licensee Attributable En Route ATFM Delay in seconds over 60 minutes per flight in relevant year \( t-1 \) of flights which fall into relevant period \( p \) as defined above.

\[ w_{p,b} \]
means the weighting to be applied to bands of delay \( b \) for each flight subject to the period of the flight \( p \) where the weightings applied shall be:

<table>
<thead>
<tr>
<th>( b )</th>
<th>( p=1 ) Morning Peak Period</th>
<th>( p=2 ) Evening Peak Period</th>
<th>( p=3 ) Other Times</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Delay &gt; 0 and &lt;=15 minutes)</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>2 (Delay &gt;15 and &lt;= 30 minutes)</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>3 (Delay &gt;30 and &lt;= 60 minutes)</td>
<td>9</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>4 (Delay &gt;60 minutes)</td>
<td>18</td>
<td>9</td>
<td>6</td>
</tr>
</tbody>
</table>

**Mitigation of \( T_{2,t-1} \) or \( T_{3,t-1} \) scores for equipment failure**

12. On days where both the following conditions apply:

| the scores relate to a day for which the relevant \( T_{3,dailyScore,d} \) as calculated in Paragraph 15 is greater than zero; and |
| There is a \( T_{2} \) score relating to Licensee Attributable En Route ATFM recorded as equipment failure greater than zero. |

The following mitigation should apply:

If:

\[
|T_{2,penRate,d}|(T_{2,d})DailyFlights_{d} > |T_{3,penRate,d}|(T_{3,dailyScore,d})FLIGHTS_{t}
\]

then:

for day \( d \), the \( T_{2} \) numerator for all NERL attributable cause codes shall be included in the annual FT2 penalty or bonus term, the \( T_{3} \) score shall be excluded from the calculation of the annual FT3 penalty or bonus.
If: \[
\left| \frac{T2PenRate_t}{(T2_t)DailyFlights_d} \right| \leq \left| \frac{T3PenRate_t}{(T3DailyScore_d)FFLIGHTS_t} \right|
\]
then:

for day \(d\) the T2 numerator for all NERL attributable technical cause codes shall be excluded from the annual FT2 penalty or bonus term; the T3 score shall be included in the annual FT3 penalty or bonus term.

Where:

- \(T2PenRate_t\) has the meaning in Paragraph 9.
- \(DailyFlights_d\) has the meaning in Paragraph 15.
- \(T3PenRate_t\) has the meaning in Paragraph 13.
- \(T3DailyScore_d\) has the meaning in Paragraph 15.
- \(T2_d\) has the following meaning:
  \[
  T2_d = \frac{\sum w_{p,b} d_{p,b}}{DailyFlights_d}
  \]
  for all flights in day \(d\)

Where:

\[\sum w_{p,b} d_{p,b}\] has the meaning in Paragraph 11.

- \(FFLIGHTS_t\) Means the forecast of flights for relevant year \(t\) established at the beginning of the reference period as set out as follows:

<table>
<thead>
<tr>
<th>Year (t)</th>
<th>Forecast (\times 10^6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2,253,000</td>
</tr>
<tr>
<td>2012</td>
<td>2,342,000</td>
</tr>
<tr>
<td>2013</td>
<td>2,400,000</td>
</tr>
<tr>
<td>2014</td>
<td>2,469,000</td>
</tr>
</tbody>
</table>
For the avoidance of doubt the T2 and T3 measures are based on different units and the estimation of the penalty for each in the tests above requires the different parameters as specified.

**The Calculation of \( FT_{3,t-1} \)**

13. For the purpose of Paragraph 6, \( FT_{3,t-1} \) shall be calculated in accordance with the following formulae where relevant years \( t-1 \) are 2011 and 2013 (relating to penalties or bonuses in 2012 and 2014 respectively):

<table>
<thead>
<tr>
<th>Where</th>
<th>( T_{3,t-1} )</th>
<th>means the Licensee’s best endeavours estimate of the annual sum of the weighted daily excess delay score calculated as set out in Paragraph 15.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where</td>
<td>( T_{3,t-1} ) is greater than or equal to ( T_{3Upper,t-1} ) and: ( T_{3,t-1} ) is greater than or equal to 4,620 then</td>
<td>( FT_{3,t-1} = T_{3PenRate,t-1}(4,620 - T_{3Upper,t-1})FLIGHTS_{t-1} )</td>
</tr>
<tr>
<td>Where</td>
<td>( T_{3,t-1} ) is greater than or equal to ( T_{3Upper,t-1} ) and: ( T_{3,t-1} ) is less than 4,620 then</td>
<td>( FT_{3,t-1} = T_{3PenRate,t-1}(T_{3,t-1} - T_{3Upper,t-1})FLIGHTS_{t-1} )</td>
</tr>
<tr>
<td>Where</td>
<td>( T_{3,t-1} ) is greater than ( T_{3Lower,t-1} ) and less than ( T_{3Upper,t-1} ) then</td>
<td>( FT_{3,t-1} = 0 )</td>
</tr>
<tr>
<td>Where</td>
<td>( T_{3,t-1} ) is less than or equal to ( T_{3Lower,t-1} ) then</td>
<td>( FT_{3,t-1} = T_{3BonusRate,t-1}(T_{3Lower,t-1} - T_{3,t-1})FLIGHTS_{t-1} )</td>
</tr>
</tbody>
</table>

| Where | \( T_{3PenRate,t-1} \) | means the penalty rate for the reduction of revenues relating to the T3 score in Eurocontrol relevant year \( t-1 \) (to take effect in relevant year \( t \)) |

<table>
<thead>
<tr>
<th>Year</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>( \frac{-£0.000655 \times CHAW_{Aug(2011)}}{198.1} )</td>
</tr>
<tr>
<td>2013</td>
<td>( \frac{-£0.000655 \times CHAW_{Aug(2013)}}{198.1} )</td>
</tr>
</tbody>
</table>
2014  \[ -£0.000655 \left( \frac{\text{CHAW}_{\text{Aug}(2014)}}{198.1} \right) \]

<table>
<thead>
<tr>
<th>Year</th>
<th>T3BonusRate(_{t-1})</th>
<th>t-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>£0.000702 \left( \frac{\text{CHAW}_{\text{Aug}(2011)}}{198.1} \right)</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>£0.000702 \left( \frac{\text{CHAW}_{\text{Aug}(2013)}}{198.1} \right)</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>£0.000702 \left( \frac{\text{CHAW}_{\text{Aug}(2014)}}{198.1} \right)</td>
<td></td>
</tr>
</tbody>
</table>

T3Upper\(_{t-1}\) is the value of the T3 score in Eurocontrol relevant year \( t-1 \) above which a penalty becomes payable calculated as follow:

\[ T3Upper_{t-1} = T3Par_{t-1} + 150 \]

T3Lower\(_{t-1}\) is the value of the T3 score in Eurocontrol relevant year \( t-1 \) below which a bonus becomes payable calculated as follows.

\[ T3Lower_{t-1} = T3Par_{t-1} - 150 \]

T3Par\(_{t-1}\) is defined in Paragraph 18.
14. For the purpose of Paragraph 6, the term $FT'_{3_{t-1}}$ shall be calculated in accordance with the following formula where relevant year $t-1$ is 2012 (relating to penalties or bonuses in 2013):

$$FT'_{3_{2012}} = FT'_{3_{games}} + FT'_{3_{other}}$$

<table>
<thead>
<tr>
<th>$FT'<em>{3</em>{games}}$</th>
<th>means the element of bonus or penalty relating to measure $T'<em>{3</em>{t-1}}$ relating to the period 1 July to 15 September 2012 inclusive.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$FT'<em>{3</em>{other}}$</td>
<td>means the element of bonus or penalty relating to measure $T'<em>{3</em>{t-1}}$ relating to the aggregate of the two periods 1 January to 30 June 2012 inclusive and 16 September to 31 December 2012 inclusive.</td>
</tr>
</tbody>
</table>

Subscript $s$ means either “games” or “other” for all terms in the relevant expression such that the relevant expression applies to either the “games” or the “other” period.

Subject to An absolute limit on penalties and bonuses arising from the calculation of $FT'_{3_{games}}$ and $FT'_{3_{other}}$ such that:

$$FT'_{3_{MaxPen}}_{2012} = -£4,800,000 \frac{CHAW_{Aug(2012)}}{198.1}$$

and

$$FT'_{3_{MaxBonus}}_{2012} = £2,340,000 \frac{CHAW_{Aug(2012)}}{198.1}$$

Where $T_{3_{games}}$ is greater than or equal to $T_{3Upper_{games}}$

then

$$FT'_{3_{games}} = MAX\left\{\frac{(T_{PenRate_{2012}} \cdot (T_{3_{games}} - T_{3Upper_{games}}) \cdot FLIGHTS_{2012})}{FT'MAXPen_{2012}} \cdot \frac{2.5}{12}\right\}$$

Where $T_{3_{other}}$ is greater than or equal to $T_{3Upper_{other}}$

then

$$FT'_{3_{other}} = MAX\left\{\frac{(T_{PenRate_{2012}} \cdot (T_{3_{other}} - T_{3Upper_{other}}) \cdot FLIGHTS_{2012})}{FT'MaxPen_{2012}} \cdot \frac{9.5}{12}\right\}$$

Where: $T_{3_{s}}$ is greater than $T_{3Lower_{s}}$ and less than $T_{3Upper_{s}}$

then

$$FT'_{3_{s}} = 0$$

Where: $T_{3_{games}}$ is less than or equal to $T_{3Lower_{games}}$

then

$$FT'_{3_{games}} = MIN\left\{\frac{(T_{BonusRate_{games}} \cdot (T_{3Lower_{games}} - T_{3_{games}}) \cdot FLIGHTS_{2012})}{FT'MaxBonus_{2012}} \cdot \frac{2.5}{12}\right\}$$
Part III – Conditions Relating to the Charge Control: Condition 21

<table>
<thead>
<tr>
<th>Where</th>
<th>T3(<em>{\text{other}}) is less than or equal to T3(</em>{\text{Lower other}})</th>
</tr>
</thead>
<tbody>
<tr>
<td>then</td>
<td></td>
</tr>
</tbody>
</table>

\[
FT3'_{\text{other}} = \min \left( \frac{T3\text{BonusRate}_{\text{other}} \left( T3\text{Lower}_{\text{other}} - T3_{\text{other}} \right) \times \text{FLIGHTS}_{2012}}{9.5}, \frac{FT3\text{MAXBonus}_{2012} - T3_{\text{other}}}{12} \right)
\]

<table>
<thead>
<tr>
<th>Where</th>
<th>T3(<em>{\text{PenRate}})(</em>{2012}) means the penalty rate for the reduction of revenues based on the T3 score relating to Eurocontrol relevant year 2012 calculated as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[
T3\text{PenRate}_{2012} = -0.000655 \left( \frac{\text{CHAW}_{\text{Aug}(2012)}}{198.1} \right)
\]

<table>
<thead>
<tr>
<th>Where</th>
<th>T3(<em>{\text{BonusRate}})(</em>{2012}) means the bonus rate for the increase of revenues based on the T3 score relating to Eurocontrol relevant year 2012 calculated as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[
T3\text{BonusRate}_{2012} = 0.000702 \left( \frac{\text{CHAW}_{\text{Aug}(2012)}}{198.1} \right)
\]

<table>
<thead>
<tr>
<th>Where</th>
<th>T3(<em>{\text{Upper}})(</em>{s}) means the value of the T3 score in the games period or other period respectively in Eurocontrol relevant year 2012 above which a penalty becomes payable calculated as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[
T3\text{Upper}_{\text{games}} = T3\text{Par}_{\text{games}} + 150 \times \frac{2.5}{12}
\]

\[
T3\text{Upper}_{\text{other}} = T3\text{Par}_{\text{other}} + 150 \times \frac{9.5}{12}
\]

<table>
<thead>
<tr>
<th>Where</th>
<th>T3(<em>{\text{Lower}})(</em>{s}) means the value of the T3 score in the games period or other period respectively in Eurocontrol relevant year 2012 below which a bonus becomes payable calculated as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[
T3\text{Lower}_{\text{games}} = T3\text{Par}_{\text{games}} - 150 \times \frac{2.5}{12}
\]

\[
T3\text{Lower}_{\text{other}} = T3\text{Par}_{\text{other}} - 150 \times \frac{9.5}{12}
\]
The Calculation of \( T_{T3_{t-1}} \)

15. \( T_{T3_{t-1}} \) shall be calculated as follows subject to the exemption in Paragraph 16:

\[
T_{T3_{t-1}} = \sum T_{3DailyScore_d} \quad \text{for all days in year } t-1 \text{ except where an exemption applies as defined in Paragraph 16.}
\]

Where:
- \( d \) is a day in the months January to March inclusive or November to December inclusive:
  - Where \( \frac{DT1_d}{DailyFlights_d} \leq 40 \)
    - Then \( T_{3DailyScore_d} = 0 \)
  - Where \( 40 < \frac{DT1_d}{DailyFlights_d} \leq 80 \)
    - Then \( T_{3DailyScore_d} = \frac{DT1_d}{DailyFlights_d} - 40 \)
  - Where \( 80 < \frac{DT1_d}{DailyFlights_d} \)
    - Then \( T_{3DailyScore_d} = 40 + 2 \left( \frac{DT1_d}{DailyFlights_d} - 80 \right) \)

Where:
- \( d \) is a day in the months April to October inclusive
  - Where \( \frac{DT1_d}{DailyFlights_d} \leq 60 \)
    - Then \( T_{3DailyScore_d} = 0 \)
  - Where \( 60 < \frac{DT1_d}{DailyFlights_d} \leq 110 \)
    - Then \( T_{3DailyScore_d} = \frac{DT1_d}{DailyFlights_d} - 60 \)
  - Where \( 110 < \frac{DT1_d}{DailyFlights_d} \)
    - Then \( T_{3DailyScore_d} = 50 + 2 \left( \frac{DT1_d}{DailyFlights_d} - 110 \right) \)

Where:
- \( DT1_d \) means total Licensee Attributable En Route ATFM Delay in seconds on day \( d \).
- \( DailyFlights_d \) means the actual aggregate number of flights on day \( d \) to be

\( T_{3Par_s} \) means the par value of the T3 score for the games period or other period in Eurocontrol relevant year 2012 as calculated in Paragraph 18.
Exemptions for $T3_{t-1}$ and $T2_{t-1}$ in respect of Major Changes in Operations

16. T3 Daily scores and T2 weighted delays for the relevant day shall not be counted for the purposes of calculating $T3_{t-1}$ or $T2_{t-1}$ where all the following conditions apply:

- The day falls into a period designated by the Licensee in advance as a period when major changes are being introduced to the operation;
- Users have been notified and consulted in advance over the timing of such exemptions;
- The total number of days falling into such periods designated by the Licensee shall not exceed 40 in aggregate for the period of the four Eurocontrol relevant years 2011 to 2014 inclusive, considered as a whole.

The Calculation of $KFI_{t-2}$

17. The calculation of the correction element of the financial incentives shall be calculated as follows:

In respect of relevant year $t$, 2011 and relevant year 2012

$$KFT_{t-2} = 0$$

Otherwise, in respect of relevant year $t$, 2013:

$$KFI_{t-2} = \text{Correction}_{t-2} \left[ 1 + \frac{l_{t-1}}{100} \right] + \left( FT1_{t-3} + FT2_{t-3} + FT3_{t-3} + FEMM_{t-3} \frac{\text{EstimateSU}_{t-2} - \text{ActualSU}_{t-2}}{\text{ForecastSU}_{t-2}} \right) \left[ 1 + \frac{l_{t-2}}{100} \right]^2$$

In respect or relevant year $t$, 2014

$$KFI_{t-2} = \text{Correction}_{t-2} \left[ 1 + \frac{l_{t-1}}{100} \right]$$
Correction\textsubscript{t-2} means a correction factor for differences in the best endeavours estimates made by the Licensee and the outturn values for relevant year t-2 calculated as follows:

\[
Correction\textsubscript{t-2} = 
\frac{(AFT1\textsubscript{t-2} + AFT2\textsubscript{t-2} + AFT3\textsubscript{t-2} + AFEMM\textsubscript{t-2} - RAFFEMM\textsubscript{t-2}) - (FT1\textsubscript{t-2} + FT2\textsubscript{t-2} + FT3\textsubscript{t-2} + FEMM\textsubscript{t-2})}{EstimateSU_{t-1}}
\]

Subject to:

\[
AFT1\textsubscript{2011} + AFT2\textsubscript{2011} + AFT3\textsubscript{2011} \leq 9,360,000
\]

\[
AFT1\textsubscript{2011} + AFT2\textsubscript{2011} + AFT3\textsubscript{2011} \geq -19,200,000
\]

\[
AFT1\textsubscript{2013} + AFT2\textsubscript{2013} + AFT3\textsubscript{2013} \leq 9,360,000
\]

\[
AFT1\textsubscript{2013} + AFT2\textsubscript{2013} + AFT3\textsubscript{2013} \geq -19,200,000
\]

\[
AFT1\textsubscript{2014} + AFT2\textsubscript{2014} + AFT3\textsubscript{2014} \leq 9,360,000
\]

\[
AFT1\textsubscript{2014} + AFT2\textsubscript{2014} + AFT3\textsubscript{2014} \geq -19,200,000
\]

\[
AFEMM\textsubscript{2012} \geq -4,800,000
\]

\[
AFEMM\textsubscript{2013} \geq -4,800,000
\]

\[
AFEMM\textsubscript{2014} \geq -4,800,000
\]

\[
AFEMM\textsubscript{2012} \leq 2,400,000
\]

\[
AFEMM\textsubscript{2013} \leq 2,400,000
\]

\[
AFEMM\textsubscript{2014} \leq 2,400,000
\]
based on the actual value of $T_{1-t-2}$ and $AFLIGHTS_{t-2}$ rather than $FLIGHTS_{t-2}$ in the calculations in Paragraphs 7 and 8.

AFT2_{t-2} means the value that $FT2_{t-2}$ would have if the Licensee’s estimate had been based on the actual value of $T2_{t-2}$ and $AFLIGHTS_{t-2}$ rather than $FLIGHTS_{t-2}$ in the calculations in Paragraphs 9 and 10.

AFT3_{t-2} means the value that $FT3_{t-2}$ would have if the Licensee’s estimate had been based on the actual value of $T3_{t-2}$ and $AFLIGHTS_{t-2}$ rather than $FLIGHTS_{t-2}$ in the calculations in Paragraphs 13 and 14.

AFEMMt-2 means the value that $FEMM_{t-2}$ would have if the Licensee’s estimate had been based on the actual value of $FEMS_{t-2}$ rather than the Licensee’s best endeavors estimate in the calculations in paragraph 20.

RAFEMMt-2 are both equal to zero unless $RFEMT_{t-2} - FEMS_{t-2} > RFEMT$

Or

$RFEMT_{t-2} - FEMS_{t-2} < -RFEMT$

Then

$RAFEMMt-2 = AFEMMt-2$

where $RFEMS_{t-2}$ is the annual average flight efficiency metric score calculated using the Review Model in accordance with the FEM calculation protocol.

$RFEMT$ is the review flight efficiency threshold which is set at 3 units.

$FEMS_{t-2}$ is defined in paragraph 20.

1_{t-1} means the average of the yield (expressed as an annual percentage interest rate) on 3 month Treasury Bills published weekly by the UK Debt Management Office, during the 12 months from 1 September in Relevant Year $t-2$ where the value of Correction$_{t-2}$ is positive, or 300 basis points above this average rate where the value is negative.

**Definition of Par Values**

18. The par values for each of the measures shall be calculated as follows:

Where: $LFT_{t-1} \leq FLIGHTS_{t-1} \leq UFT_{t-1}$
then:

\[
\begin{align*}
T1Par_{2011} & = 11.5 \\
T1ParPen_{\text{games}} & = 35 \\
T1ParBonus_{\text{games}} & = 17.25 \\
T1Par_{\text{other}} & = 9.8 \\
T1Par_{2013} & = 12.5 \\
T1Par_{2014} & = 12.5 \\
T2Par_{2011} & = 32.5 \\
T2ParPen_{\text{games}} & = 100 \\
T2ParBonus_{\text{games}} & = 48.75 \\
T2Par_{\text{other}} & = 27.6 \\
T2Par_{2013} & = 35 \\
T2Par_{2014} & = 35 \\
T3Par_{2011} & = 1500 \\
T3Par_{\text{games}} & = 312.5 \\
T3Par_{\text{other}} & = 1187.5 \\
T3Par_{2013} & = 1500 \\
T3Par_{2014} & = 1500
\end{align*}
\]

Where: \( LFT_{t-1} > FLIGHTS_{t-1} \)

then:

\[
\begin{align*}
T1Par_{2011} & = 11.5 \left( 1 + \frac{5(FLIGHTS_{2011} - LFT_{2011})}{LFT_{2011}} \right) \\
T1ParPen_{\text{games}} & = 35 \left( 1 + \frac{5(FLIGHTS_{2012} - LFT_{2012})}{LFT_{2012}} \right) \\
T1ParBonus_{\text{games}} & = 17.25 \left( 1 + \frac{5(FLIGHTS_{2012} - LFT_{2012})}{LFT_{2012}} \right) \\
T1Par_{\text{other}} & = 9.8 \left( 1 + \frac{5(FLIGHTS_{2012} - LFT_{2012})}{LFT_{2012}} \right) \\
T1Par_{2013} & = 12.5 \left( 1 + \frac{5(FLIGHTS_{2013} - LFT_{2013})}{LFT_{2013}} \right) \\
T1Par_{2014} & = 12.5 \left( 1 + \frac{5(FLIGHTS_{2014} - LFT_{2014})}{LFT_{2014}} \right) \\
T2Par_{2011} & = 32.5 \left( 1 + \frac{5(FLIGHTS_{2011} - LFT_{2011})}{LFT_{2011}} \right) \\
T2ParPen_{\text{games}} & = 100 \left( 1 + \frac{5(FLIGHTS_{2012} - LFT_{2012})}{LFT_{2012}} \right)
\end{align*}
\]
<table>
<thead>
<tr>
<th>Year</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>[ T_{2\text{ParBonus}} = 48.75 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2012} - \text{LFT}</em>{2012})}{\text{LFT}_{2012}} \right) ]</td>
</tr>
<tr>
<td>2011</td>
<td>[ T_{2\text{Par}} = 27.6 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2012} - \text{LFT}</em>{2012})}{\text{LFT}_{2012}} \right) ]</td>
</tr>
<tr>
<td>2013</td>
<td>[ T_{2\text{Par}} = 35 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2013} - \text{LFT}</em>{2013})}{\text{LFT}_{2013}} \right) ]</td>
</tr>
<tr>
<td>2014</td>
<td>[ T_{2\text{Par}} = 35 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2014} - \text{LFT}</em>{2014})}{\text{LFT}_{2014}} \right) ]</td>
</tr>
<tr>
<td>2011</td>
<td>[ T_{3\text{Par}} = 1500 \left( 1 + \frac{\text{FLIGHTS}<em>{2011} - \text{LFT}</em>{2011}}{\text{LFT}_{2011}} \right) ]</td>
</tr>
<tr>
<td>2012</td>
<td>[ T_{3\text{Par}} = 312.5 \left( 1 + \frac{\text{FLIGHTS}<em>{2012} - \text{LFT}</em>{2012}}{\text{LFT}_{2012}} \right) ]</td>
</tr>
<tr>
<td>2013</td>
<td>[ T_{3\text{Par}} = 1187.5 \left( 1 + \frac{\text{FLIGHTS}<em>{2012} - \text{LFT}</em>{2012}}{\text{LFT}_{2012}} \right) ]</td>
</tr>
<tr>
<td>2014</td>
<td>[ T_{3\text{Par}} = 1500 \left( 1 + \frac{\text{FLIGHTS}<em>{2013} - \text{LFT}</em>{2013}}{\text{LFT}_{2013}} \right) ]</td>
</tr>
<tr>
<td>2011</td>
<td>[ T_{3\text{Par}} = 1500 \left( 1 + \frac{\text{FLIGHTS}<em>{2014} - \text{LFT}</em>{2014}}{\text{LFT}_{2014}} \right) ]</td>
</tr>
</tbody>
</table>

Where \( \text{FLIGHTS}_{t-1} > \text{UFT}_{t-1} \) then:

<table>
<thead>
<tr>
<th>Year</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>[ T_{1\text{Par}} = 11.5 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2011} - \text{UFT}</em>{2011})}{\text{UFT}_{2011}} \right) ]</td>
</tr>
<tr>
<td>2012</td>
<td>[ T_{1\text{Par}} = 35 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2012} - \text{UFT}</em>{2012})}{\text{UFT}_{2012}} \right) ]</td>
</tr>
<tr>
<td>2013</td>
<td>[ T_{1\text{Par}} = 56.25 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2013} - \text{UFT}</em>{2013})}{\text{UFT}_{2013}} \right) ]</td>
</tr>
<tr>
<td>2014</td>
<td>[ T_{1\text{Par}} = 12.5 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2014} - \text{UFT}</em>{2014})}{\text{UFT}_{2014}} \right) ]</td>
</tr>
<tr>
<td>2011</td>
<td>[ T_{2\text{ParPen}} = 32.5 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2011} - \text{UFT}</em>{2011})}{\text{UFT}_{2011}} \right) ]</td>
</tr>
<tr>
<td>2012</td>
<td>[ T_{2\text{ParPen}} = 100 \left( 1 + \frac{5(\text{FLIGHTS}<em>{2012} - \text{UFT}</em>{2012})}{\text{UFT}_{2012}} \right) ]</td>
</tr>
</tbody>
</table>
\[
\text{T2ParBonus}_{\text{games}} = 48.75 \left(1 + \frac{5(\text{FLIGHTS}_{2012} - \text{UFT}_{2012})}{\text{UFT}_{2012}}\right)
\]
\[
\text{T2Par}_{\text{other}} = 27.6 \left(1 + \frac{5(\text{FLIGHTS}_{2012} - \text{UFT}_{2012})}{\text{UFT}_{2012}}\right)
\]
\[
\text{T2Par}_{2013} = 35 \left(1 + \frac{5(\text{FLIGHTS}_{2013} - \text{UFT}_{2013})}{\text{UFT}_{2013}}\right)
\]
\[
\text{T2Par}_{2014} = 35 \left(1 + \frac{5(\text{FLIGHTS}_{2014} - \text{UFT}_{2014})}{\text{UFT}_{2014}}\right)
\]
\[
\text{T3Par}_{2011} = 1500 \left(1 + \frac{(\text{FLIGHTS}_{2011} - \text{UFT}_{2011})}{\text{UFT}_{2011}}\right)
\]
\[
\text{T3Par}_{\text{games}} = 312.5 \left(1 + \frac{(\text{FLIGHTS}_{2012} - \text{UFT}_{2012})}{\text{UFT}_{2012}}\right)
\]
\[
\text{T3Par}_{\text{other}} = 1187.5 \left(1 + \frac{(\text{FLIGHTS}_{2012} - \text{UFT}_{2012})}{\text{UFT}_{2012}}\right)
\]
\[
\text{T3Par}_{2013} = 1500 \left(1 + \frac{(\text{FLIGHTS}_{2013} - \text{UFT}_{2013})}{\text{UFT}_{2013}}\right)
\]
\[
\text{T3Par}_{2014} = 1500 \left(1 + \frac{(\text{FLIGHTS}_{2014} - \text{UFT}_{2014})}{\text{UFT}_{2014}}\right)
\]

Where:

<table>
<thead>
<tr>
<th>$\text{UFT}_{t-1}$</th>
<th>means the upper threshold forecast of flights in relevant year $t-1$, above which the par values are modulated which are set as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td>t-1</td>
<td>t-1</td>
</tr>
<tr>
<td>2011</td>
<td>2,343,000</td>
</tr>
<tr>
<td>2012</td>
<td>2,435,000</td>
</tr>
<tr>
<td>2013</td>
<td>2,496,000</td>
</tr>
<tr>
<td>2014</td>
<td>2,567,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$\text{LFT}_{t-1}$</th>
<th>means the lower threshold forecast of flights in relevant year $t-1$ above which the par values are modulated which are set as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td>t-1</td>
<td>t-1</td>
</tr>
<tr>
<td>2011</td>
<td>2,163,000</td>
</tr>
<tr>
<td>2012</td>
<td>2,248,000</td>
</tr>
<tr>
<td>2013</td>
<td>2,304,000</td>
</tr>
<tr>
<td>2014</td>
<td>2,370,000</td>
</tr>
</tbody>
</table>

19. For the avoidance of doubt, the treatment of T1, T2 and T3 occurring in 2014 would be subject to review at the end of Relevant Year 2014 under the provisions of sections 11 to 19 of the Transport Act 2000. (Subject to those provisions, the CAA would expect to take the performance in 2014 into account in the charges for subsequent years as if this condition applied to charges in 2015 and 2016.)
20. For the purpose of Paragraph 6, the term FEM$_{t-1}$ shall be calculated in accordance with the following formulae where relevant years $t-1$ are 2012 and 2013 (relating to penalties or bonuses in 2012 and 2014 respectively):

Where:

- $FEMS_{t-1}$ means the Licensee’s best endeavours estimate of the flight efficiency metric score as given by the average 3Di score for all flights for year $t-1$ as calculated by NERL in accordance with the FEM calculation protocol. If $t-1=2012$ then $FEMS_{t-1}$ is given by the average 3Di score for all flights for year $t-1$ excluding the period 1 July to 15 September 2012 inclusive.

- Where $FEMS_{t-1}$ is greater than or equal to $FEMUpper_{t-1}$ then $FEM_{t-1} = FEMMP_{t-1} + FEMMB_{t-1}$

- If $FEMS_{t-1} > FEMUpper_{t-1}$ then $FEMMP_{t-1} = -FEMI_{t-1}(FEMS_{t-1} - FEMUpper_{t-1})$ else $FEMMP_{t-1} = 0$

- Where $FEM_{t-1}$ is the flight efficiency payment rate in year $t-1$ calculated by the formula:

- If $FEMS_{t-1} < FEMLower_{t-1}$ then $FEMMB_{t-1} = -FEMI_{t-1}(FEMS_{t-1} - FEMLower_{t-1})$ else $FEMMB_{t-1} = 0$

Where:

- $FEMUpper_{t-1}$ is the upper deadband limit on the flight efficiency metric in year $t-1$ calculated by the formula:

$FEMUpper_{t-1} = FEMP_{t-1} + 3$

- $FEMLower_{t-1}$ is the lower deadband limit on the flight efficiency metric in year $t-1$ calculated by the formula:

$FEMLower_{t-1} = FEMP_{t-1} - 3$

- $FEMI_{t-1}$ is the flight efficiency payment rate in year $t-1$ calculated by the formula:

<table>
<thead>
<tr>
<th>Value of $t-1$</th>
<th>Value of FEMI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$FEMI_{2012} = £200,000$ CHAW$_{Aug2012}$ 198.1</td>
</tr>
<tr>
<td>2013</td>
<td>$FEMI_{2013} = £200,000$ CHAW$_{Aug2013}$ 198.1</td>
</tr>
<tr>
<td>2014</td>
<td>$FEMI_{2014} = £200,000$ CHAW$_{Aug2014}$ 198.1</td>
</tr>
</tbody>
</table>

$FEMP_{t-1}$ is the par value for the flight efficiency metric in year $t-1$ calculated by the formula:

$FEMP_{2012} = 24$

$FEMP_{2013} = 24$

$FEMP_{2014} = 23$