

4 Cost-efficiency monitoring at State level: Reader's Guide

4.1 Introduction

- 4.1.1 The objective of this section is to facilitate the understanding of the cost-efficiency analysis at State level presented in Annex II to the annual monitoring report.
- 4.1.2 The source of the data used for the cost-efficiency monitoring are the June 2024 en route and terminal Reporting Tables provided by the States for each charging zone (CZ). These have been complemented by the updates of ANSPs costs exempted provided in the NSA reports on the verification of cost risk sharing for the year 2023 due to be submitted by 1 September 2024.
- 4.1.3 The analysis is structured into three main parts: en route charging zone(s), terminal charging zone(s) and gate-to-gate ANS cost-efficiency monitoring for all the charging zones covered by the SES performance scheme under the responsibility of the State. Common templates and analytical frameworks are used for both en route and terminal ANS, and for the States having several en route (Spain) or terminal (Italy, France and Poland) charging zones, the framework is replicated for each charging zone.
- 4.1.4 Graphs, tables and comments are displayed into "boxes", with each box focusing on a particular aspect of the monitoring analysis. Section 4.2 below provides explanations of the content of each box constituting the en route and the terminal analysis. Section 4.3 presents the content of the gate-to-gate analysis.

4.2 En route and terminal ANS analysis

1. Contextual economic information
<p>Box 1 presents information on:</p> <ul style="list-style-type: none">- The State's share in SES ANS actual costs in 2023;- The national currency and the exchange rates against the € (source: Average of the daily "Closing Rates" calculated by Reuters based on daily BID rates) for the years:<ul style="list-style-type: none">2017: used for the conversion in real €2017;2023: used for the conversion of 2023 costs and adjustments into €;- The date of issue of the performance plan and whether or not it was found consistent with the references of the relevant EC decision. Information on the adoption and submission of final performance plans or revised performance plans where applicable. <p>- For Terminal Charging Zones, box 1 also indicates the number of airports in the TCZ (with a classification per number of air transport movements).</p>
2. Monitoring of the en route (or terminal) determined unit costs (DUC) at charging zone level
<p>Box 2 contains standard text identical for all States, explaining the notions of determined unit costs (DUC) and actual unit cost (AUC).</p>
3. En route (or terminal) actual unit cost (AUC) vs en route (or terminal) determined unit cost (DUC)
<p>Box 3 identifies whether the AUC is lower (improvement of the performance indicator) or higher (deterioration of the performance indicator) than the DUC target set in the Performance Plan (PP), and what were the drivers for the improvement or deterioration (costs, traffic).</p> <p>It provides transparency on the different steps required to undertake the monitoring of the DUC, for the calendar year 2023, showing:</p> <ul style="list-style-type: none">• The planned performance (based on RP3 PP data);• The actual performance (based on the June 2024 Reporting Tables for all RP3 years);• And the differences between actual and planned performance. <p>To ensure consistency with the determined costs data provided in the adopted PP, actual costs are expressed in 2017 prices. Planned and actual inflation indices are also shown in box 3.</p>
4. Focus on en route (or terminal) DUC monitoring at charging zone level

Box 4 contains graphical summaries (right-hand side) of the differences in traffic (service units), costs by entity, and costs by nature for the main ANSP as well as comments (left-hand side) on the situation observed for the calendar year 2023.

The comments provide an analysis and general conclusions on the 2023 DUC at State/Charging zone level, including:

- Comparison between the AUC and the DUC;
- Comparison of actual costs and traffic to the costs and traffic in the PP;
- Comments on the application of the traffic risk sharing mechanism in the State;
- Comments on which entity is driving the difference between actual and planned costs, and on which drivers for the main ANSP.

For the purpose of analysing the differences between determined and actual costs, as presented in box 4, all cost items are expressed in real 2017 terms on the basis of the inflation index computed using the planned/actual inflation rates provided by States in the en route and terminal reporting tables. Specifically, as provided by article 26 of Regulation (EU) 2019/317, costs incurred by competent authorities, qualified entities and EUROCONTROL costs are not corrected for inflation. Similarly, for all the ANSPs and METSPs, depreciation costs and the cost of capital are not corrected for inflation.

5. Monitoring of the en route (or terminal) actual unit cost for users (AUCU) at charging zone level

Box 5 contains standard text identical for all States, explaining the notion of actual unit cost for users (AUCU).

6. En route (or terminal) actual unit cost for users (AUCU) at charging zone level

Box 6 shows all the adjustments required to calculate the AUCU for the calendar year 2023, starting from the DUC (in national currency in nominal terms). This reflects the unit cost that airspace users genuinely incur in respect of the activities performed in 2023.

The bar on the left-hand side of the chart presents the 2023 DUC and each bar moving to the right shows the contribution (in nominal terms) of each adjustment to reach the 2023 AUCU (the last bar on right-hand side of the chart). The detailed figures, both in national currency and in € are given in the table on the right-hand side.

The rationale for the different adjustments, and the methodology used for their conversion into € is provided below:

- Inflation adjustment: to reflect the impact of higher/lower inflation index in 2023 which will be charged/reimbursed to airspace users in year 2025;
- Costs reported by the State as being exempted from cost-sharing in accordance with Art. 28(3) to 28(6) of Regulation (EU) 2019/317 (i.e. costs exempt from cost-sharing): to reflect the elements of the cost sharing mechanism, where differences between determined costs included in the performance plan and actual costs for 2023 are shared between air navigation service providers and airspace users, in accordance with the provisions of Article 28 (EU) 2019/317 and will be charged/reimbursed to airspace users in future years' unit rates.
- Traffic risk sharing adjustment: to reflect the gain/loss in revenues due to higher/lower traffic than planned in 2023, which will be reimbursed/charged to airspace users in 2025.
- Traffic adjustment (for costs not subject to traffic risk sharing): reflects the fact that, for the costs not subject to traffic risk sharing, over/under recoveries due to higher/lower traffic than planned in 2023 will be fully reimbursed/charged to airspace users in 2025.
- Traffic adjustment on adjustments: Left blank. The traffic adjustment on adjustments for 2023 relates to adjustments that have already been taken into account in full in the AUCU for the current year (i.e. other revenues or cross-financing between charging zones that relate to years 2023) or previous years (i.e. adjustments from the combined year 2020-2021 or from 2022). As a result, the traffic adjustment on adjustments is not considered, in order to avoid double counting.
- Financial incentives: to reflect the adjustment relating to achievement (or failure to achieve) capacity performance targets in 2023 that will be fully reimbursed/charged to airspace users in 2025 in accordance with Article 11 of Regulation (EU) 2019/317 (under review by the European Commission);
- Modulation of charges: to reflect the adjustment relating to 2023 that will be fully reimbursed/charged to airspace users in 2025 to ensure that the modulation of charges in respect of points (a) to (c) of Article 32 (1) of Regulation (EU) 2019/317 does not result in any overall change in annual revenue for the ANSP compared to the situation where charges would not have been modulated.
- Temporary UR: Left blank. The difference in revenue due to the application of the temporary unit rates in the reporting year is already reflected in the DUC presented (DUC to be charged retroactively) and is therefore not

considered in the total adjustments, in order to avoid double counting.

- Cross-financing: to reflect the amounts of cross-financing between en route charging zones, or between terminal charging zones, in accordance with point (e) of Article 15(2) of Regulation (EC) No 550/2004;
- Other revenues: to reflect the deduction of “other revenues” obtained in 2023.
- Application of a lower unit rate: to reflect the actual reduction per service units given to airspace users through the application of a lower unit rate as foreseen in Art. 29(6) of (EU) 2019/317.

For the calculation of the AUCU in box 6, all cost categories listed above are divided by the actual TSUs for the calendar year 2023.

7. En route (or terminal) costs exempt from cost sharing

Box 7 contains a table presenting the costs reported by the State as being exempted from cost-sharing (Differences between determined and actual costs referred to in (EU) 2019/317 Art. 28(4) to 28(6)). Costs are listed by item (in nominal national currency, in nominal €, as well per actual service unit in nominal national currency and in nominal €). The total costs exempted from cost-sharing are summed at the bottom of the table. If the total is negative, the costs are to be reimbursed to airspace users in future years; if costs are positive, they are to be recovered from airspace users. These data are taken from the June 2024 en route and terminal Reporting Tables (for Eurocontrol costs and costs of competent authorities and qualified entities) and from the “NSA Report on the verification of cost risk sharing for the year 2023” submitted in accordance with Article 28 (7) of Regulation (EU) 2019/317 (for ANSPs costs). It is to be noted that these amounts may still be updated in the context of the compliance review process in line with Art. 29(3) of (EU) 2019/317.

8. En route (or terminal) regulatory result at charging zone level

Box 8 presents the share of the regulatory result (RR) in the AUCU at charging zone level. For this, the AUCU is considered before the deduction of the other revenues (financing from other sources) in order to show a fair view of the share and to be consistent with the computation of the RR itself (described in boxes 10 to 14).

The RR is shown separately for each ANSP/METSP, in nominal national currency, in nominal €, as well per actual service unit in nominal national currency and in nominal €. For the NSAs and Eurocontrol costs, it is considered that there is no RR since the amounts charged *in fine* to users are their actual costs, through the cost-exempt and traffic adjustment mechanisms.

The RR in percentage of the AUCU corresponds to the total RR for the charging zone divided by the AUCU before the deduction of the other revenues. It indicates the share of “margin” contained in the charges paid *in fine* by the airspace users.

9. Focus on en route (or terminal) AUCU monitoring at charging zone level

Box 9 summarises the conclusions on the AUCU for the calendar year 2023, its components and comparison with the DUC. It also refers to the share of the regulatory result in the AUCU.

10. Monitoring of the en route (or terminal) regulatory results (RR)

Box 10 contains standard text identical for all States, explaining the notion of regulatory result (RR), including the net gain/loss.

11. Net gain/loss for the main ANSP for the en route (or terminal) activity at charging zone level

Box 11 focuses on the main ANSP net gain/loss on ANS activities for the calendar year 2023. A graphical illustration of this analysis is also shown on the left-hand side of box 13. The main ANSP is the most significant contributor to the State’s costs and the only (or main) entity subject to costs and traffic risk sharing mechanisms foreseen by the performance and charging regulation ((EU) 2019/317).

The net gain/loss calculated in the bottom line of box 11 results from the combination of three distinct items:

1. The outcome of the cost-sharing mechanism to be retained by the ANSP, including:
 - the difference between determined and actual costs to be retained/borne by the ANSP;
 - the impact of the inflation adjustment to be charged/reimbursed to airspace users;
 - the impact of the costs exempt from cost-sharing that are foreseen to be recovered from or reimbursed to users (as per the “NSA Report on the verification of cost-sharing for the calendar year 2023” submitted in accordance with Article 28 (7) of Regulation (EU) 2019/317).

2. The outcome of the traffic risk sharing mechanism. For this, the following elements are taken into account:
 - The difference in total service units (actual vs. PP) in percentage terms.
 - The determined costs subject to traffic risk-sharing of the main ATSP for the calendar year 2023.
 - The features of traffic risk sharing mechanism (standard as applied by all Member States): if actual traffic is $\pm 2\%$ compared to the PP, the gain/loss in revenues is borne entirely by the ANSP; between 2% and 10% (higher or lower) than the PP, it is shared between the ANSP (30%) and airspace users (70%); and if the difference between actual and planned traffic exceeds $\pm 10\%$, the gain/loss relating to traffic beyond $\pm 10\%$ is entirely borne by the airspace users and has therefore no impact on the ANSP gain/loss from traffic risk sharing.
3. The outcome of the financial incentive mechanism for capacity and environment performance targets (under review by the European Commission).

The computation of the net gain/loss is presented in nominal national currency. The total net gain/loss is also presented in nominal € on the basis of the 2023 average exchange rate.

12. Regulatory result (RR) for the main ANSP at charging zone level

Box 12 presents the computation of the regulatory result (RR) for the main ANSP for the calendar year 2023. It is important to emphasise that this analysis focuses on the ANSP results relating to the ANS activity in the year. It is therefore different from the net accounting profit disclosed in ANSPs financial statements. Indeed, the latter include revenues from other activities (e.g. consultancy services) which are not covered by the SES performance and charging scheme, as well as revenues and costs pertaining to other years of activity.

The RR combines two elements:

- The return on equity (RoE) in value embedded in the cost of capital; and
- The main ANSP net gain/loss on ANS activities (see box 11).

Box 12 is structured in two parts.

- A first table presents the computation of the ex-ante RR for the charging zone, consisting in the RoE in value included in the determined cost of capital for the main ANSP from the RP3 PP. For an ANSP which is 100% financed through debt, the ex-ante RR will be null, while for an ANSP which 100% financed through equity, the entire cost of capital will be considered as the ex-ante RR.
- The second table shows the computation of the ex-post RR, comprising the RoE in value included in the actual cost of capital for the main ANSP from the RP3 PP and the net gain/loss on ANS activity, as presented in box 11.
- In both tables, indicators are calculated:
 - The RR in percent of en route revenues;
 - And the resulting ex-ante (determined) or ex-post (actual) return on equity (in %).

The elements taken into account to calculate the RoE in value:

- The total asset base, as reported in the PP and the June 2024 Reporting Tables.
- The proportion of financing through equity (in %), as reported in the PP and the June 2024 Reporting Tables.
- The RoE (pre-tax) rate in %, as reported in the PP and in the June 2024 Reporting Tables (with the actual RoE % expected to match the determined RoE % from the PP).

The actual RoE in value is then calculated as the actual (=determined) RoE (pre-tax) rate multiplied by equity (total actual asset base x proportion of financing through equity). The elements taken into account to calculate the net gain/loss on ANS activities are presented in box 11.

For the ANSPs having no equity, the ex-ante and ex-post return on equity cannot be calculated and is indicated as N/A, not applicable.

It is important to note that the computation of the RR does not take into account the use that will be made of it in the sense that some ANSPs reimburse to airspace users all or part of their RR through commercial other revenues, or through the application of a lower unit rate as per Art. 29(6) of (EU) 2019/317. When such case has been identified, it is highlighted in a note in the table.

13. Focus on the main ANSP regulatory result on en route (or terminal) activity

Box 13 provides:

- On the left-hand side, a graphical summary of the ANSP net gain/loss for the calendar year 2023 arising from variations in costs, traffic, and incentives (see box 11).
- On the right-hand side, a bar chart comparing the ex-ante and ex-post RR, both in value (in national currency) and in % of the en route revenue (see box 12).

The notion of revenue used in boxes 12 to 14 corresponds to the revenue arising from the activity in the year, ex-ante it corresponds to the determined costs of the ANSP and ex-post to the sum of the actual costs and the net gain/loss for the ANSP. Box 13 also provides conclusions on the net gain/loss of the main ANSP for the calendar year 2023 and the overall regulatory result for the ANSP in the charging zone.

14. Other ANSP(s) / METSP(s) regulatory result on en route (or terminal) activity

Box 14 presents the ex-ante and ex-post regulatory results for the other ANSPs/METSPs providing services in the charging zone, if any. The computation of these results is made in accordance with the same methodology described for the main ANSP in boxes 10 to 13. Box 14 also provides conclusions on the net gain/loss of the other ANSPs/METSPs for the calendar year 2023 and the overall regulatory result for the other ANSPs/METSPs in the charging zone.

4.3 Gate-to-gate ANS analysis

1. Monitoring of gate-to-gate ANS costs

The monitoring at gate-to-gate level takes account of all the charging zones covered by the SES under the responsibility of the Member State. Box 1 presents the list of the charging zones concerned. Since, they have a common en route charging zone, Belgium and Luxembourg are presented together in this section.

Box 1 presents an aggregation of en route and terminal costs (in €2017) as well as the share of en route costs in total gate-to-gate costs. It also shows the difference between actual and planned data measured at gate-to-gate level (in €2017 and in %).

2. Share of en route and terminal in gate-to-gate actual costs (2023)

The left-hand side of box 2 shows a graphical presentation of the planned and actual split of gate-to-gate costs between en route and terminal. It helps identify possible changes in cost-allocation methodology. Comments and conclusions are provided on the right-hand side of box 2.

3. Gate-to-gate regulatory result (RR) 2023

Box 3 presents the gate-to-gate regulatory result (RR) covering all the charging zones covered by the SES under the responsibility of the Member States. The ex-ante and ex-post RRs in percentage of the revenues for the ANSPs/METSPS of the State are shown in the graph at the bottom on the right-hand side.

The RR is then shown separately for each ANSP/METSP, in nominal national currency, as well as in percentage of their revenues. Comments and conclusions are provided at the bottom on the left-hand side of box 3.