

# **CIVIL AVIATION AUTHORITY**

CAA House  
45-59 Kingsway  
London WC2B 6TE

## **STAKEHOLDER CONSULTATION MEETING**

### **DRAFT UK-IRELAND RP2 FAB PERFORMANCE PLAN**

held on

Friday 14 March 2014

#### **BRIAULT REPORTING**

Elton House, Headley Road, Epsom, Surrey

(00) 44 (0)1372 278401

## ATTENDANCE

The Panel:

<b>Mr Iain Osborne</b>	Civil Aviation Authority
<b>Mr Adrian Mahony</b>	Irish Aviation Authority
<b>Mr Anthony Eiffe</b>	Irish Aviation Authority
<b>Mr Mike Goodliffe</b>	Civil Aviation Authority
<b>Mr Thomas Carr</b>	Civil Aviation Authority

Also present [and representing the FAB NSAs]:

<b>Kevin Humphreys</b>	Irish Aviation Authority
<b>Terry O'Neill</b>	Irish Aviation Authority
<b>Ference Van Ham</b>	Irish Aviation Authority
<b>Robert Cowle</b>	Civil Aviation Authority
<b>David Stoplar</b>	Civil Aviation Authority

Stenographer:

<b>Ms Charlotte Briault</b>	Briault Reporting
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Stakeholders:

<b>Mattias Bjornfors</b>	Gatwick Airport Ltd
<b>Andrew Williams-Fry</b>	Gatwick Airport Ltd
<b>Richard Massingham</b>	Birmingham Airport Ltd
<b>Tony Buss</b>	British Airways
<b>Mark Gardiner</b>	British Airways

<b>David Wood</b>	British Airways
<b>Vicki Schupke-Ranson</b>	British Airways
<b>Stephen Hand</b>	Department of Transport
<b>Linturn Hopkin</b>	Department of Transport
<b>Geraldine Hickey</b>	Irish Aviation Authority [PSEU Branch]
<b>David Usher</b>	Irish Aviation Authority
<b>Maeve Hogan</b>	Irish Aviation Authority
<b>Philip O'Brien</b>	Irish Aviation Authority
<b>Peter Curran</b>	International Air Transport Association
<b>Laurie O'Toole</b>	International Air Transport Association
<b>Philippe Forest</b>	International Air Transport Association
<b>Niall McGrath</b>	Irish Aviation Authority [IATCA]
<b>James Lavelle</b>	Irish Department of Transport, Tourism & Sport
<b>Rick Mernock</b>	Manchester Airports Group
<b>Nigel Fotherby</b>	NATS
<b>Martin Rolfe</b>	NATS
<b>Mike Stoller</b>	NATS
<b>Angus MacCormick</b>	NATS
<b>Choorah Singh</b>	Ryanair
<b>Ian Clayton</b>	Ryanair
<b>Heidi Smith</b>	Stansted Airport Limited
<b>Geoff Clark</b>	Virgin Atlantic Airways
<b>David Joseph</b>	Virgin Atlantic Airways
<b>Aaron Curtis</b>	NTUS
<b>Jacqui Nicholl</b>	NTUS

<b>Jeremy Gautrey</b>	PCS
<b>Geoff Budd</b>	PCS
<b>Emily Boase</b>	Prospect
<b>Stephen Danson</b>	Prospect
<b>Ged Donnelly</b>	Prospect

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1 (8.46 am)

2 MR OSBORNE: Welcome to the CAA. My name is Iain  
3 Osborne. I am the CAA board member with executive responsibility for  
4 economic regulation and for policy, leading the charge, if that is the right  
5 phrase, for the second performance plan for the CAA.

6 Today is an opportunity to exchange views. It is only one  
7 opportunity; there have been a number of consultation meetings  
8 beforehand between NATS and its users. I will talk a little more about  
9 the timeline later on but there are opportunities to submit views formally.  
10 This is important because there is a mass of detail in the performance  
11 plan. I think we have ample time to thrash through the big issues but if  
12 you come out of today with a niggle don't panic.

13 I am going to keep us to time. We have a long morning for  
14 you. It is the run up to St Patrick's day and by two o'clock you may well  
15 feel this is part of your Lenten fast rather than preparation for Paddy's  
16 day.

17 There is every opportunity to talk to the team bilaterally or  
18 in a more formal sense to submit your views into the consultation.

19 I would like to welcome our colleagues to the CAA building  
20 from the IAA, particularly Kevin. Thank you for joining us.

21 There are a couple of housekeeping points. We have  
22 refreshments at the back of the room so if you feel the need for a top-up  
23 help yourself. We will be having a break at about eleven o'clock.

24 This meeting has a formal legal status; it is a requirement  
25 of the law. It is obviously something we would be doing anyway, to hear

1 your views, but because of its legal status we do want to make sure that  
2 we have a good record of who is here. You probably did register with  
3 Lisa on the way in; if you didn't, please do so.

4 The agenda has previously been provided. The timings are  
5 indicative but I will try and stick to them. As I say, we have a great deal  
6 to get through today.

7 It is an agenda that reaches a climax towards the end of the  
8 morning, to try and keep you awake. We have given relatively less time  
9 to the issues where we suspect there is less controversy and relatively  
10 more time to the issues where there might be more to discuss and  
11 perhaps more individual items of detail to get through, particularly cost  
12 efficiency targets, where of course there are a whole load of building  
13 blocks to discuss.

14 There will be opportunities for questions on each piece as  
15 we go through. I will guillotine the discussions if we are running out  
16 of time but we have a good long hour at the end for a wrap-up session.  
17 So, if we don't get to your question in an individual piece, then we will  
18 come back to that at the end or, as I say, you can put the questions to  
19 the team bilaterally later on or make your points in your formal response.

20 If there are particularly detailed points it is very easy to  
21 misunderstand one another and to get confused in a gathering like this,  
22 so there may be some level of questions where we probably will want to  
23 ask you to write that question down and send it to us as part of the  
24 consultation and we will reply in writing. We will make sure that  
25 everything that has been submitted to us, both at this meeting but

1 certainly in writing, will be fully addressed in the material we publish.

2           Just a word about context before we dive into the first  
3 strand on safety, so you know where we are coming from as a regulator.  
4 We are in this for users. We understand that is the fundamental purpose  
5 of the performance schemes, to improve the performance of the ANS  
6 system for the purpose of users so that they can serve passengers  
7 better. That is the context as far as the regulators coming into this,  
8 certainly the UK CAA that I can speak for.

9           The plan that we are discussing is of course a plan for the  
10 whole functional airspace block. As you will see from parts of the  
11 agenda, it is relatively straightforward to assemble a single set of FAB  
12 targets. In some cases the best way to address the FAB is to take it  
13 across the two countries.

14           The draft plan was published on 19 February. That is in the  
15 template format that the Performance Review Body in Brussels have  
16 asked for, which doesn't make it very easy to read, so we accompanied  
17 that with a consultation document.

18           We are seeking formal responses by 4 April. The email  
19 mailbox details to send those to are in the consultation document. On  
20 the last slide today we will remind you of that address.

21           Then the CAA and IAA will update the draft plan in the light  
22 of stakeholder feedback and prepare the final plan which we will put into  
23 the two government departments -- in Ireland the Department  
24 of Transport, Tourism and Sport and in the UK the Department for  
25 Transport. We will do that by mid-May. Then the governments have the



1 responsibility to submit the final plan to the Commission which we are  
2 expecting them to do by 30 June as per the regulation.

3           Then the Commission will do what it does with advice from  
4 the PRB. I think there will be a validation process. There may well be  
5 some challenges put forward but, ultimately, we are expecting the plan to  
6 be accepted so that the second reference period can begin on 1 January,  
7 next year, 2015.

8           This meeting therefore falls in the middle of the consultation  
9 period, more or less. It is an opportunity to do two things. First of all, to  
10 make points. I said earlier this meeting has a legal status. We have a  
11 stenographer keeping a record. So, this is a chance to put a point  
12 formally on the record, but I think in reality its value is probably much  
13 more to allow us to hear each other's views, learn from one another. The  
14 plan contains a great deal of detail and there may very well be questions  
15 of clarification on the published material.

16           We would ask, as to the main points you want to make,  
17 even if you say them today, that you give us at least a brief written  
18 submission on those by 4 April so that we have a clean record.

19           The format of today. We have a number of presenters from  
20 the two regulatory organisations introducing different aspects of the plan,  
21 opportunity for questions and comments in each section and then  
22 another opportunity at the end.

23           As this is a formal requirement and we have a transcript, I  
24 will ask you please to identify yourself before you speak, for the sake  
25 of our stenographer and indeed everybody else in the room, and before

1 you ask questions or make comments.

2 We are focusing today on the key performance indicators  
3 against which the targets and in some cases incentives are set. There  
4 are other performance indicators to be monitored which may require  
5 certain stakeholders to provide some information on an ongoing basis to  
6 the Commission but mostly that is a continuation of data already provided  
7 during RP1 and we are not spending very much time on it.

8 That is the totality of the introductory remarks I wanted to  
9 make. Have I left any questions on the table?

10 MR GOODLIFFE: Can I just say that we know it is quite  
11 difficult to read the screen from the back. We don't have quite enough for  
12 everybody but we have a number of hard copies here for those who want  
13 one.

14 MR OSBORNE: Let's distribute those straight away.  
15 Presumably the slides might well be on the website?

16 MR GOODLIFFE: I will put the slides on the website in due  
17 course.

18 MR OSBORNE: Are there any other questions about  
19 process or shall we kick-off? [None indicated]

20 Let's start with FAB Safety.

21 I suggest that each presenter be allowed to run through the  
22 slides, because the question you are asking may be on the following  
23 slide. Then we will take questions relative to each section but towards  
24 the end of the slides.

25 I will ask the presenters therefore to address their material

1 at a fair pace to make sure we do have time for questions.

2 FAB SAFETY

3 MR MAHONY: Good morning all. My name is Adrian  
4 Mahony from the Irish NSA. I am going to show you a few slides on the  
5 safety performance area.

6 I have been with the Irish NSA for about 14 years now,  
7 involved in safety regulation and oversight, and more recently involved in  
8 some of the wider aspects of the performance scheme.

9 As I said, there are just a few slides here based on what  
10 Iain said about the proportionality of the discussion today.

11 First of all, there are three key performance areas: The  
12 effectiveness of safety management, the determination of severity of a  
13 specific group of events using the Risk Analysis Tool and Just Culture as  
14 well. All these three areas were subject to monitoring during RP1 but no  
15 targets were set. The monitoring of the area was done for effectiveness  
16 of safety management and Just Culture by dedicated questionnaires  
17 filled out by both the NSA and the ANSP. The application of the RAT, as  
18 it is called, was done based on reporting into the Eurocontrol annually, a  
19 summary template process, which is state reporting on events every  
20 year.

21 The Commission, with EASA's assistance, monitored  
22 information that came in on those areas during RP1 and it was decided  
23 that those areas would have targets set for them in RP2. Whereas many  
24 of the other targets will have both bonus and penalty financial incentives,  
25 there are no financial incentives in the safety area because obviously

1 they could perhaps lead to some unintended outcomes or perverse  
2 behaviours.

3 In relation to the first KPI, Key Performance Indicator, it is  
4 effectiveness of safety management. The targets are set at EU level  
5 and the FAB targets need to be consistent with obviously the EU targets.  
6 For effectiveness of safety management the targets are set both for state  
7 and the ANSP.

8 Within safety management there are five safety  
9 management objectives and five levels of maturity within those objectives  
10 set. The maturity levels go from A to E, with A being least mature and E  
11 being fully mature. The targets set at state level for all five management  
12 objectives, which I will show you on the next slide, are at Level C. Level  
13 C is defined as implementing, in other words, operating with defined and  
14 standard processes.

15 At ANSP level, four management objectives are set at  
16 Level D which again is defined as managing and measuring -- objectives  
17 are used to manage processes and performance is measured. For  
18 safety culture it is set at C. The targets set were based on the  
19 information that was gathered in RP1 so obviously it is to drive  
20 improvement but it recognises the reality from the surveys in RP1 and  
21 they are considered appropriate target levels for RP2.

22 As I said, there are five management objectives and they  
23 relate to safety policy and objectives, number one, through safety risk  
24 management, safety assurance, safety promotion to safety culture.  
25 Again, both the regulatory authorities, NSAs, have responsibilities to

1 meet the targets in all these areas and also the ANSP.

2           The second key performance indicator is for  
3 determination of severity of events using the risk analysis tool. This is an  
4 objective tool that has been available for a few years now. It is to be  
5 applied specifically to three events. You may see at the bottom -- I know  
6 it is difficult to see from the back -- the three events to which it is to be  
7 applied are SMIs, RIs and ATM-S, specific occurrences. That is  
8 separation minima infringements, runway incursions and air traffic  
9 management specific occurrences, which means system occurrences  
10 like communication issues, navigation issues, flight data processing  
11 issues.

12           Initially the targets were set for achievement by the end  
13 of RP2, which is 2019, but following discussion it was believed that it  
14 needed to be pressed home a little earlier than that. So, by 2017 at least  
15 80 per cent of separation minima infringements and the other events  
16 need to have the severity determined using this tool and, by 2019, 100  
17 per cent. By the way, all of this detail and more is in the consultation  
18 document that Iain referred to earlier.

19           The third key performance indicator is Just Culture. We all  
20 know that there are different definitions but the current definition of Just  
21 Culture effectively means that the system tolerates error but won't  
22 tolerate wilful acts or destructive acts or negligent behaviour.

23           We had a lot of meetings on this, obviously working  
24 towards a draft UK-Ireland FAB Performance Plan. We had meetings at  
25 plenary level and at individual issue level and all of the rest. It has been

1 going on for a long time now and a lot of good work has gone into it. We  
2 have drafted and published an NSA Just Culture policy, signed off at the  
3 highest level by both regulatory authorities. We are pretty proud of that.  
4 Again, it is repeated fully in the CONDOC for you to have a look at and  
5 among other things it exhorts the ANSPs to agree Just Culture policies  
6 themselves at FAB level, which they have done.

7           The policy talks about the structure we expect to be in  
8 place to make sure that Just Culture is evenly and properly applied. It  
9 also includes a decision tree to look at events to find out where the flaw  
10 in the system is, whether it is at system level, and to help determine  
11 whether there is any individual culpability. It is a very objective, fair and  
12 constructive process and it is well worth having a look at.

13           One of our responsibilities in the performance scheme is to  
14 devise targets for Just Culture. We held a couple of meetings about it.  
15 We were thinking about setting targets all over the place and in different  
16 areas. Following discussion we concluded that the best way to do it was  
17 to ensure that all staff from the top to the bottom, from the most senior  
18 level to the most junior level and right across the organisation,  
19 understood Just Culture and understood what it meant. What we have  
20 done is written up training targets for both ourselves in the NSAs and for  
21 the ANSPs. We feel that with awareness and with training all of the other  
22 good outcomes that you expect from Just Culture will follow.

23           When this performance plan is finalised, adopted by the  
24 states and passed through to the Commission and accepted there, then  
25 we will have ongoing responsibility to monitor the implementation and the

1 progress on all these safety key performance indicators.

2 On safety that is all for the moment. We will be taking  
3 questions during the morning or in the plenary question session at the  
4 end but for the moment thank you very much.

5 MR OSBORNE: Thank you very much, Adrian.

6 Are there questions on safety that people want to take  
7 now? [None indicated]

8 We now move on to environment, which Anthony and Mike  
9 are going to present to us, Anthony first on FAB with the Irish piece.

10 ENVIRONMENT - FAB - IRELAND

11 MR EIFFE: Good morning. My name is Anthony Eiffe and  
12 I am with the Irish NSA. This morning we are going to consider the  
13 second performance area of environment. We are going to consider it at  
14 a FAB level and then branch out into specific considerations at a UK and  
15 an Irish level.

16 FAB targets are set in two key performance areas:  
17 Horizontal en route flight efficiency, KEA. This is the target at FAB level  
18 and that is what we will be discussing. But also horizontal en route flight  
19 efficiency of the filed flight plan. That is a Network Manager level and  
20 outside the scope of these discussions.

21 There is also a requirement for a FAB incentive for the  
22 KEA. This can be either financial or non-financial and the NSAs have  
23 decided to put a non-financial incentive in place.

24 Some of the issues that were considered when setting  
25 targets for the environment area at FAB level is "free route" airspace in

1 Irish airspace since 2009. Therefore, in this case, there is limited scope  
2 for a reduction in the variance from the optimal routeings.

3 Improvements in the flight efficiency area for RP2 are  
4 expected in the area over London, the LAMP, and the NTCA.

5 Improvements are expected in both vertical and horizontal  
6 in the case of the UK trajectories. Some worsening of the KEA is  
7 possible with wider gains overall; compensation for that.

8 Here we have the targets that have been set for  
9 environment at the FAB level. Taking you from 3.36 per cent to the end  
10 of RP2, just under three per cent, 2.99. These are consistent with the  
11 Network Manager targets for the FAB level.

12 In terms of the incentives that are going to be in place, the  
13 ANSPs will be required to report to their respective NSAs in years when  
14 targets are not met. They must set out the extent to which there remain  
15 substantial differences and the extent to which achieving the efficiencies  
16 would have a knock-on effect in other areas, considering the  
17 interdependencies. The scale of flight efficiency will also be a  
18 requirement for reporting.

19 There have been various initiatives in this area through  
20 RP1, RP2. The environmental savings of the ENSURE and other  
21 initiatives have been outlined in an independently verified cost benefit  
22 analysis which was submitted by both states to show compliance with the  
23 FAB rules.

24 The cost benefit analysis outlined fuel burn, fuel cost, CO2  
25 savings, putting monetary values on these and the period 2009/2020



1 including the full periods of both RP1 and RP2. For example, in 2013 it is  
2 estimated, based on modelled information, that UK-Ireland FAB helped to  
3 deliver 30 million of savings.

4           Some of the other projects fall under this in the wider  
5 environment area and you see there some of the savings that have been  
6 attributed to them again -- the ENSURE, the bigger one, with very  
7 substantial savings in other areas, P600, the night time fuel savings,  
8 reduced separation and the Dublin TMA point-merge.

9           Now we will consider some of the areas specific to Ireland  
10 and the environment.

11           As stated, in 2009 the IAA removed all impediments to  
12 user-preferred trajectory essentially making it route free in Irish airspace,  
13 and all the ones that were under our control to be removed. As  
14 discussed, the ENSURE project facilitated this route free airspace,  
15 obviously significantly in advance of the aspirational target set out by the  
16 EU, which is essentially 2019; so, well in advance of that.

17           There are no further known opportunities. Never say never  
18 but it is very specifically around known opportunities to improve the  
19 en-route horizontal flight efficiency within Irish airspace. Obviously we  
20 will consider future technological advances, developments that may  
21 facilitate it, and we will work with the UK to support the efforts that are  
22 being made to contribute towards environmental efficiency and savings  
23 across the FAB.

24           Thank you. I will pass over to Mike now to discuss the local  
25 issues at a UK level.

1 MR OSBORNE: Let's take questions on the Irish bit now. I  
2 think that makes sense.

3 MR CLARK [Virgin]: Geoff Clark, Virgin Atlantic Airways.  
4 The slide on page 12 talks about the EU targets and it has some  
5 percentages shown. The UK-Ireland target, can I just be clear what  
6 those percentages represent please?

7 MR EIFFE: They are savings in the KEA, in horizontal en  
8 route flight efficiency.

9 MR CLARK [Virgin]: Savings in fuel or time or ...

10 MR EIFFE: Time. These are the targets for coming from  
11 3.3 to just under three per cent.

12 MR GOODLIFFE: I understand they are horizontal flight  
13 efficiency.

14 MR EIFFE: Yes.

15 MR GOODLIFFE: So, they are deviation from the metric  
16 that the EU have devised for the deviation from the great circle.

17 MR CLARK [Virgin]: So, it is distance.

18 MR EIFFE: Distance, yes.

19 MR CLARK [Virgin]: Thank you.

20 MR CURRAN [IATA]: Peter Curran for IATA with a  
21 question following on from Geoff's. You mention that KEA may worsen  
22 but in the context of wider improvements. I think we understand that that  
23 is a possibility. How will we be able to sum that up through the process?  
24 Have you mapped that through yet?

25 MR EIFFE: There will be the monitoring and we have

1 outlined the reporting requirements when there is a failure to meet  
2 targets. It will be captured in that.

3 MR GOODLIFFE: What we envisage may happen is that in  
4 order to improve the situation within 40 nautical miles, which is where the  
5 big gains will be in the South East, some of that inefficiency may be  
6 moved out into en route, but the net effect may well be positive. So,  
7 when the ANSPs report, we want to be able to look at that picture in the  
8 whole. Exactly what that will consist of we haven't quite got a picture  
9 of but in general that is the situation.

10 MR OSBORNE: Hold that thought, Peter, because I think  
11 we probably do need to get the UK slides as well to get the whole picture  
12 before we can properly discuss monitoring. Let's come back to that when  
13 we have had the UK slides as well.

14 MR WOOD [BA]: Dave Wood, British Airways. You refer to  
15 two KPIs. Both refer to the horizontal plane only. Is there no KPI for the  
16 vertical?

17 MR GOODLIFFE: We can get onto that in the UK.

18 MR WOOD [BA]: I will wait for the UK slides then for my  
19 second question as well.

20 MR OSBORNE: That illustrates the wisdom of getting  
21 through the slides before we take the questions properly.

22 Mike, you go on and we will come back to those questions.

23 ENVIRONMENT - FAB - UK

24 MR GOODLIFFE: Thank you, Anthony. For those who  
25 don't know me, I am Mike Goodliffe. I am a senior regulatory adviser in

1 the markets and consumer team here. I have worked on all the NERL  
2 reviews since and even before the PPP.

3           As far as the UK is concerned we are proposing to add  
4 some additional incentive mechanisms. First, on the 3Di metric. This  
5 combines vertical and horizontal flight efficiency and has been in place in  
6 RP1 and seems to enjoy a fair amount of support from users. Secondly,  
7 a financial incentive on encouraging the timely change in transition  
8 altitude. TA is a necessary enabler to deliver the significant savings from  
9 reorganisation of London airspace through the LAMP project and, to a  
10 lesser extent, in the northern terminal control area. I will expand upon  
11 these further in the next few slides.

12           In addition, the CAA is proposing to introduce a licence  
13 condition that would require NERL to report against detailed project plans  
14 for TA and LAMP. The CAA intends to engage an independent reporter  
15 to provide an assessment of NATS progress and delivery against those  
16 plans. The CAA would publish the reporters findings on its website.

17           Returning to the 3Di metric, there is not a lot of time to go  
18 into all of the detail here so I will just go through a few headlines. We  
19 propose that the 3Di metric will be subject to the maximum penalty or  
20 bonus of one per cent of revenue for environment allowed under the EU  
21 Single Sky regulations. The 3Di is based on a regression model of the  
22 vertical and horizontal components and provides a proxy of overall fuel  
23 efficiency. This modelling approach requires less data and processing  
24 effort than calculating the actual and optimal fuel burn for each flight.

25           The draft performance plan sets out the level of ambition

1 measured on the RP1 basis of measurement and broadly reflects NERL's  
2 revised business plan. I should say that continuing work is taking place  
3 to recalibrate the model, firstly to make the specification simpler without  
4 losing explanatory power and secondly to introduce improvements in the  
5 accuracy of measurement that NERL has developed in RP1. There is a  
6 difference in view between NERL and the CAA as to exactly what the  
7 progression in performance should be within the period, and that is  
8 outlined on the graph.

9           Let me reiterate that, whatever the recalibration, we intend  
10 the effective level of ambition to be equivalent to what is in our draft  
11 proposals although, of course, we would not rule out a change based on  
12 your responses to those proposals.

13           Given the recalibration, this table is therefore only  
14 illustrative. The numbers are likely to change to reflect the revised basis  
15 of measurement. We have included it here to give a sense of the  
16 structure of the incentive. There will be a par value, a dead band of plus  
17 or minus ten per cent around the par value in which no bonus or penalty  
18 would be paid. The maximum bonus or penalty would be paid at a  
19 variance of plus or minus 33 per cent of the par value and the rate  
20 of penalty or bonus would be applied lineally between the relevant  
21 threshold of the dead band and the maximum.

22           Moving on to the transition altitude, those of you who have  
23 read the NERL business plan or participated in customer consultation will  
24 be aware of the very great potential fuel benefits of the future airspace  
25 strategy and in particular LAMP.

1           There are of course other benefits as well in terms of safety  
2 and capacity. Most of those benefits will not accrue unless the change in  
3 transition altitude takes place on time. Most of you will probably be  
4 aware that the transition altitude is the level at which altimeters are  
5 switched from standard temperature and pressure to ground-based  
6 temperature and pressure. Moving this transition altitude up to a higher  
7 level is a necessary enabler to allow the full redesign of the airspace  
8 below. We think that the particular project is suitable for incentivisation  
9 because the benefits for users are significant. Success can be  
10 objectively measured against criteria set in advance. While the change is  
11 not wholly in NERL's control, NERL is substantially in the driving seat for  
12 making it happen. We therefore propose to make the bonuses for the  
13 3Di in the years 2017 and 2019 contingent on NERL having delivered  
14 TA. If they have not, they become liable for the maximum penalty until  
15 TA is implemented.

16           Thank you.

17           MR OSBORNE: The question on the third dimension, have  
18 we dealt with that?

19           MR WOOD [BA]: Within the Irish airspace is there no  
20 vertical trajectory?

21           MR EIFFE: No. That's correct; there isn't.

22           MR OSBORNE: Let's go back to monitoring. Do you want  
23 to reformulate the question, Peter?

24           MR CURRAN [IATA]: The answer, if I understood it, is that  
25 we can expect to see a proper cost:benefit analysis for a terminal area

1 redesign which acknowledges and includes any loss in the KEA  
2 performance. All we are after is something that sums it out so we can  
3 see the whole performance, not simply to see one business case that  
4 says "The terminal area is good" and then, subsequently, to be told "Oh  
5 yes, but of course the KEA has been impacted here". We would like to  
6 see it meted out. Is that in your head as well?

7 MR GOODLIFFE: We would expect that in terms of a  
8 cost:benefit analysis, but this is really about monitoring after the event as  
9 to what the performance has been; if there has been a positive story to  
10 tell about the terminal area that should be taken into account when  
11 considering whether we should be slapping NATS's wrist for the  
12 horizontal on which there may be a lot less value.

13 MR OSBORNE: You are looking for confirmation that we  
14 are monitoring the two on a basis that they can easily be combined and  
15 that there will be some transparency around that.

16 MR CURRAN [IATA]: And there is transparency. Exactly.

17 MR GOODLIFFE: That is what we would be planning to  
18 see.

19 MR CURRAN [IATA]: Just in terms of the approach to  
20 incentivisation, if I have understood the slides correctly, Ireland will have  
21 no financial incentivisation on environment.

22 MR EIFFE: That's correct.

23 MR CURRAN [IATA]: All of the permissible one per cent  
24 under the EU regulation for environment for the UK will be allocated to  
25 3Di, nothing to KEA. Could you give a bit of background as to the

1 thinking about why you would put all of that on 3Di and not look at  
2 perhaps both?

3 MR GOODLIFFE: Effectively 3Di is both because it is a  
4 weighted average, if you like, of horizontal and vertical efficiency. The  
5 horizontal efficiency will be part of the 3Di score. It is effectively a  
6 balance between the two.

7 MR CURRAN [IATA]: They are not quite the same  
8 otherwise why would we have two KPIs?

9 MR GOODLIFFE: We have the KPI at the KEA because  
10 that is what we are required to have from Europe. Users in this room  
11 may correct me if I am wrong but I am told by NATS, and also in  
12 discussions, that there are more gains to be had from continuous ascents  
13 or descents than there is potentially in sort of straight and level horizontal  
14 efficiency.

15 MR CURRAN [IATA]: Please don't misunderstand me; it is  
16 not a criticism of 3Di. I think our position on that is pretty clear; we think  
17 it is a very good initiative. It is really about the decision-making process  
18 to load all of the incentive on one metric and not to look at both.

19 MR OSBORNE: It is a concern about perverse effects, if I  
20 understand.

21 MR CURRAN [IATA]: Yes, that's correct.

22 MR OSBORNE: We understand that the European  
23 measure is set regarding the European territory as a whole, in much  
24 of which the opportunity for horizontal improvements is the big gain. We  
25 are concerned in the UK that if you drive horizontal changes you might



1 not just miss the opportunities for the 3D but that you actually might  
2 make things worse net because you are incentivising horizontal rather  
3 than 3D. Hence, we put the money on the 3D, which seems to address  
4 the real issues in UK airspace particularly.

5 MR GOODLIFFE: I was just going to make a point which is  
6 that the Commission has actually encouraged us, if we are going to put a  
7 financial incentive on to flight efficiency, to do so on our existing scheme  
8 rather than on KEA. That is the sort of informal message we have had. I  
9 think we are encouraged that this is perhaps the right thing to do. Users  
10 are telling us that 3Di is important, NATS is telling us that 3Di is important  
11 and the Commission is saying "We think perhaps you should be looking  
12 at that rather than the KEA".

13 MR CLAYTON [Ryanair]: Ian Clayton, Ryanair. You have  
14 answered most of my question in that discussion. I suppose the only  
15 thing that is left is I am not quite sure, given what you just said about why  
16 the UK authorities have adopted a 3Di approach, why the Irish authorities  
17 have taken a different position.

18 MR EIFFE: On a cost:benefit analysis basis, the  
19 opportunities for improvement on the horizontal is next to non-existent  
20 within Irish airspace and we were cognisant of the costs involved in  
21 introducing and set against the benefits. We are satisfied that the  
22 attention, now that the efficiencies in terms of horizontal are as good as  
23 removed from Irish airspace, that that is the optimum setting in terms of  
24 targets for Irish airspace.

25 MR CURRAN [IATA]: Maybe this is a broader question and

1 if so for the end. Perhaps we can come back to it.

2           The two conversations we have just had illustrate very  
3 different thinking within the FAB and very different approaches. To the  
4 extent we have a FAB plan, it is really two plans which then has a FAB  
5 piece across the top of it. That is certainly IATA's perspective. You have  
6 just said that you feel that Irish airspace is fairly well optimised given the  
7 horizontal KEA performance. What we are hearing is that in UK airspace  
8 in fact KEAs not so much the focus; it is 3Di that is the focus. We have  
9 seen that both can't be actually correct. It is a bit one or the other, isn't  
10 it?

11           MR OSBORNE: You tailor regulation to the characteristics  
12 of the airspace. If we were saying that the same set of rules were  
13 applying to the South East of England, one of the densest bits  
14 of airspace in Europe, as opposed to Ireland, which has free routing  
15 where transiting planes are much more significant, why would you expect  
16 the same rules to be optimal for both spaces?

17           MR CURRAN [IATA]: Fundamentally, because we are  
18 talking about trajectory optimisation, we are talking about cruise and  
19 climb and descent, it doesn't really matter where it is; that is what we are  
20 talking about. Cruise, climb or descent: In the cruise the KEA gives you  
21 a measure of performance basically. In climb and descent we are talking  
22 about 3Di. So, we are looking to optimise both, not one or the other.

23           MR OSBORNE: But we are talking about incentives.

24           MR CURRAN [IATA]: Yes, that's right.

25           MR OSBORNE: Incentives aim to drive and identify

1 change in behaviour. You have to kind of know what you are trying to  
2 achieve when you design the incentives.

3 MR CURRAN [IATA]: Yes.

4 MR OSBORNE: The behaviours we are looking for in Irish  
5 airspace are not the same change in terms of how that space is  
6 managed. They are not the same as what we are looking for in the  
7 South East of England, particularly the importance of the vertical aspect.

8 MR CURRAN [IATA]: To an extent I agree, except that  
9 there is still an important dimension which is to optimise or to improve the  
10 performance of the horizontal profile within UK airspace. You have a  
11 target of three-point-something per cent which I think will be a challenge;  
12 I don't think that will come easily. It is not that it is one or the other.

13 MR OSBORNE: No, but 3D isn't 2D up and down instead  
14 of sideways; 3D is 3D.

15 MR CURRAN [IATA]: It is capturing the benefit of the  
16 vertical profile, largely.

17 MR OSBORNE: Yes, both. Both vertical and horizontal.

18 MR FOTHERBY [NATS]: Good morning. Nigel Fotherby,  
19 NATS.

20 Article 15(1)(d) of EU Regulation 391/2013 says "the  
21 maximum amount of aggregate bonuses and the maximum amount  
22 of aggregate penalties shall not exceed 1 % of the revenue from air  
23 navigation services in year n" ...

24 [Proceedings interrupted by a fire alarm]

25 MR OSBORNE: Nigel, would you like to resume.

1 MR FOTHERBY [NATS]: Iain, would you like me to repeat  
2 what I said?

3 MR OSBORNE: I think we had the legal references but you  
4 had not got to the question.

5 MR FOTHERBY [NATS]: A very straightforward reading  
6 of those words would indicate that the total bonus or total penalty  
7 opportunity would be one per cent for capacity and environment. I just  
8 wondered how the CAA is interpreting those words because clearly, from  
9 what Mike has said, it is one per cent on environment and one per cent  
10 on capacity. From a NATS point of view we are obviously concerned  
11 about the lawfulness of what we charge because if, for example, we  
12 earned a bonus on environment and, say, a bonus on capacity, then  
13 potentially it could be open to legal challenge unless you are completely  
14 assured that you are interpreting those words in a way that the  
15 Commission will and that we are not going to have some failure time  
16 down the track with the Commission challenging that interpretation. I just  
17 wondered if you could elaborate on why you feel confident in that  
18 interpretation or whether you are seeking further clarification from the  
19 Commission?

20 MR GOODLIFFE: When we first read the Regulation we  
21 interpreted it like you to mean one per cent for all the incentive  
22 mechanisms. Since, at a workshop, the Commission senior officials gave  
23 their interpretation of the Regulation as being one per cent for each  
24 of capacity and environment. It was very clearly stated at the meeting  
25 that that was the case, but we were sufficiently concerned to make sure.

1 We followed the issue up and it has been confirmed in the last few days  
2 from the relevant desk officer that it is the Commission's interpretation  
3 that it is one per cent on each. Given that interpretation, and given that  
4 we thought that one per cent for both was too low, we are going to take  
5 the opportunity to have one per cent on each.

6 MR OSBORNE: In terms of the lawfulness of your charges,  
7 and I entirely understand the concern, you recognise that is where we  
8 stand now. By the time you are charging in realtime, the regulatory  
9 authorities will have submitted to the member states, the member states  
10 presumably will have adopted this as part of what they are happy to  
11 propose to the Commission and the Commission will have approved it. I  
12 think you have quite a lot of air cover by the time you get to that point.

13 MR FOTHERBY [NATS]: Thank you.

14 MR OSBORNE: Are there any further questions on  
15 environment? [None indicated].

16 In that case we will move on to capacity.

17 EN ROUTE CAPACITY - FAB

18 MR GOODLIFFE: Moving on to en route capacity at the  
19 FAB level, once again the SES regulations require a target to be set at  
20 the FAB level. The target is required to be on the en route air traffic flow  
21 management delay from all causes per flight.

22 This table [slide 25] just cascades down that the EU has set  
23 an EU wide target of 0.5 minutes per flight. The Eurocontrol network  
24 manager issued reference values for each FAB consistent with its overall  
25 target some time ago, prior to the preparation of the draft performance

1 plan, and these are the figures that are not in the parentheses and we  
2 have based the FAB targets on these values.

3           The performance scheme requires the FAB targets to be  
4 allocated to ANSPs for monitoring and incentives. We have done this  
5 broadly in line with the RP1 allocations. We understand that the network  
6 manager has been working on revised reference values. Our latest  
7 expectations of these are in the parentheses. However, the CAA and  
8 IAA SRD have no current plans to revise the reference values in the draft  
9 plan.

10           Finally, before I move on, I should say that we have  
11 introduced a numbering system. We will come back to this with the  
12 various slides for the capacity targets and the incentives. C1 is the FAB  
13 target, C2 is the par values for the FAB incentive scheme and C3 and C4  
14 are the additional incentives for the UK.

15           Moving on to the FAB incentive, unlike RP1, the  
16 performance scheme requires financial incentives for capacity in RP2.  
17 So, we and the IAA SRD have jointly developed a common scheme for  
18 the UK and Ireland. One difference is that our Irish colleagues have  
19 decided to put all the maximum bonus and penalty into this measure  
20 whereas the UK has decided to hold back three quarters of the available  
21 money at risk for the additional capacity incentives that we had in place  
22 in RP1 and which users have told us they find more relevant in the  
23 context of the UK.

24           Both we and our Irish colleagues have decided to focus the  
25 incentives on those causes over which the ANSPs have more control and

1 have adopted the definition allowed under the SES charging regulation in  
2 Article 15(g) which limits the causes used for incentives. The  
3 measurement of delay will be based directly on data provided by  
4 Eurocontrol without adjustment. For the UK, at least, this will be a  
5 departure from RP1 when we allowed the data to be corrected locally.  
6 Any bonus or penalty will not be payable for two years after the relevant  
7 year -- which I know was a user concern and is now sort of clear -- and  
8 be subject to the prior test. So, before any bonus or penalty is paid, has  
9 the FAB overall met the target. But, subject to that, bonuses or penalties  
10 will be based on the ANSPs own performance.

11 This graphic [slide 27] is intended to show the  
12 characteristics of the FAB incentive scheme for each ANSP. Each ANSP  
13 will have a par value. There will be an asymmetric dead band, which is  
14 the yellow area, from minus 20 per cent of the par value to plus ten per  
15 cent in which no penalties or bonuses will be paid. There will be a  
16 smooth linear scale up to the maximum penalty being paid at 150 per  
17 cent of the par and a maximum bonus at 40 per cent of the par value.

18 Can you actually see those numbers on the graphic?  
19 I have gone through them but it is probably a bit small.

20 MR OSBORNE: They have the paper slides.

21 MR GOODLIFFE: Yes.

22 This slide [slide 28] sets out the relationship of the par  
23 value to the FAB targets and the consequent bonuses and penalty  
24 thresholds. For NERL the CAA has made an allowance for the  
25 non-NERL causes of delay which has taken the par value down a little bit

1 compared to the C1 FAB equivalent KPI target. That sets out the basis  
2 of the par values.

3 That completes the FAB part. I will now pass on to Anthony  
4 who has a few slides related to Ireland.

5 EN ROUTE CAPACITY - IRELAND

6 MR EIFFE: Thank you. I am going to take this opportunity  
7 to put a little context on the capacity targets for Ireland.

8 Overall, as mentioned, RP2 capacity target at 0.28 min and  
9 a capacity target for Ireland set at 0.15 min. As you know, during RP1,  
10 Ireland adopted, and the Irish NSA set, an approach in which cost  
11 savings were prioritised over delay. This is something that has been  
12 backed up through customer consultation and, as a result, only very  
13 limited investment was planned in capacity-enhancing measures, given  
14 that the delay was at an acceptably lower level. The same approach will  
15 be applied in RP2.

16 I have just used this graphic [slide 31] to illustrate the  
17 targets and the forecasts for RP1 and RP2. You see the value for the  
18 last year of RP1 asset is 0.14. However, based on that, traffic values are  
19 still substantially less, although rising, than the forecast RP1 levels. No  
20 initiatives have been taken to specifically enhance capacity. We are  
21 proposing a target of 0.15 for RP2 just above the RP1 final year target  
22 value.

23 Thank you. I will pass over to Mike to discuss the UK  
24 specific capacity issues.

25



1 EN ROUTE CAPACITY - UK

2 MR GOODLIFFE: Some of you will probably be familiar  
3 with the fact that the UK has these additional capacity incentives which  
4 came out of a process of consultation for RP1 between NERL and users.  
5 Like the scheme at FAB level, we are proposing that these incentive  
6 metrics will be based directly on Eurocontrol data and not locally  
7 enhanced. There are two incentives. C3 is an impact score for these  
8 long delays. Delays early in the morning and to some extent in the  
9 evening are given a significantly greater weighting. C4 is a measure  
10 designed to capture days where there is significant disruption.

11 I will go on to cover those in a little more detail.

12 Here are the headlines for the impact score [slide 34]. Our  
13 feedback from users has been that this is the most important measure for  
14 the UK capacity incentive in RP1. This is because it puts significantly  
15 greater weight on long delays and delays early in the day because these  
16 are the types of delays that have greatest knock-on effect on subsequent  
17 schedules. We have kept the weightings the same as RP1.

18 Just to give a flavour, for minutes of delay over one hour in  
19 the morning peak, in excess of one hour, this is a factor of 18 times what  
20 they are for short delays in the off peak.

21 Out of the one per cent maximum penalty or bonus, we  
22 have allocated 50 per cent in terms of penalties and 75 per cent in terms  
23 of bonuses. I will come on to why that is different in a moment.

24 Like the joint FAB metric, bonuses will only be paid if the  
25 FAB is achieving the FAB target, and penalties will only be paid if the

1 FAB is failing the FAB target.

2           The headlines for the excess daily delay score: C4  
3 provides an incentive to avoid days of particularly poor performance. I  
4 think we should note that these have been very rare since the incentives  
5 were introduced at the start of 2011, with December 7 being the notable  
6 exception. Poor performance on this scale is most likely to be due to a  
7 system failure rather than any underlying shortfalls in capacity. One  
8 major change we proposed for RP2 is that the C4 metric will be penalty  
9 only. It seems a reasonable user expectation that there will be no  
10 exceptional events of this nature.

11           Unlike C3, we are not proposing that this metric should be  
12 subject to the C1 FAB target. We consider that this would undermine the  
13 whole purpose of this C4 metric which is there to reflect the fact that poor  
14 service delivery on very, very bad days can be a far greater detriment  
15 than would be reflected as part of an annual average.

16           Just to conclude this section, this [slide 36] is a summary  
17 of the amounts of risk in the UK under each element for capacity. One  
18 per cent of revenue is available for capacity. For the UK only a quarter  
19 of that is at risk in the joint FAB scheme. The remaining three quarters is  
20 at risk for the C3 and C4 metric combined. As C4 is penalty only, all the  
21 bonus at risk has been placed on the C3 metric. We have done this  
22 because the SES regulations require that the maximum amount  
23 of penalties and bonuses has to be equal.

24           I should also point out there is a fair bit of detail on each  
25 of the UK incentives in the consultation document. It is probably most

1 appropriate to make any detailed queries to me offline. Thank you.

2 MR OSBORNE: Thank you very much, Mike.

3 Do we have questions on the capacity area?

4 MR CURRAN [IATA]: Just a quick question pulling together  
5 this one and the environment section. The environment scheme is  
6 symmetrical but this one is asymmetric. I do not have a particular view  
7 either way but what was the thinking in having a difference between the  
8 two?

9 MR EIFFE: The feeling was that it should be harder to get  
10 a bonus than it is to incur a penalty. That is the principle. That is the  
11 reasoning behind it.

12 MR CURRAN [IATA]: That didn't apply with the  
13 environment scheme?

14 MR EIFFE: No. Though a different approach was taken for  
15 the environment scheme. Mike will probably speak to that better given  
16 that it is UK.

17 MR GOODLIFFE: We would say that there is more noise in  
18 the environment scheme: For 3Di there is a certain amount of noise in  
19 the measurement. That is a significant part of why you put a buffer  
20 around the par value. Our thinking was, in RP1, to have a sort of dead  
21 band buffer around that value partly to reflect the noise in the  
22 measurement.

23 I take your point that you could apply the same logic that it  
24 should be harder to get a bonus than a penalty but that was the logic we  
25 applied.

1 MR CURRAN [IATA]: I want to make a comment but also  
2 get your input.

3 The opening point on this scheme was that there is a joint  
4 or a UK-Ireland scheme here. In a sense there is, but everything else  
5 after that is quite individual.

6 You have different categories, you have different bonus and  
7 penalty magnitudes, and the potential for one ANSP to be a penalty or a  
8 bonus and not the other exists. Really it is at least in one sense not one  
9 scheme at all; there is enormous deviation and the possibility even to  
10 incentivise non-network centric thinking is the real concern underpinning  
11 that. What is your comment to that?

12 MR EIFFE: The regulations require the incentive to be set  
13 in certain areas to raise the scope and the UK have taken that scope to  
14 apply that in a different fashion. Ireland has taken the approach that we  
15 have applied the full allowable incentive and penalty where we believe it  
16 is most appropriate. I will say, in terms of where there are disparities,  
17 quite obviously the targets will be different, but there is a consistency in  
18 terms of how the dead band is applied, how the various targets and how  
19 the incentive scheme is administered. Also obviously there will be  
20 consistency in how it is reported on.

21 So, yes, by their nature, similar to the environment nature,  
22 there are areas where there are local considerations but overall within  
23 the regulations it allows you these various options, these various  
24 approaches. In this area there has been a different approach taken by  
25 both partners in the FAB in some areas. However, the incentive scheme

1 will be applied in the same fashion within the FAB, albeit with different  
2 targets.

3 MR GOODLIFFE: A lot of the reason why our scheme is  
4 different and more complex than the Irish scheme is because we have  
5 responded to what users have been telling us. They put value on the C3  
6 and C4 measures that we have in the scheme. We had an initial  
7 discussion with the Irish, a very short discussion, considering whether  
8 this was relevant to them. Obviously where there is very little delay  
9 having such a large step of complication doesn't really fit the bill. I think it  
10 is horses for courses.

11 There are a lot of capacity issues, has been, in the UK, less  
12 so these days, and we have a scheme that users seem to quite like or at  
13 least the bits that we have added, bolted on.

14 My second point is that there is of course one big pan FAB  
15 aspect and that is that no bonuses are paid unless the FAB is meeting  
16 the target and no penalties are paid unless the FAB is failing the target.  
17 So, I think there is a FAB overlay to the scheme as we have set it out.

18 MR OSBORNE: I think we need to hold that thought  
19 because there is a theme in your questions about the extent to which it is  
20 one FAB plan as presented, but it does treat the two jurisdictions  
21 differently in a number of areas. Let's see how that plays out through the  
22 other areas of KPI and we will pick that up as a general theme in the  
23 wrap-up.

24 MR CURRAN [IATA]: Perhaps this is for the wrap-up too,  
25 then, but I just wondered to what extent you have discussed and really

1 considered the behaviours, the last point that Mike made, around if the  
2 FAB doesn't make the target or if the FAB fails to meet it then bonuses  
3 don't apply. That can drive different behaviours within the different  
4 ANSPs, within the different states, I should say. Whilst in a FAB sense,  
5 of course, you would not want to see a penalty applying inappropriately  
6 or a bonus applying inappropriately, it does allow for a two-speed FAB, if  
7 I put it that way.

8 MR OSBORNE: Perhaps that is for the wrap-up. That is a  
9 point that applies across a number of areas.

10 MR WOOD [BA]: I just want to clarify something. On page  
11 30 it refers to en route capacity and SES requirements and the first bullet  
12 point in 4.1 refers to the en route ATFM delays, the difference between a  
13 estimated take-off time and the calculated take-off time. Is that referring  
14 to all delay causes applicable to that flight whereas on page 26 under C2  
15 it refers to specifically those causes listed in article 15(g) applying to ATC  
16 capacity, ATC routing, ATC staffing? In other words, does weather come  
17 into C1?

18 MR GOODLIFFE: The incentive scheme is only those  
19 causes which are listed in 15(g).

20 MR WOOD [BA]: So, 15(g) applies to C1 as well?

21 MR GOODLIFFE: No, to C2 and C3 and C4, but C1 is all  
22 causes. C1 is the target. That is the KPI target that is specified in the  
23 regulations and that has to meet all causes, all en route causes.

24 MR WOOD [BA]: The definition of en route, when you say  
25 en route causes, because it refers to between estimated take-off time

1 and calculated take-off time, where is en route specifically?

2 MR GOODLIFFE: It is a bit of a technical issue but the  
3 ATFM delay is allocated to a particular regulation on a particular area  
4 of airspace, that which is the most constraining piece of airspace for that  
5 delay. That will be advised from the flight management position as to  
6 what that cause, that piece of airspace, is. If it is en route, then it is an  
7 en route delay. If the most constraining regulation relates to an airport,  
8 that will be a terminal delay.

9 MR OSBORNE: Think about that.

10 MR WOOD [BA]: I will.

11 MR OSBORNE: If that doesn't fully answer the question,  
12 then write the question down and we will give you a written answer  
13 because it is clearly not a completely straightforward piece that.

14 I think we will move on and give ourselves half an hour for  
15 Terminal and take coffee at 10.30.

16 We will move on now to the terminal section where I think,  
17 Anthony, you are speaking first.

18 TERMINAL - IRELAND TERMINAL CAPACITY AND COST  
19 EFFICIENCY

20 MR EIFFE: We are going to consider the terminal area, the  
21 local area as it applies to Ireland. In terms of the building blocks for it, we  
22 go into much greater detail in terms of the various cost elements in the  
23 en route. So, I am not going to go into that now. We will be covering  
24 those areas in detail in the en route section and the same principles will  
25 apply.

1 In recent years the traffic downturn has resulted in IAA  
2 ANSP attributed delay at Irish airports being very close to zero.  
3 Obviously, that does not include weather or other elements; we are very  
4 much talking about the ANSP attributed delays here. It is not  
5 economically efficient to provide sufficient capacity to guarantee zero  
6 delay; and that is backed up by customer consultation which obviously is  
7 a requirement. The NSA requires the ANSP to consult on these issues.

8 Another factor that was considered around Ireland terminal  
9 capacity is that growth is not evenly distributed through the operating  
10 day. Growth is coming, we all accept that, but it is most likely going to be  
11 focused on the peak, the more economically commercially attractive  
12 periods for operators.

13 Given that there are no significant airport infrastructure  
14 enhancements planned for the RP2 period, an increase in delay, albeit  
15 from an acceptably low level, is expected as traffic increases.

16 In setting a terminal capacity target, these are some of the  
17 areas that were considered by the Irish NSA. The airfield infrastructure  
18 at Dublin airport and the situation in neighbouring airspace. For RP2 the  
19 NSA deemed it appropriate to target a level of terminal delay which  
20 recognises the effect these issues can have on the IAA ANSPs ability to  
21 avoid delay, very much concentrating on the areas that are within their  
22 ability to control.

23 We set out here the terminal capacity targets. It is worth  
24 pointing out these relate to ATM attributable delay. The final target that  
25 will be set by the NSA will include an allowance for the above and an



1 allowance for the non-ATM delays such as weather, but these are the  
2 targets that will relate to the ANSP.

3                   Moving on to the area of terminal cost efficiency, again the  
4 building blocks and the individual components in this will be discussed in  
5 greater detail in the en route section. Many of you with slides will already  
6 see that.

7                   Under the RP2 regulations the performance plan must  
8 include national targets for terminal ANS.

9                   The H24 nature of operations is very specific to Ireland,  
10 from a terminal capacity, Dublin, Cork and Shannon; it does result in a  
11 very challenging business environment. Obviously the H24 requirement  
12 is based on governing legislation. The IAA is currently one of the most  
13 cost efficient ANSPs for terminal services.

14                   I will put up the targets [slide 43]. We see here the total  
15 cost and we see the unit cost opening rate of 164, down to the end  
16 of 2019 a rate of 153. There are the targets that are being proposed by  
17 the Irish NSA for this area.

18                   Thank you.

## 19 TERMINAL - UK TERMINAL CAPACITY AND COST EFFICIENCY

20                   MR CARR: Good morning, everyone. Thomas Carr. I am  
21 an economist working alongside Mike on RP2 focusing mainly on the  
22 terminal element.

23                   The terminal element of the UK is quite different from the  
24 terminal element for the Irish. In the UK contracting is the main form  
25 of funding for terminal airspace, not direct charging. As some of you may

1 be aware, there is the possibility to seek a derogation for market  
2 conditions. The CAA published some advice for the DfT last year to say  
3 that market conditions weren't present within the provision of UK terminal  
4 services, but both the CAA and the DfT are hoping and working towards  
5 encouraging market conditions within UK terminal airspace. That is the  
6 background for where we are at. In light of that, we have taken quite a  
7 light-touch approach compared to our en route regulation with terminal  
8 airspace.

9           On capacity what we are expecting over RP2 is for capacity  
10 at a terminal level to remain or to be no worse than historic capacity to  
11 date. This is on ATFM all delay causes. This we think will pose a  
12 reasonable challenge to ANSPs as the period for the historic has been  
13 relatively low traffic period but going forward we are expecting growth  
14 across most of these towers and therefore maintaining a low level  
15 of delay will provide some sort of challenge.

16           Looking at the determined unit cost, you will note a  
17 determined unit cost and not a determined unit rate. We don't have a  
18 unit rate due to the lack of direct charging.

19           The majority of the gains here will be driven by traffic. So,  
20 over the period the growth in traffic will be naturally pushing down the  
21 determined unit cost of a movement but on that we have also overlaid a  
22 one per cent fall in the overall costs which gives us a target of a three per  
23 cent drop year on year. This will provide some challenge to the ANSP  
24 and some help with motivation to the negotiations between the airport  
25 and the ANSP. But it is intentionally loose and not as ambitious as

1 the en route airspace because we are expecting to try and develop  
2 market conditions and make the gains where possible through the  
3 negotiating rounds and the competitive pressure that we hope to be  
4 generated during them over the RP2 period. Subject to the Regulation,  
5 all the tower contracts will be coming to an end and therefore up for  
6 tender. So, we are hoping to develop and push through the contracting  
7 model within the UK. Thank you.

8 MR OSBORNE: Thank you, Tom.

9 I think Ian was first out of the traps with a question.

10 MR CLAYTON [Ryanair]: I am slightly confused about the  
11 comments about no significant capacity enhancements at Dublin  
12 because I have spent most of the last four weeks there discussing  
13 significant capacity enhancements at Dublin, one of which has a large  
14 price tag attached to it, and it is predicated on increased movements  
15 off the runway, which I was led to believe had been agreed, in principle at  
16 least, with the regulator. You seem to be saying something different.

17 MR EIFFE: The information that we have based it on is on  
18 an understanding that there are no significant capacity infrastructure  
19 enhancements coming in in the period of the RP2 -- and obviously we  
20 are only looking at RP2 when we are discussing this. However, it is a  
21 point that we will confirm and if you put in your query in writing we will  
22 respond in the consultation period.

23 MR CLAYTON [Ryanair]: Thank you. Just to be clear, I am  
24 talking about the same period as well. I am not talking about a second  
25 runway. I am talking about airfield enhancements to drive capacity of the

1 existing runway, but I will put that in writing.

2 MR O'TOOLE [IATA]: Laurie O'Toole, IATA.

3 Looking at the determined costs and the unit costs for  
4 terminal navigation, has it been decided whether the CAR is still going to  
5 be involved in doing the determination for a TNC because, given that  
6 their current determination finishes at, I think, the end of 2015, are we  
7 likely to see any significant change in the costs and the unit costs?

8 MR EIFFE: Our interpretation is that the regulations require  
9 us to set targets for the period 2015 to 2019. There is conflict within  
10 Ireland in terms of the crossover of the regulatory periods. That is being  
11 discussed at an Irish level and there will be greater clarity on this issue  
12 before the end of the consultation period.

13 However, in terms of the figures we have proposed, they do  
14 relate and they are subject to our requirement to produce a terminal cost  
15 for the full period of 2015 to 2019.

16 Yes, CAR determination does finish in the year 2015, so  
17 there is a crossover.

18 MR OSBORNE: Does that answer your question, Laurie?

19 MR O'TOOLE [IATA]: I think the real question is are we  
20 expecting to see the same costs throughout the period or if the CAR  
21 continued with another determination are we likely to see lower costs?

22 If the CAR are going to continue with the determination, if  
23 they did, does this mean we are quite likely to see a change in the costs  
24 one way or the other either up or down?

25 MR EIFFE: When it has been clarified as regards the role

1 of the CAR and new regulatory periods that will become clearer. At the  
2 moment we are required under the regulations to produce the figure for  
3 2015 to 2019 and that is what we have done. Obviously, as things are  
4 teased out at a local level, if that changes there will be a separate  
5 determination. So, we don't have clarity on that issue yet but certainly it  
6 will be forthcoming in the period of consultation.

7 MR LAVELLE [DTTAS]: James Lavelle, Department  
8 of Transport, Tourism and Sport.

9 The issue that Laurie O'Toole raises is indeed, I suppose,  
10 one of the more significant issues that we, at a State level, will have to  
11 consider and decide upon when it comes to the adoption of the  
12 performance plan and then the submission of it by end June, but we are  
13 aware that there is a transition issue between a national framework and  
14 the EU framework that is captured in the performance scheme. There  
15 will be more clarity on that by June but we are here today and are very  
16 interested to hear the views of the stakeholders.

17 MR OSBORNE: It is often the case with economic  
18 regulation that you are taking decisions with imperfect information and  
19 we have to keep making progress.

20 Are there further questions? We might as well start the  
21 presentations and perhaps run through the slides on economic  
22 regulation. That will take us a good 20 minutes. Then we will stop for  
23 coffee and reconvene for questions after the coffee break.

24 I think Ireland is going first on cost efficiency.

25 EN ROUTE COST EFFICIENCY - IRELAND

1 MR EIFFE: The fourth performance area we will be  
2 discussing today, and we will be discussing this on a state level, is en  
3 route cost efficiency. I will start with the Irish position.

4 The Irish unit rate is among the lowest in Europe. It has not  
5 exceeded just over 33 euros for the past 15 years.

6 It is worth pointing out that Ireland accounts for 1.5 per cent  
7 of the total European ATM CNS costs per the ACE reports,  
8 benchmarking reports.

9 The Irish NSA is satisfied that the IAA ANSP is a safe,  
10 highly cost-efficient and reliable ANSP.

11 Some of the considerations that the NSA had and the  
12 mechanics of setting the cost efficiency targets for RP2 determined costs  
13 in relation to Irish charges includes the IAA ANSP, the MET and NSA  
14 costs. Obviously your focus is on the larger area. IAA ANSP costs make  
15 up about 85 per cent of the determined unit cost over the period.

16 In RP1 Ireland contributed to the achievement of the  
17 European cost-efficiency targets through a significant reduction in the  
18 unit rate.

19 In RP2 Ireland and the Irish NSA proposed once again  
20 delivery on cost-efficiency targets, resulting in a cumulative reduction in  
21 the unit rate since 2012 of 12.7 per cent based on opening and closing  
22 unit rates.

23 The NSA proposes a cost base for RP2 which remains  
24 relatively stable at its currently low levels and that was the approach  
25 taken by the Irish NSA in setting these targets.

1 I am putting up the tables here [slide 50]. Obviously these  
2 are reproduced in much greater detail, line by line, in the consultation  
3 document and the performance plan. It is worth pointing out at this  
4 juncture that these are stated in 2012 euros. Some off our table in the  
5 consultation document and the performance plan were stated in 2009  
6 prices. These will obviously be restated as the performance plan is  
7 updated during the consultation period. However, it doesn't actually  
8 affect what we are viewing here today. They are the rates from the unit  
9 rate of €28.38 in 2012 prices down to €26.85 at the end of RP2.

10 [Slide 51] Here are some of the mechanics and the  
11 approach taken by the Irish NSA in setting the cost-efficiency targets for  
12 RP2. At the beginning of the process IAA SRD (NSA) set out very clearly  
13 to the ANSP and to the MET the acceptable parameters for determined  
14 costs.

15 A strong NSA challenge was made on the business plan  
16 submitted.

17 Consideration was given to the RP1 contributions, the RP2  
18 starting point, deemed relevant.

19 Having reduced costs across a number of categories, they  
20 are now reflected in the RP2, determined costs/determined unit costs, as  
21 presented in the last slide.

22 Now we will come to the building blocks of the  
23 cost-efficiency targets. There are many interdependencies here. First  
24 we will deal with the traffic elements.

25 The traffic forecasts we have used in the draft performance

1 plan are based on the STATFOR forecasts subject to some adjustments  
2 to account for local issues.

3           The Irish forecasts take a midpoint between the base case  
4 and the low case forecasts and there is a consideration given to some  
5 uniquely Irish elements such as the effect of the US market, air freight  
6 market, industry consolidation.

7           As you see there, I have set out and included in the  
8 performance plan and detailed consultation document forecasts for the  
9 period 2015 to 2019.

10           The first element, starting with the biggest, staff costs,  
11 make up about 60 per cent of the cost base in terms of pricing and the  
12 cost. It is a full determined cost for the Ireland plan.

13           Some of the factors that we have to consider: The IAA  
14 ANSP, there has been a pay freeze in play since 2011. This is not  
15 considered sustainable by the NSA for the full period of RP2. There  
16 have been some minor staff cost increases in RP2 (about 3 per cent).  
17 Included in there is CPI, pay awards, increments. That obviously has  
18 been set off. There have been improvements in terms of staff  
19 performance management measures now in place in terms of any  
20 awards that are made.

21           Obviously there have been significant levels of post  
22 suppression starting at a very senior level down to an operational level.

23           Salary review has led to reduced salary scales for future  
24 post holders or new conditions for new entrants and these benefits will  
25 come in RP2 and beyond.



1           Moving on, again considering staff costs, overall a minor  
2 reduction in staff numbers is expected in RP2. It is worth pointing out at  
3 this stage that RP1 saw an unprecedented high level of retirements from  
4 the IAA ANSP. Some local fears over budget measures at a national  
5 level obviously helped drive that.

6           Current low volumes of the en route traffic in the period  
7 have allowed the IAA ANSP to continue to provide a very high quality  
8 ATM service. It is something the NSA is satisfied with, despite this  
9 accelerated rate of retirement. However, given the forecast traffic growth  
10 for RP2, which we believe is coming and everyone hopes is coming,  
11 means there is now only a marginal opportunity for further efficiencies in  
12 the ATCO numbers.

13           Related, and another I included in the total overstaff  
14 pension costs, a significant amount relates to pension costs. The  
15 provision for pension costs has been made on the basis of actuarial  
16 valuations and agreements put in place in 2010 to address significant  
17 pension fund deficits. Obviously a pension fund deficit can lead to going  
18 concern issues which is something that the NSA has to keep a very close  
19 eye on.

20           The approach taken will, we believe, and we are satisfied,  
21 over time and beyond RP2, significantly reduce the cost of providing  
22 pensions to staff and the subsequent costs to the customers.

23           The measures put in place will see the pension fund return  
24 to solvency, with all things being equal, by the end of RP2.

25           With the issue of the pension deficit, there has been a very

1 proactive response driven by the NSA. The defined benefit pension  
2 scheme has been closed to new members. There is now a hybrid  
3 scheme for new members.

4 Member contributions to the pension scheme have been  
5 introduced.

6 A freeze on pensionable pay increases until 2015.

7 The IAA ANSP will continue its annual contribution of 30.5  
8 per cent pensionable pay. However, some government interventions,  
9 like the pension levy, are being met through the scheme and they are not  
10 being passed on.

11 The next most significant area is Cost of Capital. It is worth  
12 pointing out that this is based on an independent study prepared for  
13 the IAA by First Economics. There are the various elements that make  
14 up the cost of capital. We have set them out there [slide 57]. The risk  
15 free rate, equity risk premium, equity beta, cost of debt, gearing ratio.

16 If we take, for example, the equity data, obviously it has  
17 been established that companies with a smaller asset base compared to  
18 their revenue present a greater risk and that has been factored in.

19 Risk free rate: we specifically looked at pre-2008 in terms  
20 of the yields on gilts and we took a mid-point equity risk premium. There  
21 are a number of comparators. This is obviously gone into in much  
22 greater detail in the condoc and we will see it through to the performance  
23 plan and the information provided to the PRB.

24 Cost of debt: Again, in real terms, that was greater, a ratio  
25 of 3.5 per cent set.

1           We have that there coming to a total cost of capital of 6.7  
2 per cent in real terms and here are the various constituent elements of it.

3           Moving on -- obviously another very big factor in a period of  
4 long and regulatory review period over a five-year period -- cost  
5 of capital, capital investment in projects and the related depreciation that  
6 comes through to the bottom line each year, a significant element of the  
7 determined cost base.

8           As a general principle, starting off, and the approach to the  
9 NSA and the expectation of the NSA, no investment in the "nice to have"  
10 projects. Obviously no extensive R&D; that is a given.

11           All the investments -- and these reasons are already  
12 outlined in the condoc and greater line-by-line project information will be  
13 contained in the final performance plan -- in summary, the reasons  
14 behind it -- obsolescence, customer requirements, regulatory  
15 requirements, in some cases -- a very specific investment in the MET  
16 business plan driven by the benefits and also by regulatory requirements,  
17 compliance with SESAR/ATM master plan and the information provided  
18 in the performance plan will be updated to show where these various  
19 drivers have driven each different category.

20           Procured products and services is essentially "off the shelf"  
21 or, using layman's terms, wherever possible, customisation is kept to a  
22 minimum.

23           Some of the larger categories there [slide 60]. FDP will be  
24 continuation with the COOPANS system and procurement under this.  
25 There are up to five ATM users now in the COOPANS group, which is

1 the largest category. Communications, navigation, IT, and some of the  
2 other related drivers. Some of them are enablers for the other  
3 categories; and a new item, en-route contingency centre, which was  
4 something that was deemed appropriate by the NSA and have the  
5 expected enhanced safety operational benefits.

6           Again, on the depreciation side, this has been calculated.  
7 All of these assets are for specific use, be it en route or terminal. That is  
8 the way depreciation charges have been allocated across the various  
9 determined cost rates, be it en route or terminal.

10           The depreciation policy, in line with good accounting  
11 practices, obviously matches into the type of asset, be it a write-off  
12 of maybe some of the more general IT, in a shorter period, buildings over  
13 a full 20 year period, which is matched by the accounting policies  
14 adopted.

15           I have been talking for quite a while, and unapologetically,  
16 about the ANSP because it is the biggest element of it. There are other  
17 elements and there are other business plans to be considered, on costs.

18           The next area, again, the MET. The main "new" costs of  
19 the MET provider is the AMAP projects (Aviation Modernisation and  
20 Automation Project). It has four goals and benefits. As alluded to  
21 already, it will meet regulatory requirements. There is quite a significant  
22 degree of automation, and subsequent benefits and reduction in staffing  
23 costs, staffing numbers; enhanced safety features and overall improved  
24 quality of the information provided, to the benefit of all users and all  
25 stakeholders.

1           The AMAP capital and implementation costs, about €5m,  
2 are offset during RP2 in part by the staff savings from automation. The  
3 automation and the benefits on that will be subject to safety case. The full  
4 benefits will only be realised through and after RP2 and into future  
5 periods and beyond, but there will be significant savings passed on year  
6 on year at the end of RP2 and into the next periods.

7           The NSA shows determined costs for RP2. They remain  
8 constant in real terms. There is no change in staff numbers or  
9 organisation.

10           The UK, Ireland and the NSA, we are working together, I  
11 think it is worth mentioning at this juncture, to provide efficiencies where  
12 possible. We are not responsible for any major capital investment in  
13 RP2. That is set out between the ANSP and the MET service  
14 specifically. It is worth pointing out, just for information purposes, as you  
15 look through your tables, the other operation costs under the NSA  
16 template include Eurocontrol costs and these will increase over RP2.

17           Thank you. I will pass over to Mike to deal with UK cost  
18 efficiency.

19           EN ROUTE COST EFFICIENCY - UK

20           MR GOODLIFFE: The UK en route cost efficiency is  
21 clearly a major component of the UK plan and the NERL part is  
22 equivalent to previous price controls.

23           Before going on to the plan in general, I think it is worth  
24 having a word about traffic forecasts. EU wide and local targets are set  
25 in terms of the determined unit cost which is the determined cost divided

1 by the forecast total service units. Total service units are therefore a  
2 critical input as the denominator to this sum. Our proposals were based  
3 on the last set of STATFOR forecasts before we conducted the analysis  
4 and drafted the plan. These were published in September 2013. I  
5 should also say that we have used the mid-case forecast. That is the  
6 base case, the most likely, the expected forecast, rather than the low  
7 case forecast.

8           Some of you will be aware that the Commission used low  
9 case forecasts in setting EU wide targets. This difference is significant  
10 as our approach does not give the additional revenue to NERL that using  
11 the low case would. Our current intention is to continue to use such a  
12 best estimate case, a base forecast, where we consider this to be the  
13 best estimate of the eventual outcome.

14           The forecasts we have used are set out for reference in the  
15 slide [slide 64]. The final plan will take account of the revised STATFOR  
16 forecasts which happened to have been published very recently in the  
17 last couple of weeks. But, to avoid confusion, the following slides  
18 present the draft plan as we circulated it based on the old September  
19 forecast. The compound average growth rate between 2014 and 2019  
20 was therefore assumed to be about 2.1 per cent per annum and that is  
21 significant as we compare the DUCs and the determined cost because,  
22 as a rule, that will be about the difference between the two.

23           This is just a quick overview [slide 65]. There are a number  
24 of components to the UK route charge, like in Ireland. There is the NERL  
25 component, the MET component, the UK's contribution to Eurocontrol

1 agency costs and the CAA component. Of course the NERL component  
2 makes up by far the most significant proportion at over 85 per cent.

3 The UK target for the DUC in the draft plan represents a  
4 reduction of 5.3 per cent per year. It is worth pointing out that this is  
5 significantly more challenging than the EU wide target that is set at 3.3  
6 per cent.

7 Breaking the overall numbers down into the various  
8 components, this table [slide 66] shows the compound average growth  
9 rates with costs and unit costs, typically a decline, comparing the last  
10 year of RP2 with a base for 2014. The 2014 base is consistent with the  
11 methodology used by the PRB when it set the EU wide rate and perhaps  
12 it is worth describing that because that is fairly material.

13 The PRB reconstruct determined costs for the performance  
14 plan for RP1, as if there had been a 3.5 per cent per annum reduction in  
15 the DUC between 2011 and 2014, that was the EU wide target. We have  
16 applied it as if it applied to the UK in order to estimate what the  
17 determined cost would have been in 2014 according to that assumption  
18 and then divided the estimate of the determined cost for 2014 by the  
19 current forecast that we have for 2014 to get a base determined unit cost.

20 To just summarise that, this methodology builds into the  
21 2014 target the EU-wide targets from 2011 but gives NERL the full  
22 benefit of the shortfall in traffic in 2014 which is quite considerably lower  
23 than what had been assumed in the national performance plan.

24 Just looking at the slides, the determined costs are coming  
25 down for NERL by 3.7 per cent per annum, MET by 5.1 per cent, CAA by

1 0.7 per cent. The DfT element, that is the Eurocontrol contribution, is  
2 going up by 3 per cent. But, in total, the UK rate, determined unit cost,  
3 determined cost, for the UK as a whole, would be diminishing by 3.3 per  
4 cent. Unsurprisingly, given that it is 85 per cent of the total, that is quite  
5 similar for the figure for NERL. The determined unit costs, where there is  
6 a reduction, are some 2.1 per cent better than the determined cost  
7 because of the increase in traffic.

8           This slide just sets out the UK determined cost and  
9 determined unit cost in nominal and real terms. While these are the  
10 important outputs, they are a consequence of the steps below, that I will  
11 describe.

12           First of all, how do we get to this draft plan. For most  
13 of you, particularly users and NATS, this will be a bit of a recap. These  
14 are the plans and processes over the last year or so. NERL produced an  
15 initial business plan in May last year which was in fact two plans setting  
16 out two alternative views of costs and service for RP2. This is followed  
17 by a period of NERL consulting its customers last summer. This  
18 culminated in a report from the joint chairs and a revised business plan  
19 from NERL reflecting the user preference for achieving fuel savings at  
20 lowest ANS cost.

21           Since then there have been a number of other inputs.  
22 There has been the STATFOR forecast in September which came after  
23 the October plan had been prepared. The EU-wide targets were agreed  
24 and the CAA's consultants completed studies reviewing various aspects  
25 of NERL's plan. The CAA has assessed the revised business plan



1 against all these inputs and proposes a number of interventions to make  
2 adjustments to the assumptions.

3 This slide [slide 69] just summarises in descending order  
4 of significance, in terms of the effect on the determined cost over RP2,  
5 those interventions. The biggest is the cost of capital. There is an  
6 intervention regarding opex contingency allowance, staff cost, the  
7 employee share ownership scheme costs and the pension contribution  
8 assumption for 2018 and 2019.

9 Turning first to the cost of capital, based on advice from our  
10 consultants PwC, the CAA has decided to reduce the pre-tax weighted  
11 cost of capital from what we used in RP1, which was 7 per cent, to 5.75  
12 per cent. I should note that NERL, in its business plans, had been  
13 assuming a weighted average cost of capital of 7 per cent, the same as  
14 had been applied in RP1. We have made this step compared to RP1  
15 due to changes in assumptions about both the cost of debt and the cost  
16 of equity.

17 On the cost of debt, we have reduced the amount based  
18 upon a reduction in market rates, which I suppose is almost an  
19 observable thing, although, different views can be taken; secondly, a  
20 higher credit rating assumption. Here there is a significant change that is  
21 worth exploring.

22 NERL gets a benefit in its credit rating from its association  
23 with government compared with what a normal company with an  
24 equivalent profile would obtain. There are no guarantees here or  
25 anything of that nature; it is just based upon market sentiment. We have

1 decided to take this into account when assessing the cost of debt rather  
2 than to base our assessment on what the rating would be without this  
3 effect.

4           Turning to the reduction in the cost of equity, we have  
5 assumed a reduction in the beta. The beta is the specific risk of the  
6 company compared to the market. We now believe that the effect of the  
7 traffic risk sharing mechanism dampens the overall risk more than we  
8 assumed for RP1. We now think that that is a much bigger factor than  
9 we did then.

10           We have also assumed a reduction in market rates and  
11 these two changes are offset to some extent by a significantly higher  
12 effective rate of tax. I should say a bit more about this. We have applied  
13 actual effective tax rates since the PPP. Some regulators use effective  
14 tax rates, some use whatever the statutory rate is. Whichever way you  
15 go, you really have to stick with the horse through the whole investment  
16 cycle.

17           In the early control periods, tax allowances were higher  
18 than regulatory depreciation. So, the effective tax rates were low and on  
19 occasions very low. This has now reversed and, in the interest  
20 of regulatory consistency, we believe it is right to stay with the same  
21 approach.

22           We have also looked at the consistency of our estimate for  
23 NERL for WACC compared with other regulated industries. There is a  
24 table in the report, in the consultation document, and we are pitched  
25 somewhere in the middle of the regulated industries.

1 I should say that all the generic assumptions are consistent  
2 with what we have applied for airports. The fact that we have been doing  
3 this review at the same time as our review for airports, we have applied a  
4 consistent approach. Of course, we have used different specific  
5 assumptions where there is a specific risk of the business or the beta and  
6 in regard of the effective tax rate. But, effectively, we have used the  
7 same consultants at about the same time and we have a consistent  
8 framework for looking at cost of capital.

9 The final point is that the effect of this intervention is to  
10 reduce the determined cost in aggregate over RP2, that is over the whole  
11 five-year period in aggregate, by £47 million. For those of you who go in  
12 for this sort of thing, there is a lot more detail on our approach to WACC  
13 in the consultation document, and the PwC report is also published on  
14 our website.

15 The second intervention is in respect of opex contingency.  
16 In its revised business plan NERL made an allowance of £29 million for  
17 opex contingency over RP2. That is about £6 million a year. We have  
18 decided not to allow this on the basis that, while we allowed a  
19 contingency provision in RP1, NERL has comfortably outperformed the  
20 expected level of opex in the RP1 plan even before this contingency  
21 provision.

22 For RP2 there may be opportunities for additional savings  
23 in addition to an unanticipated cost which will only become apparent in  
24 the course of the period. Contingency is a bit of a one-way bet.  
25 Perhaps more fundamentally, as a matter of general regulatory best

1 practice, we don't favour one-way allowances for contingencies in opex  
2 as this is likely to encourage costings to be padded over and above the  
3 best estimate.

4 I think it is worth saying that this is a contentious issue and  
5 that NATS take a different view on this. They will argue that the  
6 contingency line is there because it is all in one place, it has not been  
7 allocated elsewhere, that the nature of what is coming in RP2 means that  
8 there is less prospect for any upside rather than downside, and that the  
9 fact that they knew that there was a contingency line meant that they  
10 were more aggressive in other areas than they would otherwise have  
11 been. But we have taken a different view.

12 Staff costs. This is really about the assumptions made for  
13 pay and, to a lesser extent, through pay, pensions. First of all, I should  
14 say that the CAA has accepted the NERL projections in staff numbers in  
15 the revised business plan which anticipate a reduction of about ten per  
16 cent between 2012 and 2019.

17 In the revised business plan and the financial modelling that  
18 lies behind it, NERL has made assumptions for real pay increases  
19 of 0.25 per cent and a further wage drift of about 0.3 per cent per annum  
20 in the revised business plan.

21 We had consultants IDS look at aspects of pay. Their  
22 conclusions were that the pay and benefit packages at NERL are  
23 relatively generous compared to appropriate comparators and that recent  
24 trends have been higher for NATS than for the market in general. As a  
25 result, we propose that it would be inappropriate to allow for a level

1 of pay progression as a whole over RP2 in excess of CPI. That means  
2 pay progression in nominal terms but not more than the CPI.

3 As I said, in addition to an effect on staff pay, this also has  
4 an effect on the pension contribution, the pension contribution being a  
5 percentage of pay.

6 This does not mean the CAA is proposing to impose any  
7 cap on pay either collectively or for particular types of grades of staff, but  
8 should there be increases over and above this, it follows that there would  
9 have to be comparable savings elsewhere.

10 Finally, this decreases the aggregate determined cost over  
11 RP2 by about £20 million in terms of pay and pensions contributions in  
12 2012 prices.

13 The next intervention refers to the employee share scheme  
14 costs. NERL has an employee share scheme where 5 per cent of the  
15 equity is held by the staff. NERL have included certain costs for the  
16 employee scheme of about £3 million per year in its revised business  
17 plan. The first observation we make about this is that these annual costs  
18 seem very high compared to the relatively small 5 per cent tranche  
19 of equity that is involved. This is a very high cost. It is not about the  
20 administrative costs of the scheme, as such. The valuation costs are  
21 very small and there are administrative costs which are elsewhere in the  
22 costs because they are internal staff who are administering the scheme.

23 These costs refer primarily to an accrual to reflect the  
24 increase in the eventual obligation to redeem the employee shares. So,  
25 as the value of these shares goes up, there is an accrual against that as

1 a profit and loss item. Also, the extent to which shares which are  
2 redeemed are then redistributed to employees at less than the underlying  
3 value We are proposing not to allow this cost into the determined costs.  
4 We don't consider that the accruing additional value to eventually redeem  
5 the shares is consistent with what is going on in the rest of the plan.  
6 There is quite a significant real reduction in the regulatory asset base  
7 over the period of the five years. If it is based on any other estimate  
8 of the valuation of the shares, as in dividend growth, it seems reasonable  
9 for it to be financed from shareholders or from shareholder funds.

10 We also consider that NERL should be incentivised to  
11 realise the underlying value of shares when they are redistributed to staff.

12 The next intervention is around pensions. We know that  
13 users have concerns about the level of NERL's pension cost compared to  
14 similar schemes elsewhere and to their own schemes. These issues  
15 relate particularly to defined benefit pension schemes where the costs of  
16 future obligations can be estimated at points in time but only based on  
17 long-term assumptions such as the discount rate. No one knows for sure  
18 what the value of these obligations will eventually be. The apparent  
19 costs have risen dramatically over the two most recent triennial  
20 valuations of the scheme with resulting large deficits.

21 We recognise that NERL has taken significant steps to  
22 mitigate its liabilities in closing the DB scheme to new members and  
23 capping pensionable pay in 2009 and in further capping the level  
24 of pensionable pay and indexing future accrual of benefits by CPI rather  
25 than RPI. But we also recognise that there is a strength to the legal

1 protections for members of the scheme which are much stronger than is  
2 normally the case.

3           So, we have taken two sets of advice. On the stewardship  
4 of the scheme and the basis of valuation, the advice did not identify any  
5 issues; secondly, on the legal scope for taking steps to mitigate the costs  
6 of the scheme further. Based on those studies and our analysis, there is  
7 quite major protection of the rights of the members of the scheme but  
8 there are some areas where there is some discretion. Based on the  
9 studies and our analysis, we propose that NERL should bear at least  
10 some of the cost risk, so it continues to behave in a way that companies  
11 would if they did not have a pass through.

12           Here we get to what we have done [slide 74]. We are  
13 proposing these steps. Instead of logging up 100 per cent of the  
14 variance in pension costs to be subsequently returned or recovered, we  
15 propose passing back to users 100 per cent of favourable variances and  
16 NERL only recovering 80 per cent of unfavourable variances. In addition,  
17 we are proposing to reduce the assumptions -- and remember these are  
18 assumptions -- for the cash contributions in the last two years of RP2 by  
19 10 per cent. For the most part this will be a timing issue because of the  
20 pass through, but NERL will have a small amount of risk on the basis  
21 of that.

22           As I say, this is a timing issue largely but, as far as RP2 is  
23 concerned, it will decrease the determined cost in aggregate by some  
24 £12 million over the five-year period.

25           Those are an outline of the interventions we have made.

1 [Slide 75]. I don't intend to go through this slide but I have  
2 included it just to point out that the consultation document includes a  
3 fairly full audit trail of all the changes and interventions and changes in  
4 assumptions that have been made since NERL published its revised  
5 business plan in October.

6 Moving on from NERL, we come to the MET. We come  
7 down orders of magnitude in significance in terms of cost now. MET  
8 represents about 4.5 per cent of the UK rate.

9 The CAA, in its role as the UK MET authority, concluded a  
10 review of MET arrangements during RP1. This forms the basis  
11 of projection for costs for RP2. The reduction in costs represent quite  
12 significant reductions in terms of determined cost, 5.1 per cent per  
13 annum, and in terms of determined unit cost, 7.1 per annum.

14 This slide [slide 76] just sets out the assumptions for the UK  
15 contribution to the Eurocontrol Agency costs. These are about 6 per  
16 cent, I believe. These are determined by the Eurocontrol budget.

17 I suppose the UK has some influence, as member of the  
18 club that agrees this budget, and I believe DfT takes a proactive part, but  
19 it is only one of a club of 40, or whatever the number is, and so there is a  
20 limited amount of control here.

21 There are two elements which are largely outside the UK's  
22 control, which are the sharing keys which are based upon the relative  
23 GDPs and the exchange rates. Those sharing keys can move around  
24 during the course of the five years.

25 I suppose it is worth saying that, whereas the other



1 elements are being reduced in real terms year by year, both absolute and  
2 unit terms, this element is expected to increase.

3           Finally, the CAA. The CAA is a relatively small part of the  
4 UK cost base, but it still requires scrutiny. It covers a relatively small part  
5 of the CAA. It covers those people who used to be employed by the  
6 Directorate of Airspace Policy, people who are now in SARG. I think the  
7 same allocation of costs will continue, and some small element  
8 of support for them from legal and from finance functions. There is a  
9 small amount -- not so small as a percentage of the CAA element --  
10 which relates to One Kemble Street, which used to be the NATS  
11 headquarters, and which had to be refurbished in order to be let and  
12 which is being depreciated and should be depreciated by the end  
13 of 2019.

14           There is a large element, of about £6 million or so in  
15 nominal terms, a very significant part, which relates to NATS pre-exist --  
16 the pensioners and the deferred pensioners at the time of the PPP --  
17 where, had they stayed with NATS, if NATS had taken on that  
18 responsibility, it would have been part of the en route charge. The  
19 situation is as it would have been if they had been allocated to NATS  
20 rather than to the CAA.

21           The CAA costs are expected to decrease over RP2 by 0.7  
22 per cent per year and to decrease in terms of the determined unit cost by  
23 2.8 per cent per year.

24           The final slide is just a reminder, particularly the box at the  
25 bottom, that the determined cost for the UK is going down by 3.3 per

1 cent, the determined unit cost by 5.3 per cent. These are quite  
2 significant reductions.

3 Thank you.

4 MR OSBORNE: Thank you very much, Mike.

5 Congratulations to all of you for your stamina. We have  
6 ended up at nearly eleven o'clock in the end. We are a bit ahead  
7 of ourselves. We will break now for coffee. I think, given how well we  
8 are doing on timing, we will give ourselves a little bit longer, perhaps 20  
9 minutes. Can we be back in seats and ready to start for 11.20, please.

10 [Short Break]

11 MR OSBORNE: You had slides first from Anthony on the  
12 Irish cost efficiency targets and then from Mike. It is an opportunity now  
13 for questions specifically on that and then we will move into the wrap-up  
14 where we can have wider conversations.

15 I wonder whether it would be sensible to take it in two  
16 pieces and deal with the Irish ones first and then the UK. Shall we take  
17 questions on the Irish cost efficiency targets.

18 MR MCGRATH [IATCA]: Niall McGrath, IAA, IATCA  
19 Branch. I would just like to ask a couple of questions in relation to the  
20 figures for Dublin and Shannon. You mentioned the increase in minutes  
21 for Dublin for delay going from 0.8 to 0.12 but that the majority of the  
22 increase in traffic will be in the peak periods of the day. Do you not feel  
23 that that is going to lead to substantial delays in Dublin at the peak  
24 periods because those 0.8 to 0.12 minutes are spread out over the entire  
25 day?

1 MR EIFFE: The approach we have taken is to set a rate for  
2 the full day. We are cognisant, in setting that rate, that they will but in a  
3 cumulative effect we are satisfied that the rates that have been set are  
4 appropriate.

5 MR MCGRATH [IATCA]: We are holding at present in peak  
6 periods of the day and it is only going to get worse if traffic continues to  
7 increase. It is concerning to see that your infrastructure figures gave no  
8 new tower for Dublin in the fact that if the DAA or the government  
9 announces the new runway any time in the next five years, you do not  
10 appear to have budgeted it in because a new tower is required for a new  
11 runway.

12 MR EIFFE: That is true.

13 MR MCGRATH [IATCA]: And that could put our figures for  
14 our costs substantially out of kilter.

15 MR EIFFE: Our current assessment of the situation is that  
16 for the period of RP2 -- and we are only talking to 2019 for this period --  
17 the requirement for the new tower will be driven by the requirement for  
18 the new runway and we have made a call. Obviously, if information  
19 changes, we will have to revisit that, but currently, as we have assessed  
20 it, there is no provision for a new tower in the figure submitted for RP2.

21 MR MCGRATH [IATCA]: That is fine but does the process  
22 for RP2 allow us to put in a large infrastructure cost like that after all the  
23 figures and reports are already published?

24 MR EIFFE: There is the capability to review the figures  
25 based on new information and that is quite a complicated process. So,

1 based on a written query, we will reply in detail on that.

2 MR MCGRATH [IATCA]: It is nice to see that you have  
3 factored in a pay increase for us, so I will pass that on to the staff. You  
4 are aware that you gave the figure of the 6 per cent staff contribution to  
5 the pension fund that expires in 2018 and that has been factored in?

6 MR EIFFE: That has been factored in our figures, yes.

7 MR MCGRATH [IATCA]: Also, the staff figures, and you  
8 are talking about a minor staff reduction up until 2019, at present we  
9 have over covered about 10 per cent on our staffing requirement from the  
10 CAR. So, we are about 10 per cent understaffed. We are going to  
11 require to get back up to normal levels before we can consider any  
12 further slight staff increases or decreases.

13 MR EIFFE: The figures are based on traffic forecasts and  
14 an assessment of manpower planning. That is the level of detailed  
15 information that has fed through to our determined cost. So we have  
16 considered various drivers for manpower planning and for staffing.  
17 Essentially they are the figures, the slight change, the slight reduction  
18 of staff numbers over RP2. However, given that I think we are in a period  
19 of rising traffic, as pointed out, there are very few opportunities for further  
20 staff reductions.

21 MR MCGRATH [IATCA]: It is interesting to hear that we  
22 weren't planning any "nice to have" projects but we are planning  
23 spending 13 million on a new contingency centre close to Shannon when  
24 we already have a contingency centre in Dublin. With the way we have  
25 been having the extreme weather, is it wise to put two centres in close

1 proximity?

2 MR EIFFE: The considerations around contingency,  
3 currently the arrangements are we have an opportunity in the attached  
4 building in our training unit but that is the same building as our main ATC  
5 en route centre. So, obviously, while it could work, there are certain  
6 scenarios whereby if part of a building or a chemical spill, the whole of  
7 the building, the whole structure would be unavailable.

8 You are aware of the geographical distance between the  
9 two. The options around Dublin requires over a period to move staff from  
10 Shannon to Dublin. There is only capacity to get up to about 70 per cent.  
11 You are not dealing with widgets here, you are dealing with people. The  
12 logistics of keeping that type of arrangement for Shannon-based people  
13 versus Dublin-based people over a longer period, if there was a  
14 catastrophic event, are considerable. However, the option that has been  
15 priced in is for a greenfield site in one of our other areas, in Ballygirreen,  
16 geographically about eight or nine miles away, which takes away the  
17 uncertainty with our contiguous building. It is still close enough for the  
18 same pool of staff to be used and we will see a much quicker turn  
19 around, sustainable over a longer period in terms of returning to almost  
20 full service.

21 MR MCGRATH [IATCA]: No. I accept that our concern  
22 would be more in relation to the large scale weather events which we  
23 have been suffering here, at home and in the UK. You could have both  
24 Shannon and Ballygirreen knocked out and Dublin is still your  
25 contingency.

1 MR EIFFE: In terms of the large scale weather events, I  
2 think what you are describing is more likely to be over the geographical  
3 area of Ireland as opposed to be as localised as that. If we get into those  
4 types of catastrophic events or very, very severe weather conditions, it is  
5 as likely to be over the whole island as it is to be localised like that. We  
6 are satisfied that we have taken away the issues and the risk factors  
7 around a contiguous building and we have found a geographical solution  
8 that answers all our contingency issues.

9 MR MCGRATH [IATCA]: Finally, this AMAP MET project,  
10 is that purely for Ireland or is there any MET coordination going on  
11 between the UK and Ireland in this new project?

12 MR EIFFE: The AMAP project is relating to MET air and  
13 the MET services as provided for Irish ATC.

14 MR MCGRATH [IATCA]: Was there any attempt in getting  
15 a contiguous MET over the entire FAB to reduce costs?

16 MR EIFFE: No, that wasn't a factor that was considered.

17 MR MCGRATH [IATCA]: That is me done. Thank you.

18 MR CURRAN [IATA]: A question in relation to capital  
19 expenditure. The line items that are in there are fairly high level.  
20 Obviously there is more detailed planning that sits underneath that. Can  
21 you just explain a little about where you see the SESAR PCP elements  
22 being factored in there?

23 MR EIFFE: We have taken a note of the various  
24 requirements under SESAR and ATM. Obviously that requires a more  
25 detailed response and it will be provided on a line-by-line basis inherent

1 with the wider categories. In that response we will match the SESAR  
2 ATM master plan as it relates to the FDP[?] areas and other areas to the  
3 expenditure in the period. There are newly available and recently  
4 updated templates provided by the PRB that address that very issue and  
5 they will certainly be updated during the consultation process, giving  
6 more clarity on that and greater detail, which will explain that rather than  
7 go into generalities here.

8 MR CURRAN [IATA]: Just a follow-on question, then. Can  
9 we expect to see the magnitude of your capital expenditure programme  
10 increase or are those items already covered within the broad categories  
11 that you have in the 100 million figure you have at present?

12 MR EIFFE: No, it is captured. It will be greater detail but  
13 the figures themselves are not finger-in-the-air figures. They are made  
14 up of line-by-line items. It would simply be greater detail provided. The  
15 total numbers will stay the same.

16 MR CLARK [Virgin]: I just want to go back to the capex  
17 table, the depreciation table. You had two items on there, the navigation  
18 and surveillance line, where you are showing €27.7 million. Does that  
19 include any use of or contracting with the Aireon project for the lower  
20 orbit surveillance?

21 MR EIFFE: No, absolutely not. It is not relevant and  
22 outside the scope of this.

23 MR CLARK [Virgin]: Again, it goes back to the question  
24 that was raised before. If the IAA consider that that was investment  
25 worth while taking, that would have to be reanalysed as part of any RP2

1 settlement?

2 MR EIFFE: Absolutely, yes. It relates subject to safety  
3 cases and to various ones. It is not included in our figures for the capex  
4 that have been presented.

5 MR CLARK: Just going back to the new contingency  
6 facility, I may have missed something previously but this is the first time  
7 I have seen this specifically mentioned. What is driving -- other than the  
8 obvious one of your current facility burning down or whatever -- your  
9 move now that this needs to be constructed?

10 MR EIFFE: It is appropriate. Like contingency, it is  
11 something that is always evolving. Risk assessments are ongoing at any  
12 point in time. Now we believe is an appropriate time to deal with this  
13 issue substantively, taking into consideration the various factors that  
14 drive contingency and the availability of sites. We now are satisfied we  
15 have found a very good geographical solution that will enhance the  
16 contingency and much improve the potential response times and it will be  
17 finished and available by the end of RP2.

18 MR OSBORNE: Thank you.

19 MR CLAYTON [Ryanair]: This is actually a general  
20 question to both regulators.

21 Given that you have both in general sought to promote  
22 competition, would you say that one of the key drivers of inefficiency in  
23 staff costs, in ANSPs, results from the fact there isn't a competitive labour  
24 market for ATCOs in Europe? If this is the case, do you think that is  
25 perpetuated by the fact that ANSPs don't cross-recognise each other's



1 qualifications and undertake their own training and, if so, are you going to  
2 do anything about it?

3 MR OSBORNE: That is a cost efficiency question. We will  
4 take it now.

5 There clearly are some rigidities in the labour market. Are  
6 those artificial, created by training or regulatory rules or are they  
7 fundamental that you actually do have to get to grips with the particular  
8 sectors that you are working on? I think there is certainly, at least to  
9 some extent, in the latter category. The question of whether more could  
10 be done to create a bigger market isn't something we have looked at in  
11 detail. I would be interested to hear others' views on this. As far as I am  
12 aware, there is a certain amount of movement of ATCOs. I hear people  
13 complain quite often that they are losing their ATCOs overseas. So, it  
14 doesn't appear to me that the barriers are insuperable. It is certainly not  
15 a captive workforce and, frankly, the amount of bargaining power it  
16 appears to have, it clearly isn't a captive workforce. I don't think we have  
17 a really solid view on that. It has not really come to our attention before  
18 as something that needs close study. Maybe it is something we should  
19 look at.

20 MR CLAYTON [Ryanair]: I think so.

21 MS HICKEY [IAA PSEU]: Geraldine Hickey from the Irish  
22 Aviation Authority representing admin staff.

23 I was just wondering if you could elaborate on the point in  
24 chapter 7. It says that there will be a 10 per cent reduction in admin  
25 costs in 2016. What are we expecting to happen in 2016 that will reduce

1 costs by 10 per cent?

2 MR EIFFE: There are a wide variety of costs captured in  
3 administration and it is in the definition of an administration that is  
4 included in the regulations. Obviously training costs will be reduced in  
5 the period. That is an element of that. Whether there are other  
6 interdependencies, we will provide a detailed answer on that. Much like  
7 Iain suggested at the start, those type of line-specific items from the  
8 condoc, we will provide a detailed response subject to a written query.  
9 However, one of the elements are cost savings from very robustly  
10 challenging suppliers in various areas, telling them that this is what we  
11 are prepared to pay and being cognisant that any savings we can make  
12 are to the benefit of our customers. So, while we will provide a detailed  
13 line-by-line breakdown of the specific ones around, there are significant  
14 savings in the training area and from specific challenges in terms  
15 of service delivery and service level agreements with some of our more  
16 significant suppliers.

17 MR OSBORNE: I think the response was if you could write  
18 in for a more detailed answer.

19 I would add something not specific to the Irish case  
20 because that is not my beat but in general the nature of regulatory plans  
21 is that they are not management plans. It isn't the regulators' job to draw  
22 up a list of all the things that they would do if they were running the  
23 business. It is to say what they think the business should be able to  
24 achieve and then it is up to the business to work out how to deliver it. It  
25 is not an appropriate test to apply to a regulatory plan "Do we know in

1 detail how this is going to be delivered?"

2 MR MCGRATH [IATCA]: It just sounded very specific, 10  
3 per cent in 2016.

4 MR OSBORNE: Indeed. I think a written query could  
5 perhaps dig into that.

6 MR CURRAN [IATA]: I guess this question is directed to  
7 both, please. In building up the capital expenditure programmes or in  
8 understanding the build-up of the capital expenditure programmes, were  
9 any synergies identified between the UK and Ireland?

10 MR EIFFE: Where projects do cross over into the FAB,  
11 there will be various benefits, greater synergies. Obviously one of the  
12 synergies is not a FAB item but the nature of COOPANS and the theory  
13 behind COOPANS is the reduction in overall costs from the cooperative  
14 of a number of ATM providers. The NSA is satisfied that that is an  
15 example where synergies have been displayed and there are significant  
16 savings being delivered to the customers on the basis of COOPANS.  
17 But where synergies are available it is obviously the desire of the NSA  
18 that they are pursued.

19 MR OSBORNE: Do you want to add anything, Mike?

20 MR GOODLIFFE: Just to say that the opportunities for  
21 synergies seem to be a little bit limited by the fact that the two ANSPs  
22 use very different systems. NATS is working with iTEC and the Irish are  
23 dealing with COOPANS. In addition to that I believe that the Irish have  
24 finished an investment cycle of replacing radars. Looking ahead to the  
25 next five years, there is pretty limited opportunity for synergies between

1 the two organisations. Beyond that perhaps there will be synergies but I  
2 don't think -- and perhaps NATS will correct me or the IAA -- that there  
3 are too many concrete opportunities for synergies in RP2.

4 MR ROLFE [NATS]: In response to your point, Mike and  
5 Peter, I think we are in a similar situation that a long while ago we  
6 decided to go down the iTEC path to get a collaboration between multiple  
7 ANSPs for the provision of a large part of technical services. I think the  
8 key with regard to the FAB this time around is around interoperability  
9 from an operational point of view rather than identical technical systems.  
10 Trying to switch one to the other or the other to the previous one will, I  
11 think, just create a lot more complexity and a lot more cost. So,  
12 ultimately, in Europe, there are going to be two or three of these systems  
13 and they are all going to have to interoperate. I think we are heading  
14 down that path in the same way as most of the other FABs are, to be  
15 perfectly honest. FABEC has a mixture, and NORACON has a mixture.  
16 They all have a mixture of different technologies.

17 MR OSBORNE: I think it is worth mentioning the dynamic  
18 sectorisation trial. The question was about capital plans, so that is what  
19 the answer has been about, but I think the trial is an attempt to explore  
20 an area where there may well be synergies. It is in the nature of a trial;  
21 you don't know the answer until you have run it. That is perhaps to some  
22 extent on the operational level rather than on a capital level.

23 MR WOOD [BA]: Just picking up on the comment -- I had  
24 missed it when I read through this -- about the en route contingency  
25 centre €13 million, we hear a lot about it is a joint UK-Irish FAB. Yet, as

1 an airline, you look at it and you say there is infrastructure already within  
2 the joint UK-Irish land mass where you have Swanwick and Prestwick  
3 and do you really need another contingency centre on top to add to yet  
4 more centres within the UK-Irish FAB?

5 MR EIFFE: The NSA is satisfied that there is a requirement  
6 for such a contingency centre. It has done it on a risk basis. We have,  
7 we believe, endorsed the most cost effective and the most appropriate  
8 solution in terms of contingency available in the life of RP2 to say what  
9 can happen as we go further, but very much for RP2 we are satisfied that  
10 we have endorsed the most appropriate solution.

11 MR WOOD [BA]: So, you did look at co-location at  
12 Swanwick or Prestwick?

13 MR EIFFE: No, I did not price that. No.

14 MR DANSON [Prospect]: Steve Danson from the NATS  
15 trade union side.

16 Can I just ask a question about the deployment of ADS-B.  
17 There is 27.7 million set aside for that. Is that back up to present radar,  
18 replacement of present radar or, more worryingly, I suspect, providing  
19 some sort of a service over the ocean?

20 MR EIFFE: No. The NAT and any infrastructure relating to  
21 the NAT obviously is outside the scope of FAB and it is not included in  
22 the plans. Again, the greater detail that will be provide on a line-by-line  
23 basis I think will address the specific items included in each area.

24 MR OSBORNE: Are there any further questions on the  
25 Irish side? [None indicated]

1 Questions on the UK cost efficiencies plan?

2 MS BOASE [Prospect]: I am Emily Boase from the NATS  
3 trade union side. I just wanted to ask, giving consideration to the  
4 intervention on staff costs, the CAA's view about the quality and reliability  
5 of the benchmarking report by IDS. We have been trying to reconcile the  
6 difference between the benchmarking that was conducted in 2009 and  
7 2013. In 2009 it was concluded that there was a lack of comparable jobs  
8 for a benchmarking exercise and that the above inflation settlements  
9 hadn't led to salaries being an over payment in the market. I am just  
10 trying to reconcile some of the difference between now and then and  
11 also, in our view, the problematic consideration of the lack of ANSP  
12 comparators in Europe, that the data just doesn't seem to be there to  
13 support the comparison. It would be good to get some feedback on that.

14 MR GOODLIFFE: I suppose 2009 was 2009 and 2013 is  
15 2013. It is a different study looking at this issue. The IDS study was  
16 based upon a large range of comparators including airline pilots. It sort  
17 of concluded that there wasn't a great deal of movement in controllers  
18 between the UK and the ANSPs in Europe. So, Europe wasn't a  
19 particularly good comparator in this market. I suppose as well what you  
20 are comparing in Europe is something that is also companies where the  
21 controllers are in a similar confined space. It is often almost state  
22 monopoly powers. It is not necessarily the kind of comparison that you  
23 would make with what is occurring in similar roles in market companies.

24 I think there is some work going on at the moment to look at  
25 the IDS work again. I think NERL have questioned it as well and are

1 employing consultants to appraise it. We will consider that when the  
2 evidence is compiled and NATS respond but we consider the IDS is a  
3 pretty reputable consultant in this area and at the moment we are relying  
4 upon their views.

5 MS BOASE [Prospect]: Thank you.

6 MR OSBORNE: For what it's worth, just to add a point of  
7 view from the top of the CAA, we also struggle with the question of what  
8 are our benchmarks in terms of how we pay our own staff. We have used  
9 IDS and the approach is one we have enough faith in to deploy  
10 ourselves.

11 MR CLAYTON [Ryanair]: Just a couple of observations on  
12 what I think NATS has done with its pension scheme. Nigel may correct  
13 me if I get this slightly wrong. What I will be interested in are your  
14 thoughts. The first one is the discontinuation of the defined benefit  
15 scheme. Of course, that is pretty standard throughout the private sector,  
16 but what the private sector has been forced to do is not only discontinue  
17 these schemes but discontinue the defined benefits for existing  
18 members. So, they have drawn a line in the sand. NATS hasn't done  
19 that and of course the incremental benefits to the cost base of taking that  
20 approach are hugely marginalised.

21 Second, I would draw your attention to the way that NATS  
22 has constructed the cap on what those defined benefits will be. My  
23 understanding is that all this does is, if a particular employer gets a very  
24 significant pay rise, that doesn't factor through for that year in terms  
25 of calculating the final pension. It only comes through at something like,

1 let me say, an increase of 8,000 a year. So, someone gets a 30,000  
2 increase; they get 8,000 a year until they catch up. Again, in my view,  
3 that is hugely marginal. Forgive me if the figures are slightly wrong. I  
4 stand to be corrected.

5 Do you think NATS has gone far enough and do you think  
6 what steps it has taken are comparable to those taken in the private  
7 sector and by its customers?

8 MR OSBORNE: I am not going to get into the detail. There  
9 is a lot of detail there. If we want to take particular detailed questions, we  
10 can do them through correspondence.

11 MR CLAYTON [Ryanair]: There are two broad points.

12 MR OSBORNE: Indeed. First, your account of what the  
13 private sector have done is a bit over-simplified. Different private sector  
14 companies have done different things. The second point I would make is  
15 that the main driver on what NATS can do is not what other companies  
16 have done; it is what legally can be done relative to the settlement that  
17 was put in place around the privatisation of NATS. We have looked  
18 carefully at what NATS have done relative to the amount of wiggle room  
19 that they have. Again, that is a complex situation and if you want more  
20 detail I think we should do that through correspondence, but that is the  
21 main benchmark we have been measuring against.

22 MR CLAYTON [Ryanair]: On my second broad point?

23 MR OSBORNE: Your second broad point being?

24 MR CLAYTON [Ryanair]: The nature of the cap.

25 MR OSBORNE: That's not a broad point; that is a detailed



1 point and I think we will do that through correspondence.

2 MR CLAYTON [Ryanair]: I am accused of over-simplifying  
3 and being too detailed.

4 MR OSBORNE: You are asking for the detail of if  
5 somebody gets a pay rise exactly how does that feed through into  
6 pensionable pay, if I understood the question right.

7 MR CLAYTON [Ryanair]: No. That wasn't quite my  
8 question.

9 MR OSBORNE: Perhaps I haven't quite understood the  
10 question.

11 MR CLAYTON [Ryanair]: My question is what is your view  
12 of that approach, irrespective of whether my numbers are right or not?

13 MR OSBORNE: I think that boils down into the first  
14 question. It is a function of how much space do NATS have relative to  
15 legal constraints on them. We will take that through correspondence, if  
16 you like. I am not trying to dodge the question; I just don't think this is a  
17 good forum for dealing with quite specific questions which are quite finely  
18 tuned in legal terms.

19 MR CLAYTON [Ryanair]: Sure.

20 MR CURRAN [IATA]: Sticking on the capex again, and it is  
21 directed to both. The PRB report for 2012 capital expenditure indicated  
22 an underspend collectively for the FAB of about 20 per cent of the  
23 intended spend for 2012. What is your approach in terms  
24 of transparency to picking this up. If that same behaviour continues last  
25 year and this year into RP2, how do we make sure we don't get a

1 situation where we pay twice, at least in terms of depreciation?

2 MR GOODLIFFE: I can answer that for the UK and that is  
3 that the way that we deal with capital expenditure, and unders and overs  
4 in capital expenditure, means that the company gets back precisely the  
5 present value of the capital expenditure it spends. There is a trueing up  
6 at the end of the five years in terms of the regulatory asset base of the  
7 present value of returns that it has received that represents a return on  
8 the money they didn't spend. So, the returns are dealt with in that way.

9 The depreciation is dealt with in a way that you only get it  
10 once, and that is all. The basis we use is a planned depreciation and the  
11 planned depreciation runs through. The nature of depreciation is it takes  
12 the value out of the asset base. So, if you take too much out at the start,  
13 you have less assets going forward and, as a matter of the mathematical  
14 treatment of this, between renew periods you will get back in depreciation  
15 exactly what you put in, albeit the timing might be slightly changed. As  
16 far as the UK is concerned, we think we have this pretty well taped, that  
17 NATS gets back in value exactly the present value of what it spends.

18 MR EIFFE: If I can come in, I would echo that approach for  
19 the Irish side. A lot of the differences and underspend may relate to  
20 timing. When they relate to timing they are passed through when our  
21 systems go operational. There is no scope for double charging or for  
22 double counting the depreciation. Obviously that would be regulatory  
23 failure on our part, if such a thing were to occur. It relates to the actual  
24 spend and the actual timing date, and that is what will be recovered by  
25 the ANSP or be it the MET, again, in their capital project, in a similar

1 fashion. There isn't any scope for double counting or for double charging.

2 MR CURRAN [IATA]: So, an item that went in under RP1,  
3 into the cost base for RP1, which was deferred or not delivered, for  
4 whatever reason, good and valid reasons, perhaps, will not find its way  
5 back into RP2. We won't have paid for it then it be in the cost base for  
6 RP2?

7 MR EIFFE: That's correct.

8 MR GOODLIFFE: The capital spend might be deferred but  
9 there will be a compensating change in order that you are not paying  
10 twice.

11 MR EIFFE: That is the essential principle. There isn't any  
12 scope to pay twice for the same thing. No one would like that.

13 MR BUDD [PCS]: Geoff Budd from the NATS trade union  
14 side. Just a question about the latest STATFOR forecasts, as you said  
15 you were going to take those into account in the final document. It looks  
16 as if STATFOR forecasts are about half a per cent better than the  
17 previous ones. I am just wondering what the implications are, bearing in  
18 mind this consultation at the moment is based on the previous STATFOR  
19 forecasts and also whether you are looking at still using the mid-case on  
20 those forecasts?

21 MR GOODLIFFE: Last question first. Yes, we will intend to  
22 use the mid-case. We have had a preliminary look at those forecasts  
23 and they actually go up by more at the start in terms of an adjustment in  
24 2014 upwards compared to the upward adjustment in 2019. The upshot  
25 of that is that, for a given determined cost -- and we are now deciding

1 what the determined cost is -- when we make the adjustment for the  
2 forecast we will just divide by a slightly bigger number, which will mean  
3 that the determined unit cost will be somewhat lower in each of those  
4 years. But, rather counter-intuitively, because the amount has gone up by  
5 more at the start than the end, when we were talking of 5.3 per cent  
6 reduction per year in the DUC, the reduction per year will be less than  
7 that because of the shape of the line. But we have had a little look at  
8 that. We have said, I think, in the condoc, that we intend to revise those  
9 numbers by changing the denominator in the sum to the revised forecast,  
10 and that will put down the DUC.

11 MR GARDINER [BA]: Mark Gardiner, British Airways. Has  
12 there been any harmonisation on the asset life of assets effectively  
13 across the Irish and the UK in terms of things like infrastructure or IT, that  
14 sort of thing?

15 MR GOODLIFFE: I think the short answer is, no, we  
16 haven't. In fact, we have slightly different approaches. I think you have  
17 taken the approach of the accounting lives of assets.

18 MR EIFFE: That's correct, yes. They were the traditional  
19 8, 12, 20 for land and buildings.

20 MR GOODLIFFE: We have taken a view that the basket  
21 of assets which comprise NATS have an average life of 15 years and we  
22 have quite a simple basis of depreciation, which is straight line for the  
23 RAB over 15 years. That is correct, isn't it, Rob?

24 MR COWLE: Yes. Also, Peter's point, it makes undoing  
25 some of that depreciation, if the asset was never purchased, simpler as

1 well.

2 MR OSBORNE: I should introduce Robert Cowle on the  
3 front row. He is our regulatory accountant at the CAA.

4 Further questions?

5 MR CLARK [Virgin]: Could I ask a rather more general  
6 question and that is really about the relationship between NATS and the  
7 IAA. As we move from RP1 into RP2, and looking forward to the end of  
8 the period of RP2, do you see that this plan or these plans represent an  
9 ever-closer working relationship or do you see this being a fixed  
10 relationship as we go through the plan? I am just interested in your  
11 working-together process as we head through RP2.

12 MR OSBORNE: Speaking as the regulator -- NATS might  
13 want to address this question for yourself, Martin, in a minute -- we are  
14 very much coming at this in terms of the obligation that is placed on the  
15 member state and on the regulator to produce a plan which is driving  
16 efficiency and effectiveness. There are areas where we think there are  
17 opportunities to work more closely together. I mentioned earlier the trial  
18 of dynamic sectorisation of really driving interoperability and finding who  
19 is best at any given time to undertake work. There are other areas  
20 where, because this is past dependent relative to decisions taken quite a  
21 long time ago, it is not easy to see now how you push it together and it is  
22 not obvious why that would change in the future.

23 We are working within the FAB construct as it is and it is  
24 not perfect. The UK airspace and the Irish airspace are very different. It  
25 may well be that in the future Europe evolves a more flexible geometry to

1 try and drive collaboration on different topics with different ANSPs and  
2 that you will get faster progress because of that. But that is for the future.  
3 That is a more strategic discussion. For the time being, what I am saying  
4 is it is horses for courses. In some areas we can see opportunities and  
5 we are driving for it but there are a number where we don't have a grand  
6 ambition.

7 MR EIFFE: Speaking from the Irish NSA point of view, I  
8 would echo that. There are various areas. The consultation document  
9 specifically is a very useful document, which sets out various areas.  
10 There is a narrative on DSOT and other areas and organic areas will  
11 develop but, again, as a general principle, obviously the respective NSAs  
12 welcome efficiencies.

13 MR ROLFE [NATS]: I think what we are doing is the best  
14 of both worlds. We are looking wherever we can between the ANSPs  
15 and the regulators, as you will see, through DSOT, to see where we can  
16 harmonise and do things better together. But I think we are not doing  
17 that at the exclusion of looking at other alliances. A case in point would  
18 be Borealis where it is the UK-Ireland FAB working with other FABs to  
19 put freer airspace in across all of the northern part of Europe. I think it is  
20 horses for courses. We are trying to make sure that where we are  
21 delivering benefit the benefit is the biggest cost benefit that it can be  
22 versus focusing in only on UK-Ireland FAB conditions.

23 MR CURRAN [IATA]: Just picking up on Geoff's point and  
24 the responses there, thank you, there are a couple of points in your  
25 consultation document, 2.18, where you talk about the states asking

1 NSAs and ANSPs to look at some initial options for discussion in  
2 mid-2014. I am wondering to what extent other stakeholders can be  
3 involved or have transparency of those options.

4 Also, there is a reference, at 2.15 in the same document, to  
5 the implementation plan responding to the pilot infringement proceedings  
6 on the FAB establishment. I am wondering also whether there is  
7 potential to have transparency of that plan also.

8 MR OSBORNE: I am wondering whether that is a question  
9 for the wrap-up. I got your second question about implementation plan  
10 but the first one, was it also about the DSOT trial?

11 MR CURRAN [IATA]: No. It is just a fairly general  
12 statement of 2.18.

13 MR OSBORNE: I don't know where it fits in the document,  
14 though.

15 MR CURRAN [IATA]: It just reads "Therefore, during RP2,  
16 the FAB is committed to looking within at all options for the FAB's future  
17 including possibilities for greater cooperation. To this end both States  
18 asked NSAs and ANSPs to develop some initial options for discussion in  
19 mid-2014".

20 MR OSBORNE: We will come back to that in the wrap-up.  
21 Let's stick with cost efficiency for the time being. I think that is a wider  
22 question about the future of the FAB.

23 MR HAND [DfT]: Stephen Hand, UK Department for  
24 Transport.

25 For myself and James, who has represented the Irish State

1 on the FAB implementation plan, we probably should just say a few  
2 words on that because that is rather a state issue here. You probably all  
3 know that that was a response to the Commission's EU pilots  
4 pre-infraction procedure that was carried out in nine FABs across the EU.  
5 UK-Ireland responded positively to that with some ideas of projects that  
6 we were promoting in the FAB anyway. The Commission came back and  
7 asked for an implementation plan. That now sits with the Commission.  
8 We haven't actually had a formal assessment, though we are expecting  
9 to get that relatively soon. You might see some developments on that  
10 around the Single Sky Committee in April.

11 Our intention, once that has been agreed, is to publish that  
12 certainly on the FAB website. So, it will be visible to you. I don't think  
13 there will be massive surprises in that because the showpiece project in  
14 dynamic sectors, I believe, has quoted a lot of information about that  
15 already. But, just to answer that question, that plan that is referred to in  
16 this performance plan will be in the public domain once we have  
17 acceptance of it, but we haven't yet. That is the reason why we haven't  
18 been able to publish it.

19 MR OSBORNE: Thank you, Steve, that is very helpful.

20 We will come back to the wider question about the shape of  
21 the FABs in the wrap-up.

22 Are there further questions on cost efficiency on the UK  
23 side?

24 MR O'TOOLE [IATA]: The Irish NSA has previously  
25 mentioned to us that there were no uncontrollable costs in their RP2 cost



1 base going forward. Can I ask Mike, when he was reworking the RP1  
2 figures, were any uncontrollable costs taken into consideration and have  
3 any been passed through RP2?

4 MR OSBORNE: The question is were there any  
5 uncontrollable costs in the RP1 plan which have been passed forward  
6 into RP2.

7 MR GOODLIFFE: The answer is yes, only they are not  
8 necessarily costs because we said that the pensions variation would be  
9 carried forward, and I believe it is a very small beneficial variance that is  
10 being carried forward at the moment into RP2. That will appear in the  
11 plans. There are some CRCO style tables, the style of tables that are  
12 reported to the central route charging office, which appear as an annex to  
13 the plan. There the costs are set out by the four components under a  
14 number of headings. There are what is going to be allowed for charges  
15 in the RP2, including amounts which are carried forward, and there the  
16 pensions amounts are expected, are set out, I believe.

17 MR OSBORNE: Do you need to mention rates? I can't  
18 remember how we treated rates in the end.

19 MR GOODLIFFE: No. Rates is not considered  
20 uncontrollable for this. It is going to be very small. It is not an issue like it  
21 would be for airports.

22 MR OSBORNE: Does that answer the question, Laurie?

23 MR O'TOOLE [IATA]: Sort of. We will be getting  
24 transparency on it but it is still not clear whether they are reflected in  
25 those numbers.

1 MR GOODLIFFE: They are not reflected in the determined  
2 costs. The nature of the way the charges are built up is that there are  
3 determined costs and then there are some other items that are added.  
4 Some of them are, for example, the effects of the traffic risk sharing  
5 two years before or the inflation two years before or, in this case,  
6 amounts which have been carried forward from the previous reference  
7 period. Those determined costs are clean of those pension carry  
8 forwards. They are not in there; they have been lifted out and put  
9 somewhere else.

10 MR O'TOOLE [IATA]: Of course they could also be positive  
11 as well as negative. So, I guess from what you are saying there are going  
12 to be some negatives.

13 MR GOODLIFFE: No. I think in this instance, if you mean  
14 positive means better for the airlines, I think we are talking about a small  
15 difference which is positive and I believe that is right.

16 MR OSBORNE: Are there any further questions? [None  
17 indicated]

18 That then concludes the section on the cost efficiency KPI.  
19 We have worked through the four KPIs.

20 Let's take the Next Steps slide and then we will gather  
21 views in terms of wrap-up.

## 22 NEXT STEPS

23 Just to remind you, 4 April. There is the email address. It  
24 is in the consultation document. Then the plan goes forward to the  
25 departments, submission by the end of June to the Commission and then

1 the provisional decision, so that we can all get on with our lives and move  
2 into the RP2 period in 2015.

3 WRAP-UP

4 According to the agenda we were going to have an hour,  
5 we can spend as long as we like on this. We have time now for a wider  
6 conversation. We are happy to pick up general themes here.

7 This is a consultation on the performance plan for RP2. If  
8 you want to raise wider questions about the shape of the FABs and  
9 so-forth, it would be good if you could articulate the question in terms of  
10 something which is to do with the subject matter which is to do with RP2.  
11 Otherwise we could range very broad indeed.

12 Clearly it is the case that the performance plan nests within  
13 a wider context, lots of moving parts, and so there is value in going  
14 slightly wider.

15 Should we begin with the question that IATA was raising  
16 about how the FAB plans fit in to future development of the relationship --  
17 I can't remember.

18 MR CURRAN [IATA]: It was along those lines, yes.

19 MR OSBORNE: Can you articulate the question that is  
20 really in your mind rather than me doing it for you.

21 MR CURRAN [IATA]: The question has been asked in  
22 different ways throughout the day but really I think that the fundamental is  
23 FABs are intended to optimise airspace, human and technical resources.  
24 That is the expectation maybe that the airline industry airspace users  
25 have. It is the legal framework within which we all operate. We all know

1 that is very challenging and not putting it out there simply that this can  
2 just be done, you can just crunch two systems together. Obviously there  
3 are many, many challenges with that. Notwithstanding, we don't see the  
4 level of urgency to put some of these pieces together. Perhaps the work  
5 is being done in the background, but we don't see business cases to  
6 have a look at whether systems could align in the future; what is in the  
7 present value on going to one system; what's in the present value on  
8 putting together your back office; being deployed in one location; being  
9 deployed in another; whether opportunities to run projects. We know you  
10 have done some of this work but we don't see the output, we don't see  
11 the benefit of much of it and the question is is that fair or is it in fact not  
12 fair. There is much going on and we are going to be pleasantly surprised  
13 in the middle of the year when these options get put forward. Where are  
14 we at with it?

15 MR OSBORNE: On that last one, broadly, what you see is  
16 what you get. We haven't got a drawer full of other plans. In terms of the  
17 way we have gone about the exercise, I think I should ask Mike and  
18 Anthony to comment on that.

19 From the strategic point of view, we work with the FAB  
20 construct that we have. The airspace in the South East of England,  
21 which is where complexity and probably most of the costs are incurred,  
22 and the airspace of Ireland are not the same. We wouldn't expect the  
23 same solutions to be useful. Because we have a legacy of different  
24 technology bases and because of some of the rigidities that have been  
25 talked about earlier on around staffing, we have done some work to see

1 are there opportunities. The product of that is what you see. It isn't that  
2 we have lots of other ideas that we are working on and we will spring on  
3 you later. We think the FAB has already delivered a good amount. We  
4 are optimistic about the plans that are laid out for RP2 and very  
5 interested to see what comes out of the trial. That could open up new  
6 opportunities for managing some of the airspace going forward.

7 Do you want to say something about how you built the  
8 plans up?

9 MR EIFFE: When I presented on the Irish plans we  
10 referenced, obviously there are the FAB targets and there are how the  
11 individual targets go to make up the FAB target and that has been  
12 referenced.

13 In terms of cost efficiency, which is probably one of the  
14 areas closest to your heart, we have outlined where we have focused our  
15 attention and looked for efficiencies and concentrated our challenges on  
16 the areas where the greater costs are. In both cases that relates to the  
17 ANSP, not to the exclusion of all other challenges but obviously that is  
18 where it is focused. So, on that basis, savings based on the current  
19 environment and taking into consideration the differences that exist  
20 between both pieces of airspace and both organisational set ups, there  
21 have been significant savings delivered. When you add them all together  
22 you can call them FAB level savings, and that is the way they have been  
23 presented, as costs at local and at FAB level. However, again, I will  
24 echo, we have referenced in the plan various initiatives that are  
25 underway. There will be greater clarity and more information will be

1 made publicly available when other options are teased out but, again, we  
2 are where we are now in terms of the cost savings that have been  
3 identified for RP2. So, whichever way you add it up, if a saving is made  
4 on the UK side or a saving is made on the Irish side, if you add it up it is  
5 a FAB saving.

6 Mike, do you want to come in on that?

7 MR GOODLIFFE: I was just going to say that the plan is  
8 substantially the NATS plan. We have made some interventions but at  
9 heart it is the plan that NATS have put together. As they were putting  
10 that plan together, there was quite a lot of influence to try and put as  
11 much of a FAB dimension into it as possible. Stephen Hand, when he  
12 was working at the CAA, was trying to push the FAB dimension quite  
13 hard but at the end of the day it is the NATS plan and NATS and the IAA  
14 can't go any faster than the constraints of politics, the governance of two  
15 completely different organisations and the technical constraints of two  
16 completely different sets of systems. There seems to be some limit to  
17 the speed at which you can create an entity which is a single entity. It  
18 isn't for the want of trying to push them in that direction.

19 MR CLARK [Virgin]: Just a technical point or admin point  
20 about the process. After 4 April is there going to be any other opportunity  
21 to either at least see or potentially comment on any aspects before it gets  
22 submitted either at the end of June or prior to that to the DfT and the Irish  
23 authorities?

24 MR OSBORNE: From the regulators' side, no is the  
25 answer. This is your shot.

1 MR EIFFE: We have a similar position.

2 Steve, do you want to speak for the department?

3 MR HAND [DfT]: We [DfT and DTTAS] are going to have  
4 to get ministerial approval for the plan to be adopted as a state plan by  
5 the Irish and the UK. The time between the end of May and submission  
6 in June will not allow any time for further consultation. In some respects  
7 that is unfortunate but that is the creature of the legislative framework  
8 you have.

9 In terms of stakeholders seeing what the States adopt,  
10 unlike with RP1, it is our intention to publish the plan that we have  
11 submitted to the PRB and Commission. For RP1 you didn't see what had  
12 been submitted until the PRB published all the plans and they got them  
13 all together on their website. Our collective view is that that is  
14 inappropriate. For RP2, when we submit the plans, presumably at the  
15 end of June, pretty soon after we will publish them in some way, probably  
16 posted on both the Departments' websites. We will let you know, those  
17 who have expressed an interest, through responding to this consultation  
18 and our respective stakeholders. That is our undertaking.

19 MR CLARK [Virgin]: Might the Department, for example,  
20 hold let's say a briefing meeting for interested parties to say "This is the  
21 document as it is going to be submitted"?

22 MR HAND [DfT]: At this stage, possibly. You attended the  
23 DDfT[?] stakeholder forum yesterday. We talked about the dates of the  
24 next one of those. One thing that is in my mind is might the next date  
25 of those be moved to early July so we can at least update you on what

1 has been submitted. That might be another way to do it.

2 We will be as transparent as we can, and certainly you will  
3 get a chance to actually see what is in it, what has gone to the  
4 Commission, but further consultation, there simply isn't the time for that in  
5 the process, which is unfortunate but, as I say, that is the creature, or the  
6 beast, I'm afraid.

7 MR FOTHERBY [NATS]: Nigel Fotherby from NATS.

8 Will the regulators publish a document which explains how  
9 they have taken account of feedback from this meeting and from the  
10 formal submissions so people can be really clear about the basis  
11 of decision making?

12 MR OSBORNE: Yes, we will.

13 MR FOTHERBY [NATS]: Will that be at the same time as  
14 the plans are made public through the process that Stephen has  
15 described?

16 MR OSBORNE: That would be our endeavour. This  
17 timetable is immovable and, depending what comes in, there is a  
18 possibility that it takes us longer. If we can, we will publish them  
19 simultaneously.

20 MR GARDINER [BA]: Mark Gardiner, British Airways.

21 Iain, you have afforded us the opportunity next week to  
22 come and talk to the CAA as an airline group; I think NERL as well and  
23 NATS as well. What is format of that session next Friday?

24 MR OSBORNE: Have you given thought to that?

25 MR GOODLIFFE: We have not really put together an



1 agenda. It is really largely for us to be listening, though.

2 MR GARDINER [BA]: Would you want us to submit any  
3 questions in advance or are you happy for us to come on the day and  
4 discuss things with you?

5 MR GOODLIFFE: It may make it a better meeting if you did  
6 present questions in advance because we will be better equipped to  
7 answer them.

8 MR OSBORNE: Speaking as one of the decision makers  
9 about what we put forward to the Department, I think what we will hope to  
10 get out of it is not so much to give you an opportunity to question us as  
11 for you to tell us what you would like the plan to deliver. Whether it is  
12 slides or whatever doesn't really matter but take the opportunity to say in  
13 what ways you would like NERL to evolve in the coming years, to what  
14 extent the plan achieves that. If there are gaps we can talk about that.

15 MR GARDINER [BA]: That is fine. Thank you.

16 MR WOOD [BA]: This is a more specific question relating  
17 to chapter 8. It talks about the terminal capacity KPI is defined as the  
18 following: The average minutes of ATFM delay per flight attributable to  
19 terminal and air navigation services caused by landing restrictions at the  
20 destination airport. I was just looking for clarity on what that includes  
21 because the figure for Heathrow is quite high, at 2.66 minutes proposed,  
22 and other airports are obviously high. Is that all delay causes -- again,  
23 similar to the earlier question I asked -- or is that specific to NATS?

24 MR CARR: That is ATFM delay all causes.

25 MR WOOD [BA]: All causes of delay?

1 MR CARR: Yes. As per the KPI and the data collected by  
2 Eurocontrol. Sorry, that is probably a little bit of clarity around the text  
3 rather than ...

4 MR WOOD [BA]: No, that is all right.

5 It leads on to another question. You have set a very high  
6 target at Heathrow, 2.66. I was just wondering why so high?

7 MR CARR: We have maintained across all the airports the  
8 historic performance. That is the position we have decided on, which is  
9 the fact that we are looking more deeply to drive competitive outcomes  
10 within the market. We acknowledge in the Paper it is not ideal. We don't  
11 have a set and clear methodology or an agreed methodology for  
12 projecting capacity performance going forwards, and obviously weather,  
13 et cetera, is a big determinant in all causes of delay. As we look to see  
14 what we can do, we may have to come back and revisit parts of the plan,  
15 as necessary, to what comes out of our other work in that area.

16 MR WOOD [BA]: Yes. I would argue it is not challenging.  
17 A similar theme, I am sure, to Peter, has been raised in the past for that.  
18 You have made reference to the A380 movements with no credit for  
19 things on the horizon that will potentially lower the delay, like  
20 time-based separation. It is a theme we will probably pick up on next  
21 week at the airline session.

22 MR OSBORNE: Just to say a word on that, we have faced  
23 a relatively tricky judgment on the terminal services. Across the airports  
24 in question you have a market which is capable of being competitive but  
25 which hasn't burst into life this last decade. If we regulate with great

1 enthusiasm and gusto we could kill the competition stone dead or we  
2 could set targets which, as have been described, in some areas are  
3 driving progress but leaving space still for the play of competition and for  
4 the airports in question actually to be involved in defining what it is that  
5 they want from the service.

6           That is the territory I think of the argument that has been  
7 had on this. To some extent it is a short-term versus a long-term thing.  
8 Airports and indeed airlines, if the next few years are the only thing that  
9 we place any weight on, you might want us to go very hard, but  
10 recognising that you are potentially losing the prospect of a competitive  
11 TANS sector in the future, or leave some space and not just leave space.  
12 I think there are a whole load of other issues that we are working on to try  
13 and make this market work better so that we do see market conditions  
14 emerge in the TANS sector. That is not a no-brainer issue. We are  
15 interested in airline views but I would be grateful if you would think about  
16 it through that perspective about what you want rather than is this target  
17 in the very short-term as tough as it could be. We know the answer to  
18 that but that doesn't answer the strategic question. Do you see what I  
19 mean?

20           MR WOOD [BA]: Yes. We will follow up probably next  
21 week.

22           MS HICKEY [IAA PSEU]: I am just wondering, the  
23 questions and answers that were given here today and the questions and  
24 answers that are going to be submitted and sent back, will everyone who  
25 was here today get those?

1 MR OSBORNE: It should be transparent. I just don't know  
2 what the mechanism is. We have the transcript.

3 MR EIFFE: The performance plan will. Obviously, it makes  
4 provision and the templates produced by the PRB make provision for  
5 reporting on stakeholder consultation. So there will be transparency in  
6 that. We will look at all the various solutions available as well. Obviously  
7 in your own specific area, the bilateral, I would start out between the Irish  
8 NSA and staff representatives. Again, there may be an opportunity at  
9 that as well. Certainly the PRB are very keen and the template makes  
10 provision for full transparency of stakeholder consultation and we will be  
11 applying that as per PRB's instructions.

12 MR OSBORNE: I think we would apply that for the  
13 transcript of today.

14 MR EIFFE: Absolutely. Yes.

15 MR OSBORNE: If people want to see it, there is no  
16 problem.

17 MR EIFFE: It is a very valuable thing to have, I think.

18 MR OSBORNE: Are there further points? It might be a  
19 good point to end on, if we are running out of steam. It looks like we are.

20 Thank you very much everybody. It has been a session  
21 where we have had a lot of content to work through, lots of good  
22 questions.

23 The proof of the pudding is in the eating. I hope that we  
24 have enabled you to go away and think harder about the plan and give  
25 us really focused submissions so that we can take account of them in

1 putting together what we put through to the Department. We will use  
2 what you have said today, we will keep talking, but I hope that people  
3 won't feel that having had a conversation today you don't need to put pen  
4 to paper for the April deadline.

5 Thank you everybody very much and, those of you who will  
6 be celebrating it, have a good Saint Patrick's weekend.

7 [The meeting was adjourned at approximately 12.28 pm]