DOPRAVNÝ ÚRAD
TRANSPORT AUTHORITY

RP3 Stakeholder Consultation

Bratislava (Slovakia)

06 August 2019

Letove prevadzkove sluzby Slovenskej republiky, statny podnik

Ivanska cesta 93, 823 07 Bratislava, Slovakia

Minutes of the meeting

	Agenda item	Speaker
06 August 2019, 10:00 – 15:00		
1	Welcome	Mario Nemeth/Ivan Hasicek
2	RP2 overview	Radovan Okenka
3	RP3 framework	Radovan Okenka
4	Traffic forecast	Radovan Okenka/Jan Marko
5	Safety	Radovan Okenka/Petr Velky
6	Environment	Radovan Okenka/Jan Marko
7	Capacity	Radovan Okenka/Jan Marko/Lukas Soha
8	Cost-efficiency	Radovan Okenka/Martin Housa
9	Investments	Radovan Okenka
10	Cost of Capital	Radovan Okenka
11	Incentive schemes	Radovan Okenka

1. Introduction

- Transport Authority (TA) opened the meeting and welcomed the participants.
- TA presented the agenda of the meeting.
- TA presented all the main parties involved in the preparation of the draft Performance Plan (PP) for Reference Period 3 (RP3):
    - Transport Authority (TA) – NSA
    - Letové prevádzkové služby Slovenskej republiky, štátny podnik (LPS SR) – ANS provider (ASM, ATFM, ATC, FIS, Alerting Services, AIS, RCC, CNS)
    - Slovak Hydrometeorological Institute (SHMU) – MET provider
- TA handed over the presentation to Mr. Radovan Okenka (RO) from LPS SR.
- RO highlighted that the draft PP respects applicable regulations for RP3.
- RO noted that an agreement in the end of consultation would be welcomed and Slovak Republic (SR) is happy to answer all the IATA's concerns or questions.
- Ms. Katarina Ernst from IATA thanked for organising the meeting and agreed that an open discussion will be very welcomed and appreciated.

2. RP2 overview

- RO from LPS SR presented an overview of performance in all main areas (CAP, ENV, CEFF, Costs and Traffic) within Reference Period 2 (RP2).
- RO highlighted the traffic increase experienced during RP2, when the actual traffic numbers were even higher than the STATFOR High scenario used for RP2 PP.
- There were no comments.

3. RP3 framework

- LPS SR presented the main parameters of the draft PP for RP3. SR decided to develop a National PP for RP3 and there are two ANSPs (LPS SR and SHMU) involved in PP for RP3.
- RO pointed out that there is one en-route charging zone and SR decided to not include any terminal charging zone in the scope of PP for RP3. There is no airport with at least 80,000 IFR movements per year.
- There were no comments.

4. Traffic forecast

- RO presented development of traffic over Slovak airspace from 2015 to 2024 (both in IFR movements and service units), showing actual numbers until 2018 and STATFOR Baseline forecast from 2019 to 2024 planned to be used for PP for RP3. He highlighted increase of 10.1% in 2018, which was the main reason why Capacity target was not met in 2018.
- RO added that SR fully respects the EC Regulation 2019/317 to use the latest STATFOR Baseline forecast for PP preparation.
- A discussion took place:
    - IATA asked about the latest development of IFR movements.
    - LPS SR answered that traffic decreased since April 2019 and current traffic numbers are below 2018 traffic. Heavy regulation over Hungary and Austria and NM Summer 2019 measures were identified as the main reason.
    - IATA responded that based on information from NM, SR should have even more traffic due to the S19 measures.
    - LPS SR confirmed that the same statement has been received from the NM; however, in reality, the traffic in 2019 has so far not evolved in line with the February 2019 STATFOR Baseline forecast. Mr. Soha from LPS SR added and explained that there is potentially more traffic due to some of the measures, but significantly more traffic has disappeared due to avoiding

constrained airspace over Hungary and Austria. He also added that significant number of traffic is now choosing their routes via Croatia (14% more traffic in June).
    - IATA pointed out its interest to have consistent image of traffic within Central Europe.
    - IATA declared support and appreciation to use the STATFOR Baseline forecast for Slovak PP for RP3.
    - There were no additional comments.

5. Safety

- RO presented the performance targets in area of Safety.
- He highlighted that all the targets were either met or exceeded during RP2 and safety has always the highest priority.
- RO explained that targets for 2024 are set in accordance with the Commission Implementing Decision (EU) 2019/903 of 29 May 2019. Data for years 2020-23 are not available yet, respective targets will be therefore published once the expected AMC and guidance become available.
- A discussion took place:
    - IATA declared support to the current approach but would like to see intermediate targets once the expected materials are available and the final targets are set.
    - Austrian Airlines' representative highlighted that there is no hotspot in Slovakian airspace, and he appreciated the very high safety level maintained by SR.
    - There were no more comments.

6. Environment

- RO presented the performance targets in area of Environment. National targets for RP3 are consistent with national reference values.
- RO noted, however, that in the current environment and with respect to the plan to achieve the 24-hour cross-border FRA within the RP3, LPS SR will have limited scope for additional significant improvement of the horizontal en-route flight efficiency. This will mostly depend on other factors outside of the ANSP's control such as airspace users' decision making and route choices, weather or NM measures. He however added that SR is committed to meet the targets.
- A discussion took place:
    - Austrian Airlines' representative noted that the current FRA in SR starts from FL245 and it would be better to expand it also below FL245 due to flights to and from neighbouring Vienna airport.
    - LPS SR explained that the work is ongoing, but it is necessary to coordinate and validate the concept with MIL, due to military airspace areas and different route architecture below FL245.
    - LPS SR explained that it applies a customer-oriented approach searching for most efficient trajectories, discussing options and accepting proposals of airspace users. LPS SR also introduced a webpage dedicated for airspace users´ (AUs) proposals, experience and wishes regarding airspace design. LPS SR however added that looking at lessons learnt from current operations not all AUs use all the options allowed by the airspace (e.g. almost none of all flight plans uses benefits of SEEN FRA). In addition, LPS SR noted that some of the flight planning tools are not taking into account all the FRA options and produce inefficient routings.

- Austrian Airlines' representative confirmed that there are some known, route choosing and FRA related issues with some of the flight planning tools.
- IATA requested the actual data regarding development of KEA and KEP in 2018 and 2019. LPS however pointed out that these are usually provided by NM in the end of the year and LPS SR does not have the exact data.
- There were no additional comments.

7. Capacity

- RO presented the performance targets in area of Capacity.
- He pointed out that the National targets deviate from National reference values due to the currently predicted capacity gap as expressed in the latest Network Operation Plan (NOP) published in June 2019: "Due to the unforeseen increase of traffic over the past years, particularly in summer 2018, structural lack of capacity might be anticipated for Bratislava ACC for the period 2019-2024, especially based on the current routes scenario."
- The National targets for RP3 are lower than expected delays published by NM, but LPS SR confirmed that targets in the draft PP for RP3 represent a realistic view SR has in case the traffic develops in line with the latest STATFOR forecast.
- To support the deviation, SR opted for penalty-only incentive scheme.
- A discussion took place:
    - IATA declared full support to SR's approach and penalty-only incentive scheme.
    - IATA raised a concern about underspending in Investments within RP2, in areas, which were mostly targeting the capacity increase and asked LPS SR how will be similar situation avoided in RP3 and what are the main measures to increase capacity over the next period.
    - LPS SR expressed understanding of IATA's concern and noted that SR is currently taking several actions to increase the capacity and plans a number of other short- and long-term measures.
    - LPS SR presented and described the planned development of ATCOs in FTE.
    - IATA asked how realistic the presented increase of ATCOs in such a short time is. LPS explained that there were significant changes in ATCO selection process and training. Training has been shortened and the ATCO selection process has already changed in 2018, when a pre-training selection process was initiated. This brings an initial assessment of candidates' abilities even before start of the main training phase, giving higher expectations to LPS SR that selected trainees will meet the final testing. Given these changes, LPS SR expressed confidence that presented numbers of ATCOs will be achieved.
    - IATA asked if LPS SR expect sufficient number of applicants. LPS SR explained that it is actively communicating with the public, describing the work of an ATCO and attracting new applicants. LPS SR is collecting lessons learnt and trying different ways to communicate with the public.
    - IATA raised a concern about low number of retirements presented in the ATCO planning table. LPS SR explained that significant number of ATCOs left in 2018 and is going to leave this year.
    - IATA asked if there is sufficient capacity, in terms of active ATCOs/Instructors to train the necessary number of new controllers. LPS SR described that it is aware of risks. This is actively mitigated by schedule planning, when simulator training is planned outside of peak period (from mid-September to beginning of May) and On-the-job training is performed during peak season.

Action item: LPS SR to provide additional information on risk mitigation with regards to the training.

- IATA noted that there is a clear under staff compared to the plans and more or less 13 controllers are missing. LPS SR assured that training new ATCOs is currently the highest priority and, in the meantime, LPS SR is negotiating with the current controllers to assure motivation and willingness to work and accept overtimes. RO highlighted that the current team is very well performing given the significant increase of traffic in last years, especially in 2018, and unexpected circumstances like closure of Ukraine airspace.
- IATA recognised LPS SR's effort to optimise sector configuration and opening scheme and requested more details about planned measures.
- Mr. Marko from LPS SR explained that LPS SR will introduce new horizontal East/West sector configuration. In addition, he explained that LPS SR uses flexible sector opening scheme allowing LPS SR to react on current development of traffic and delays by moving or modifying shifts. LPS SR then uses short term ATFM measures and tries to avoid capacity regulation during the day and peak periods. At night, some level of regulation is needed due to staffing reasons. The plan for the first two years of RP3 is to use 3 sectors during the night and apply new sectorisation during the day, which would reflect the current demand. However, this approach would mean continued use of overtimes until 2021-2022 when sufficient number of new controllers is expected to join operations. The new horizontal East/West sectorisation together with the increased number of ATCOs would allow an increase in max. number of sectors from current 5 to 7-8 in the future.
- Austrian Airlines' representative asked whether capacity could be increased by any technical means, e.g. CPDLC. LPS SR noted that there was a study performed in Maastricht where impact of CPDLC on capacity was not fully confirmed. However, a minor impact is expected and LPS SR plans to introduce CPDLC in 2021 after the planned ATM hardware upgrade. LPS SR added that the main capacity increase in Slovak airspace is expected to be brought by the new East/West sectorisation.
- IATA asked what the impact of additional ATCOs in capacity performance will be. LPS SR explained that new controllers will allow the use of full benefits of new sector configuration and a decrease in the level of overtimes.
- IATA requested assessment of impact of new sectorisation on airspace throughput. LPS SR noted that a capacity simulation is planned to be run with EUROCONTROL in Autumn 2019. LPS SR will provide the final report to IATA once available.
- Stephan Weidenhiller (SW) of Lufthansa Group asked whether the current traffic forecast in draft PP uses the M3 methodology (actual route flown). SR confirmed that it does.
- There were no more questions.

8. Cost-efficiency

- LPS SR presented determined costs (in real terms) for RP3 (2020-2024) and highlighted that CAGR over 2019B-2024D is -2.3% and CAGR over 2014A-2024D is -3.0%, which is even above the requirements / Union-wide performance targets.
- RO described that the baseline value is based on approved budget for 2019, with exception being the staff cost category, which experienced significant changes during the RP2 mainly due to several unforeseen changes in legislation. Details can be found in Annex F to the draft PP for RP3.

- A discussion took place:
    - SW appreciated Annex F but expressed uncertainty in matching the presented numbers with those in Reporting Tables. LPS SR explained that the Annex F provides details for LPS SR only, thus creating the perceived inconsistency with the Reporting Tables where costs of TA and SHMU are included as well. LPS SR agreed to provide AUs with a summary table showing clear breakdown of the baseline value per stakeholder.

Action item: Provide breakdown of the baseline value per stakeholder (TA, LPS SR, SHMÚ).

- IATA asked whether the budget for 2019 is an estimation. LPS SR confirmed that the 2019 budget is based on the agreed financial plan for 2019.
- SW asked whether ATCO overtimes are taken into account in planned staff cost development and if yes, how. LPS SR confirmed that some level of overtimes is considered, especially for early years of RP3. New controllers are then expected to join operations and it is expected that overtimes will decrease.
- SW raised a concern about high ratio between ATCOs and other staff. LPS SR noted that it is very much aware about the ratio and LPS SR is currently undergoing an internal audit, looking for inefficient processes, room for improvement and a potential decrease of number of other staff. The planned increase of number of ATCOs will also impact the ratio, however, there is a room for additional optimisation. LPS SR added that a certain restructuring activities are on-going. Also, it needs to be mentioned that there were some additional uncontrollable staff costs stemming from changes in legislation.

Action item: LPS SR to provide results of the process audit when available.

- SW raised concern about the level of costs associated with pensions and necessity to have all three pension schemes for all employees as it is very unusual in comparison with other states. SW requested additional information and justification, especially for defined benefit pension scheme. LPS SR explained that the currently used pension scheme respects national legislation and agreement with unions. LPS SR will provide more details in writing.

Action item: LPS SR to provide additional details on the pension scheme.

9. Investments

9.1. LPS SR

- RO presented the investment plan of LPS SR for RP3. He highlighted that investment strategy for RP3 is based on implementation of delayed investments from RP2 (while avoiding double-charging) combined with maintaining the high-quality level in ANS provision in a cost-efficient manner. A total amount of 5,123,000 EUR for investments in RP3 will not be claimed by means of depreciation and a further amount of 1,471,000 € by means of Cost of Capital (CoC), in order to avoid double-charging the AUs.
- RO pointed out that there is one major investment planned for RP3 – Data Link Service Implementation, with total value of 5,869,600 EUR. He added that this

investment is driven by legislation and there are clear benefits for AUs as defined in the ATM Master Plan.

- RO described also other new investments, which are also fully in line with the ATM Master Plan and SES legislation.
- A discussion took place:
  - IATA requested a link between planned investments and achieving performance targets.
  - LPS SR will provide IATA with additional details and impact on performance targets, which however, can be only non-direct. LPS SR added that all planned investments are in line with requirements and legislation.

Action item: LPS SR to describe performance benefits of the planned investments.

  - IATA requested explanation regarding increasing depreciation costs in existing investments from 2021/2022. LPS SR explained that depreciation cost of an investment appears only once the investment is put into operations and some of the existing investments from previous RP are still under construction or implementation, so the plan is not linear.
  - SW expressed concern that also CoC should appear only once an investment is put into operations. LPS SR however explained that this is not the case and CoC is applicable also for assets/investments under construction. This statement was later confirmed by LPS SR by referring to article 22 (4) (i) of the performance and charging regulation for RP3.
  - IATA appreciated the list of new investments with breakdown of costs; however, IATA would welcome breakdown of the depreciation costs from RP2 which were to be returned to the AUs during RP3. LPS SR presented this additional information in a separate document, which was promised to be provided to IATA after the consultation. In addition, LPS SR highlighted that also a part of CoC from RP2 will be returned to the AUs during RP3 and the difference can be seen between RTs and determined costs presented in table 2.1.2 in draft PP for RP3.

Action item: LPS SR to provide breakdown of the depreciation costs together with respective cost of capital from RP2 which are to be returned to airspace users in RP3.

9.2. SHMU

- Mr. Housa from SHMU presented the investment plan of SHMU for RP3. He pointed out that there is no major investment planned for RP3. However, there are 2 significant investments planned: modernization of existing AWOS MET equipment, due to end of lifecycle of current equipment; and purchase and installation of wind profilers.
- Mr. Housa added that procurement of wind profilers started in 2019 and is on-going. The major part of the investment is covered by RP2 costs; however, the final value of the wind profiler cost is estimated and will depend on the result of public procurement.
- Mr. Housa explained that investment costs of SHMU are divided into other operating costs since SHMU, and its division AMS, is a government subsidized organization and it is not eligible to draw a bank loan or use other external form of financing. Therefore, when there is a need to acquire new equipment the only way how to finance it is directly through ANS fees and any acquisition of new equipment is presented in item “Other operating cost”. In addition, he noted that SHMU do not claim the cost of capital.
- A discussion took place:

    - SW appreciated SHMU's presentation and additional justification.
    - SW asked whether SHMU provides other than aeronautical services and if so, how are the costs shared between each cost base.
    - SHMU explained that provision of aeronautical services forms only one of a number of divisions in SHMU and showed a dedicated presentation about SHMU and allocation of costs. SHMU highlighted that it uses as fair as possible allocation between en-route and terminal services and airports and other divisions of SHMU, fully respecting applicable ICAO regulations.
    - SW raised a concern about allocation of TAF, METAR or GAMET mostly to en-route cost base, which seems not appropriate and not according to ICAO rules.
    - SHMU confirmed that allocation is based on ICAO regulations and agreed to provide additional details and justification and/or a revision to the AUs.

Action item: SHMU to revisit cost allocation between en-route and terminal together with detailed explanations for such cost allocation.

10. Interest rate & Cost of capital

- RO from LPS SR presented details on the interest rate and cost of capital (CoC) as in draft PP for RP3.
- There is currently no loan planned for RP3. However, this decision might be revisited once there is a need for more resources to fund the closure of the capacity gap and/or meet the regulatory requirements stemming from SESAR and other European initiatives, such as the European Airspace Architecture Study.
- RO pointed out that LPS SR decided to use the 'efficient CoC model' with notional gearing of 60% and presented all the main WACC rate assumptions. He highlighted that LPS SR used mostly lower or average rates of possible values and the final WACC rate is lower than in previous RP.
- A discussion took place:
    - SW agreed with the used values of Risk Free rate, Market Risk Premium rate and Asset Beta.
    - SW however raised a concern about the value of Cost of Debt, which increased in comparison to RP2 and seems to be high given the fact that there is a number of protective mechanisms within regulation (e.g. traffic risk sharing) and also risks associated with the outcomes of AAS are very limited for RP3 according to IATA.
    - LPS SR agreed to provide additional justification to AUs in writing. LPS SR however sees the proposed WACC as a good compromise and pointed out that all the risks cannot be considered off the table and even if LPS SR is a state owned enterprise, the State does not provide any guarantees.

Action item: LPS SR to provide justification for the % value of cost of debt.

11. Traffic risk-sharing & Incentive scheme

- RO presented aim to apply default traffic risk sharing mechanism and modulated incentive scheme with penalty-only approach to compensate for deviation in KPA CAP targets.
- IATA appreciated penalty-only incentive scheme and had no other comments.

12. Conclusions

- IATA thanked for the meeting. IATA appreciated providing the documents well in advance.

- SR will send minutes of the meeting, presentation and mutually agreed additional details.
- RO from LPS SR closed the meeting with concluding remarks, agreed with the AUs on list of additional documents/explanations to be provided (as listed in table below) and thanked all for participation.

List of actions

ID	Action	Owner
1.	LPS SR to provide additional information on risk mitigation with regards to the training	LPS SR
2.	Provide breakdown of the baseline value per stakeholder (TA, LPS SR, SHMU)	TA, LPS SR, SHMU
3.	LPS SR to provide results of the process audit when available	LPS SR
4.	LPS SR to provide additional details on the pension scheme	LPS SR
5.	LPS SR to describe performance benefits of the planned investments	LPS SR
6.	LPS SR to provide breakdown of the depreciation costs together with respective cost of capital from RP2 which are to be returned to the airspace users in RP3	LPS SR
7.	SHMU to revisit cost allocation between en-route and terminal together with detailed explanations for such cost allocation	SHMU
8.	LPS SR to provide justification for the % value of cost of debt	LPS SR