

PROCESS FOR DEVELOPING RP2 IN RESPECT OF THE UK

Workshop

15 October 2012

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OBJECTIVE

- **To discuss the CAA's consultation document and the responses to it;**
- **with a view to further develop a realistic process and timetable which meets European requirements**
- **while allowing a level of consultation which stakeholders want and can resource.**

AGENDA

14:00	Welcome and introductions
14:10	Overview
14:30	FAB dimension: Introduction Discussion
14:50	Terminal: Introduction Discussion
15:20	Refreshment Break
15:30	<i>NERL</i> : Introduction Discussion
16:45	Conclusions
17:00	Close



OVERVIEW

Overview

- **Introduction**
- **Reference Period 1**
- **Reference Period 2**
- **PRB Proposed RP2 Schedule**
- **CAA: Process Consultation - Where we are**
- **Themes from the consultation**
- **Discussion**

Introduction

Under Single European Skies (SES) Performance Scheme:

- National Supervisory Authorities (NSAs) required to draw up Local Performance Plans for 3 or 5 year reference periods.
- Required to set binding targets for Key Performance Indicators (KPIs)
 - Safety
 - Environment
 - Capacity
 - Cost effectiveness
- Need to be ***consistent with*** and make ***an adequate contribution to*** EU wide targets adopted by the EC.

Reference Period 1 (RP1)

- **Reference Period 1 (RP1)**
 - **For 3 years (2012-2015) rather than 5**
 - **Focused on only a subset of Key Performance Areas**
 - **Limited application to terminal services**
 - **Mainly focused at National rather than FAB level**

Reference Period 2 (RP2)

Exact requirements of RP2 not finalised

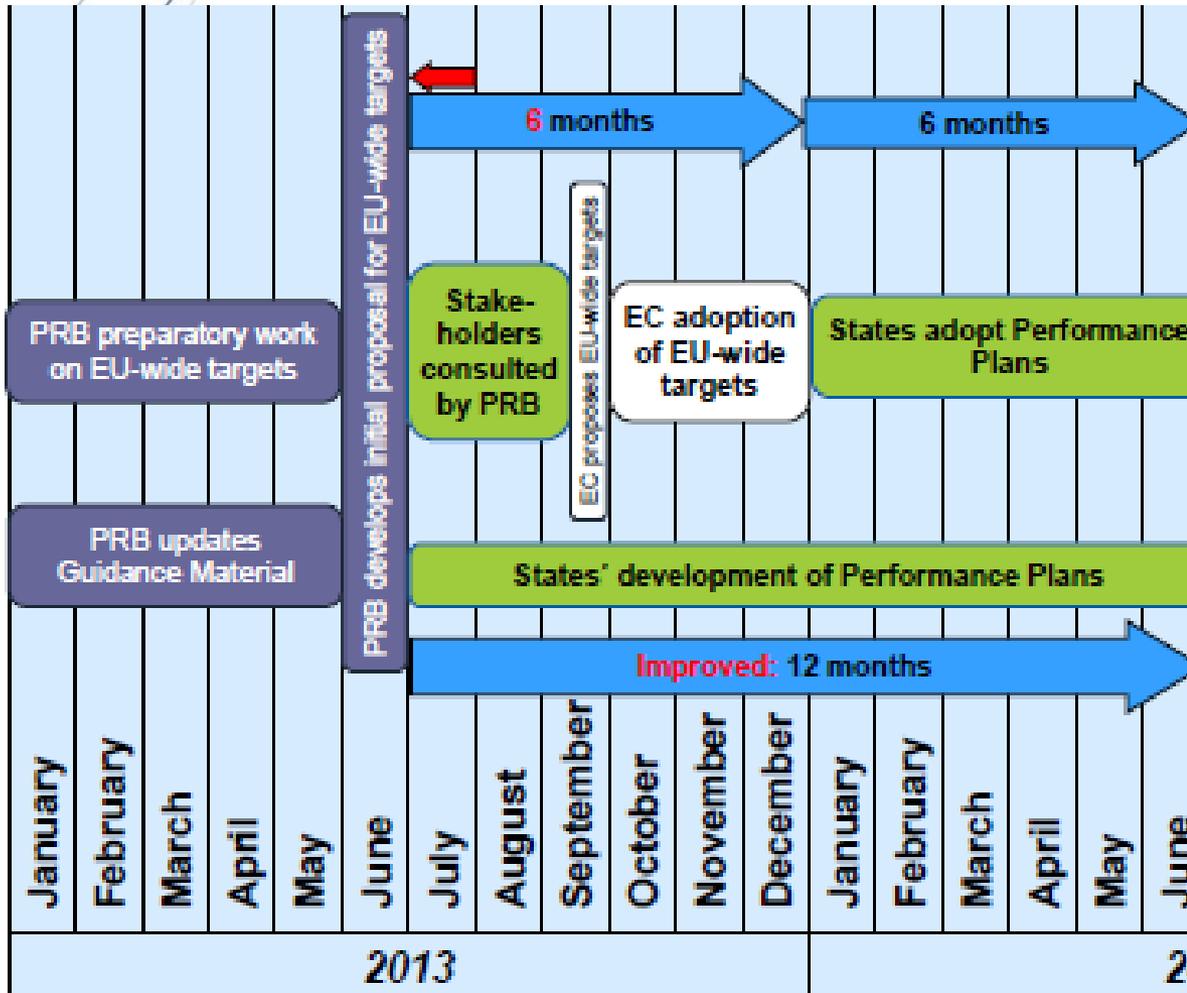
- **Draft legislation to make changes to the Performance and Charging regulations.**
 - Before Single Sky Committee today for discussion.
 - Expected to be voted on in early December
- **Targets for EU as a whole expected to be:**
 - Proposed by PRB for consultation no later than September 2013.
 - Finalised by vote of the Single Sky Committee no later than December 2013.

But

- The Local Performance Plans need to be adopted by the States and communicated to the EC no later than 30 June 2014.

Leaving consultation until after the EC finalises EU wide targets would leave very limited opportunity for consultation on the detail of the plan.

PRB Proposed RP2 Schedule



Source: PRB

PRB will base initial proposals for EU-wide targets informed by submission of cost data by States/ANSPs at end May 2013.

CAA: Process Consultation

Where we are:



Challenge is to design a process which aligns with European timetable but allows the level of consultation that stakeholders want.

- **CAA consulted on Process in July 2012**
- **Consultation closed 28 September**

Responses received from:

BAA, BA, GAL, IATA, NATS, NATS Trade Unions, and Ryanair.

The CAA also received a consolidated FAB Europe Central Position on the RP2 regulatory approach as contribution to the workshop.

All responses published on CAA website.

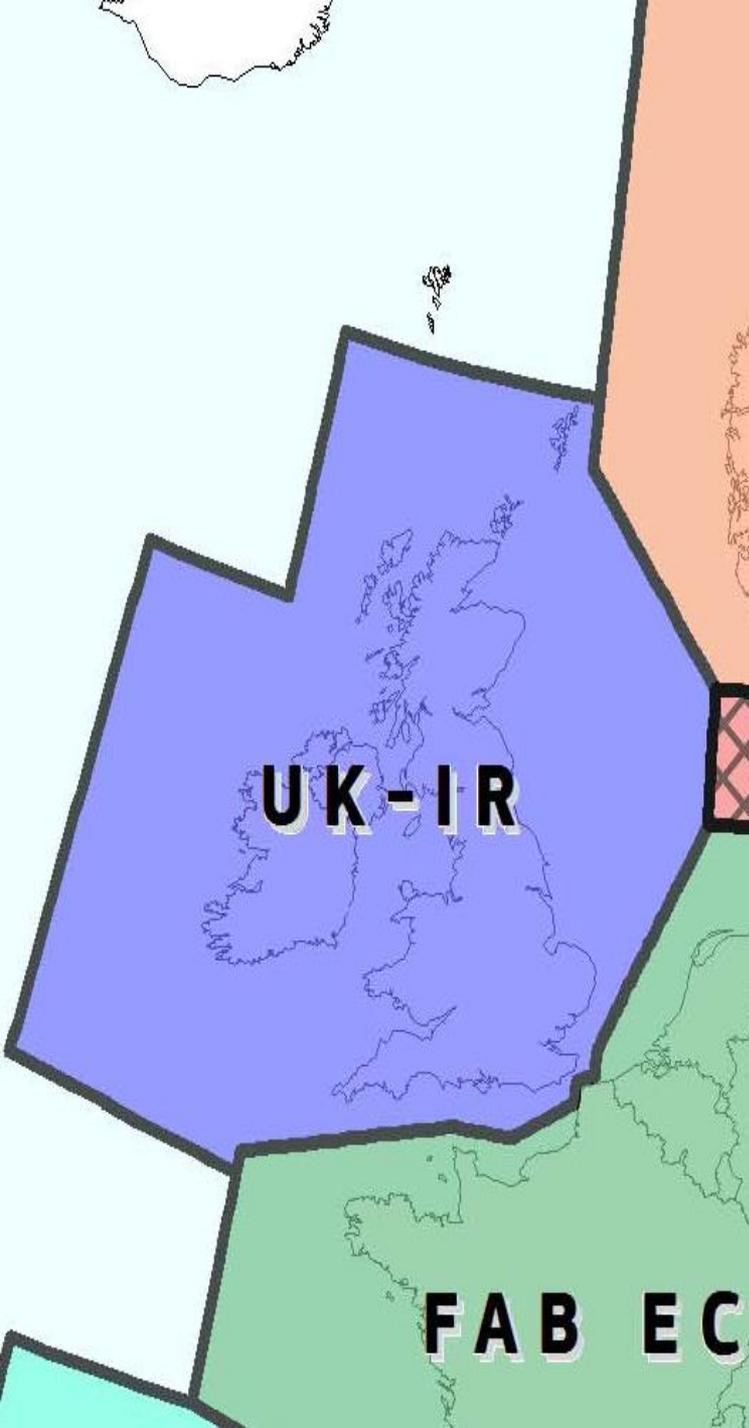
Themes from the consultation responses (1)

AIRLINES	<ul style="list-style-type: none">•Disappointment at outcome of RP1.•CAA should align with EC processes- not get ahead of them.•Suspicion about using concept Total Economic Value (TEV)• strong preference for downward pressure on charges
AIRPORTS	<p>BAA:</p> <ul style="list-style-type: none">•Keen to be involved in stakeholder workshops on airport ANS.• and in process for en route because of interrelationships;•Airport performance measures less mature;•Root causes of behaviours need to be understood; <p>GAL- Need to ensure we do not prevent the further development of airport or ANSP competition.</p>

Themes from the consultation responses (2)

NATS	<ul style="list-style-type: none">•Looks forward to engaging constructively with airlines from March 2013.•Looking for objective, economic and evidence led approach.•Targets should represent an appropriate balance between challenging and achievable. (NERL view -2%,-3.5%,-5% p.a. is challenging.)•Some joint FAB targets may be appropriate. But:<ul style="list-style-type: none">•Only where clear tangible benefits;•Should not apply to cost effectiveness•Oceanic airspace should continue to be subject to economic regulation with a strong emphasis on a simple and proportionate design.•Safety, capacity and environmental targets are most appropriately applied on a bottom up rather than top down basis.
NTUS	<ul style="list-style-type: none">•An overly ambitious approach to RP2 will be damaging to ATM service delivery.

DISCUSSION



FUNCTIONAL AIRSPACE BLOCK DIMENSION

Matt Claydon

FAB dimension

- **RP1 – UK & IE National Plans + Aggregation of targets**
- **RP2 – Proposal to focus on FAB Plans**
- **Initial discussion of EC proposed amendments at SSC today**
- **Proposals include:**
 - **Capacity & Environment targets at FAB level**
 - **Safety targets at national level**
 - **Cost-efficiency targets at charging zone level**
- **Where targets set at FAB level, need to clearly articulate accountabilities**
- **Where no FAB target, need to demonstrate contribution of FAB to improved performance at national/charging zone level**

DISCUSSION



TERMINAL

Mike Goodliffe

Terminal

- **Introduction**
- **Scope**
- **Market Conditions Test (Contestability Study)**
- **Terminal ANS KPIs**
- **Process**
- **Discussion**

Introduction

- **RP2 further extends performance scheme to Terminal ANSP.**
- **Airport contracts with ANSPs or self-supply unusual in rest of EU.**
- **Implicit in the performance and Charging regulations:**
 - **direct charges from the airport ANSP to airlines and service**
Based on weight based standardised Service Units.
 - **standards set through regulation rather than contractual negotiations.**
- **UK airports are not part of the UK-Ireland FAB.**

Scope

- **KPIs or PIs Safety/Environment/Capacity**
 - All airports >50,000 Commercial Air Transport Movements p.a.
 - (Proposal to change test to IFR Air Transport Movements)
 - Any other fully slot co-ordinated airports. (All UK co-ordinated >50k)
- **KPI for Cost efficiency**
 - All airports >50,000 unless member State has established that terminal air navigation services **are subject to market** conditions at least 19 months before the start of the RP2.
- **Various other Performance Indicators (PIs) proposed for RP2. (Not subject to targets but for monitoring, benchmarking and reviewing).**

Market Conditions Test (Contestability Study)

- **DfT commissioned CAA to consider ANS at airports against the criteria in the Charging Regulation.**
 - To report in November 2012.
- **European Commission proposing changes to the criteria.**
 - Being discussed by Single Sky Committee today.
 - Vote expected early December.
 - Test would need to be completed at east 19 months before start of RP2 (end may 2013).

Terminal ANS KPIs

- **Subject to EC revision of Performance and Charges Regulations:**

KPA	KPI (Latest Proposals)
Safety (at national level)	(a) Level of effectiveness of safety management. (b) Application of the severity classification based on the Risk Analysis Tool (RAT) methodology. (Minimum: Separation Minima Infringements, Runway Incursions and ATM-specific technical events.). (c) The level of presence and corresponding level of absence of just culture.
Environment	(Only PIs?)
Capacity (at national level with monitoring at airport level)	Average ATFM delay per inbound IFR flight. (Over calendar year including all causes, including weather and exceptional events.) Subject to financial incentives?
Cost Effectiveness (at charging zone level)	The determined unit cost(s) (DUC), defined as: - ratio between the determined costs and the forecast traffic, expressed in terminal service units; - expressed in real terms and in national currency; - provided for each year of the reference period.

Local Performance Plan needs targets for each KPI.

CAA to consult with ANSPs, airports, users and other interested parties during 2013 to inform targets.

CAA considering most efficient approach to avoid duplication across c.16 airports,

- **e.g. a common consultation across all airports perhaps involving consultation workshops.**

What is best approach to interact with development of business plans for ANSPs at airports (as required by SES Regulation for Common Requirements)?

DISCUSSION



NERL

15 October 2012

Mike Goodliffe

NERL

- **Introduction**
- **Aligning NERL's economic regulation with the performance scheme**
- **Stakeholder Scrutiny**
- **Scope of SES En Route Performance Scheme**
- **Incentives**
- **Oceanic**
- **Setting Charge Condition in the NERL licence**
- **Baseline Process**
- **Process and Timetable Options**

Introduction

- **Broad alignment between aims of Europe and UK regulation.**
 - Sustainable development of Air Transport by improving:
Safety, environment, capacity and cost-efficiency.
- **But some differences including**
 - UK Transport Act requires CAA to regulate in a manner best calculated to secure that licence holders will not find it unduly difficult to finance their licensed functions.
- **Unlike other en route ANSPs, NERL is commercially financed.**
- **The CAA considers duties under the Act can be made to stand alongside EU requirements with close working between the CAA and PRB to assess the reasonableness of targets for NERL.**
- **If conflict arises between the formal legal requirements, the CAA would expect EU legislation to take precedence.**

Aligning Economic Regulation of NERL with the Performance Scheme



EC expects:

- **significant downward pressure on costs from EU-targets ‘well below’ the average for RP1.**
 - CAA considers that for RP2 there should be a new approach that complements bottom-up with top down;
 - ACC has asked that NERL develop a draft business plan for March 2013 with real unit rate reductions of -2%, 3.5% and 5% p.a
- **ANSPs’ return on equity should reflect the real risks faced by the business and is expecting to commission a study of this issue.**
 - CAA would like to contribute fully to this study and have regard to its findings in its work-plan for RP2.
- **Member States’ relative contribution towards the attainment of EU-wide targets in RP1 should be taken into account when it sets EU-wide targets and assesses LPPs for RP2.**
 - The CAA will take into account the level of costs revealed in RP1 but does not currently believe that any claw-back would be consistent with the incentive properties of fixed term price regimes.

Stakeholder Scrutiny



- **Important that NERL is transparent about its future plans with its customers.**
- **The CAA would expect to test and challenge NERL's analysis and expose it to scrutiny from users who are best placed to advise on the NERL related service propositions that meet their commercial requirements in terms of price, capacity and other outputs.**
- **The CAA expects to commission expert consultants to assist it in this regard.**
- **The CAA will need to fully understand how NERL's investment strategy will contribute to SESAR, FAS and LAMP.**

Scope of SES En Route Performance Scheme

KPA	KPI (Latest Proposal)
<p>Safety (at National level)</p>	<p>(a) Level of effectiveness of safety management. (b) Application of the severity classification based on the Risk Analysis Tool (RAT) methodology. (Minimum: Separation Minima Infringements, Runway Incursions and ATM-specific technical events.). (c) The level of presence and corresponding level of absence of just culture.</p>
<p>Environment (at FAB level)</p>	<p>The difference between the length of the actual trajectory and the achieved distance, summed over all flights considered, and expressed as a percentage of achieved distance.</p>
<p>Capacity (at FAB level)</p>	<p>The average minutes of en route ATFM delay per flight from all ATFM delay causes; the flights considered are all IFR (Instrumental Flight Rules) flights traversing the local airspace.</p>
<p>Cost Effectiveness (at Charging Zone level)</p>	<p>The determined unit cost (DUC) for en route air navigation services, defined as the ratio between the determined costs and the forecast traffic in the charging zone, expressed in en route service units;</p> <ul style="list-style-type: none"> - the indicator is expressed in real terms and in national currency; - The indicator is provided for each year of the reference period.

Incentives

- The regulations currently allow for bonuses and penalties.
- The cost efficiency targets are embodied in the DC fixed for the reference period and the traffic risk sharing

Incentives on NERL in RP1	
Capacity	3 Measures with financial incentives based on ATFM delay attributable to NERL: <ul style="list-style-type: none"> • annual average ATFM delay per flight. • Impact Score (placing greater weight on long delays and departures in the morning and the evening peaks). • Daily Excess Delay Score based on weighted delays exceeding pre-determined thresholds on a daily basis.
Flight Efficiency	A target based on a combination of horizontal and vertical inefficiency with target values and bonuses and penalties.

- Are stakeholders users happy with the current incentives?
- Changes to regulations may require fundamental change.
 - What process required to make sure it meets the needs of users.

Oceanic

- **UK has joint responsibility with Ireland airspace in the NE Atlantic.**
 - annual turnover of NERL's Oceanic service c. £27 million.
- **Regulated but current emphasis on simplicity.**
 - limit on the average charge per flight based on (RPI-X).
 - No traffic sharing mechanism or service quality incentives (e.g. delay, flight efficiency, etc).
- **Is there a continuing need to regulate this service?**
 - If so on what basis?
 - Given it:
 - is an institutional monopoly
 - with no immediate prospect of competition for the market or within the market.
- **CAA currently sees merit in continuing to regulate it but doing so in a way that continues to be proportionate to the scale of the activities involved.**

Setting Charge Condition in the NERL licence

- **Criticism of CAA for setting price cap for CP3 before the end of the RP1 process.**
- **Formal mechanism for giving effect to price control is through modifications to NERL's licence granted under the Act.**
- **Current price control licence conditions expire on 31 December 2014.**
- **For RP2 the CAA will not finalise price conditions in licence until as late as possible before the expiry of the present conditions.**
- **It Expects to issue proposals for modifications in October 2014 before making a formal decision in December 2014.**
- **To mitigate the process risk that LPP not approved by the EC before the expiry of the licence conditions the CAA can either:**
 - **modify the NERL licence for one year only; or**
 - **modify the licence for the full RP2 period but make it clear that this is contingent on European Commission approval and the licence may be subject to further modification if such approval is not secured.**

Baseline Process

Process Proposed By PRB		Proposed Complementary Local Process
	End March 2013	NERL publishes draft IBP & NERL/User customer consultation begins.
	End May 2013	State/ANSP submits cost information by Charging Zone.
PRB consults on initial proposals for EU-wide targets.	July 2013	
EC proposes EU-wide targets.	September 2013	
	Early Sep 2013	NERL/User customer consultation ends.
	October 2013	NERL issues revised business plan.
EC adopts EU-wide targets.	December 2013	NSAs publish initial draft LPP for consultation.
	April 2014	NSAs submit revised LPP to States.
States submit plans to EC/PRB.	May/June 2014	States submit plans to EC/PRB.
EC assesses plans and notifies States.	September 2014	
	[Late November]	
	October 2014	Proposed formal changes to licence.
	December 2014	CAA publishes formal decision.

Process and Timetable Options (2)

Base proposal allows substantive bilateral engagement between NERL and customers but does this provide the best value to stakeholders and fit with the EU process.

Options:

- (a) Short NERL customer consultation after PRB publishes draft EU wide targets.**
- (b) CAA could publish initial proposals in July with consultation July – October.**
- (c) No customer consultation other than NSA-led stakeholder consultation in early 2014 on the draft LPP.**

Any of these options could be supplemented by a short intensive workshop based consultation in April 2013 to consider the NERL IBP before the States/ANSP submission.

DISCUSSION

CONCLUSIONS