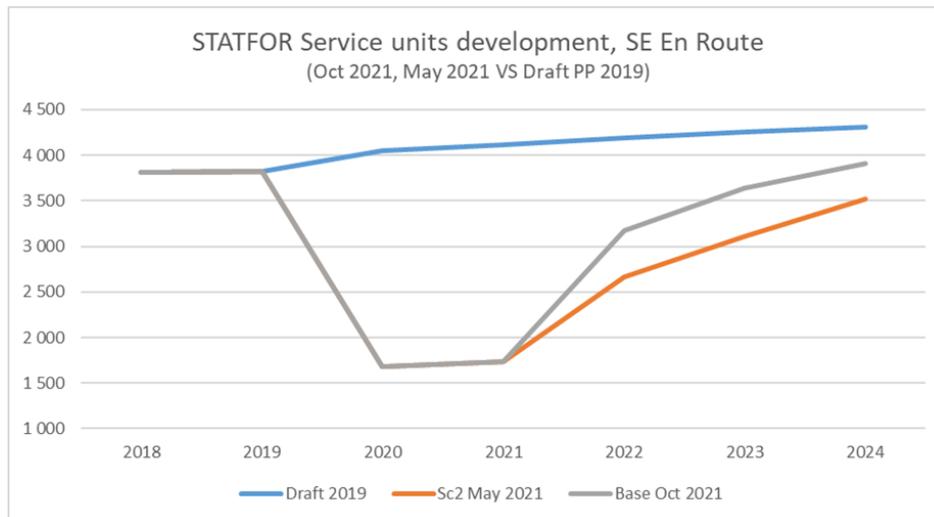


Annex R Justifications of the cost efficiency targets

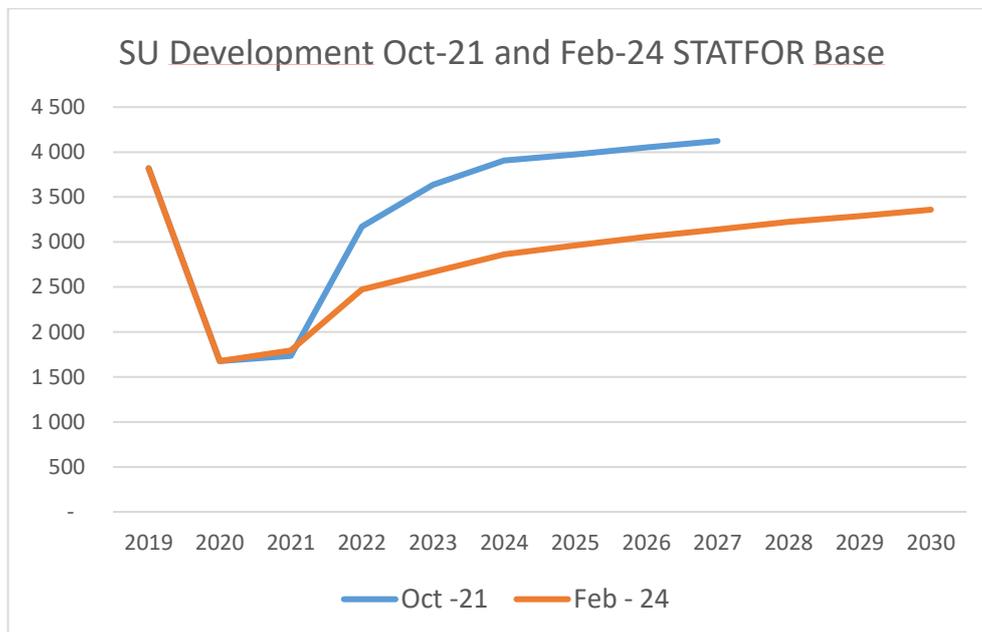
Background and the pre-War situation

In the fall of 2021 the traffic was recovering from the Covid period, and forecasts produced by STATFOR were revised upwards steadily for the entire Europe as well as Sweden.



In the above diagram, the upwards adjusted forecasts are exemplified by comparing the orange line, from May 2021, and the increase in the forecast in October 2021. Although Sweden was not anticipated to go back “on pre-Covid track” during RP3 the recovery was anticipated rapid and Sweden would be back on 2019-levels during 2024.

This trend was however broken both drastic and rapid for Sweden and the north-east region of Europe by the actions of Russia of the 24th of February 2022.



The Russian aggression led to restrictions for air-traffic from Russia and EU in a reciprocal manner. For Sweden this led to a severe loss of overflights amounting to approximately 1 000 service units when the full year effect of 2023 was summarised. As the overflights to large extent constituted long haul flights to/from Asia, the large loss of Service units did not reflect a corresponding loss of IFR movements and, hence, less ATCO workload.

This situation was reflected in the final version of Sweden's RP3 performance plan deemed consistent by the EU Commission which is covering the years 2020-2024.

Effect of the war

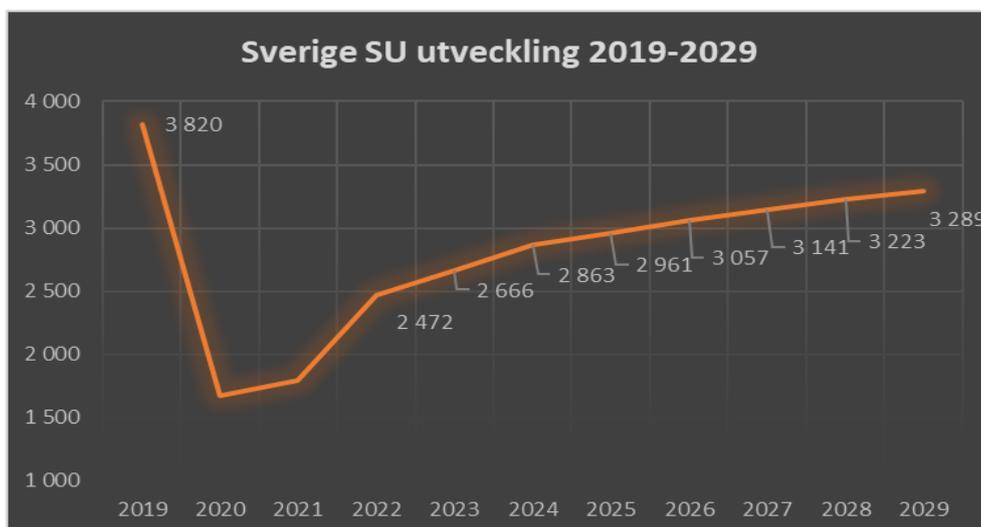
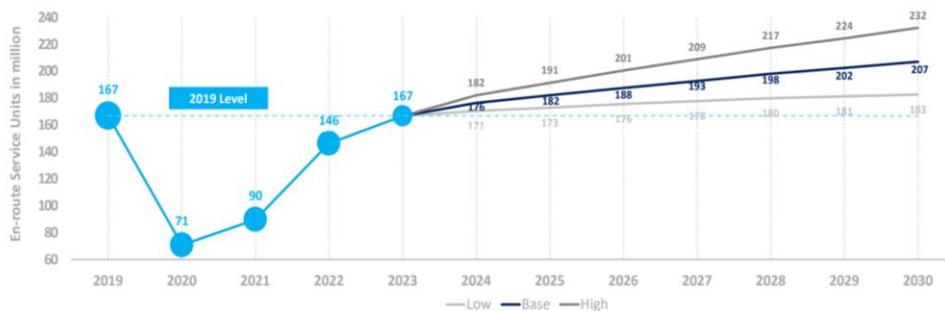
As described above the immediate effect from the war was a loss of approximately 1 000 service units. From an RP4 perspective the loss of the following growth of those service units is also obvious, and a major condition in the planning process.

Comparing the European level to the Swedish clarifies the heterogeneity in traffic development across the region.

EUROCONTROL STAFOR 7-YEAR FORECAST UPDATE FOR THE CRCO REGION* 2024-2030 (SPRING 2024)

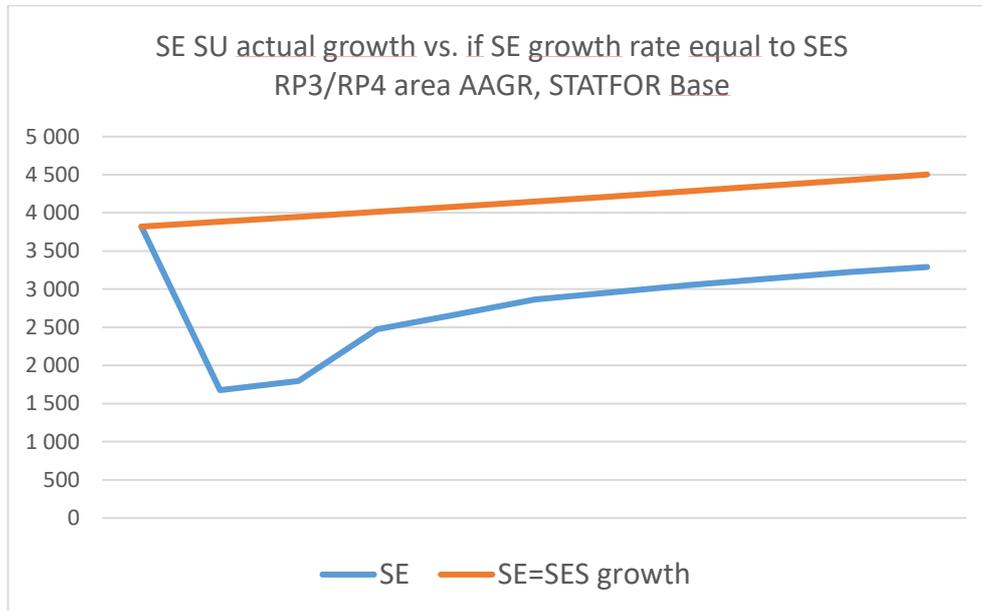
Actual and future **En-Route Service Units**

➤ TSUs are expected to grow from nearly 100% of 2019 levels in 2023 to **124%** in the base scenario in 2030.



Take note that the May 2024 STAFOR short term Forecast implied an increase of traffic for 2024 and 2025 of approximately 2 percent a year. This is not reflected in the above diagram, but do not however have any material impact on the situation to get Sweden back to similar conditions as of the rest of EU.

As was stated above, when the full year effect of the war was summarized Sweden had lost 1 000 service units, or 27 percent, compared to what was anticipated according to the forecasts. As the loss was severe it constitutes a major obstacle, but it also means that Sweden has lost the growth in that traffic which has been strong on a EU level. In order to compare the long term development also this effect, the loss of growth, needs to be taken into consideration.



The starting point is 2019. The blue depicts the current and actual situation of Sweden. The orange line should be considered a trend line and elaborates on where the Swedish service units would be without the war and, at the same time, would have the average growth rate of EU. Using this methodology it would be clear that Sweden is missing 1 200 service units, or 36 percent.

In order to describe the situation in IFR, workload, measures it should also be noted that the IFR movements do not demonstrate the same drop for Sweden as for service units. While the service units is 2029/2019 is down 14 percent the drop in IFR is 7 percent. For EU wide the increase of service units are 2029/2019 + 18 percent, while IFR is up + 6 percent. To conclude; this constitutes a revenue loss, the operational work load drop is less.

Swedens approach and considerations

With the background from above, it is obvious from the SE NSAs perspective that the RP4 planning needs a balanced approach. The planning needs to consider the effect of the war but at the same time be ambitious in its targets to demonstrate effectiveness and incentivise providers scalability during the reference period of RP4 and the long term development (baseline 2019).

The effects of the war is a demand-shock to the Swedish overflights, which in turn was the segment demonstrating the highest growth pre-war. The shifts in flight patterns were immediate and when Sweden and the neighbouring countries had sudden losses, other regions faced the opposite

effect very rapidly. These sudden effects needs to be taken cautiously into consideration when assessing the ATCO planning – an end to restrictions Russia/EU could lead to a fast change back since many of the routes over north-eastern Europe are of significant benefits for airlines to/from Asia.

Training ATCOs requires ATCOs. In order to scale up training to meet increasing demand there needs to be a certain level of ATCOs available. Therefore, the Swedish draft performance plan cannot demonstrate full consistency with the EU wide targets for the long term.

Other obstacles and problematic issues that have been identified in the planning process is that the providers needs to comply with common requirements but with a much less, if any, beneficial CBA. The CBAs of these common requirements still beneficial on a Single European sky level, as far as the SE NSA is aware, but from a Swedish perspective there could have been projects that were postponed or cancelled during the circumstances. This has however not being examined more in detailed since they are subject to regulatory requirements.

Although traffic over Sweden is quite lower, from a network perspective, Sweden as a well-functioning ATM contributor needs to be taken into consideration. ANSP LFV has on several occasions been a source of unloading and unburden more hectic sectors. This is an argument for not draining the abilities of Swedish providers. There also needs to be taken into consideration of any present and upcoming negative effects of environmental and climate KPIs and PIs. Swedens performance today contributes positively to the EU wide targets. There are always improvements to be made, and ANSPs needs to develop where relevant, and in the NSAs assessment this aspect has to been taken into account.

The SE NSA is well aware of the anticipation to impose a larger degree of scalability in the ATM sector. This is supported by Sweden and has been emphasized in the audit process; the ability to adapt to the current traffic situation, while at the same time have the opportunity to scale up when “things return to normal”.

It though has to be recalled that if the entire Europe would have faced the same downturn in traffic as for Sweden, the EU wide targets would probably have been different. The targets for Sweden needs to be assessed according to the states local conditions.

Demonstrating that long term cost efficiency prevails

SE NSA would not be addressing the long term cost efficiency by applying an extrapolated STATFOR forecast from the time previous to the war. This could however be accurate in the sense that it would emphasize the extreme impact of the war to a sector of services that needs to be there to provide safety independently of the traffic situation.

To apply a STATFOR high would not be relevant to this situation either as the STATFOR forecast is under the condition of prevailed restrictions over Europe. The forecast is important for number of reasons, but from the situation of describing long term efficiency and at the same time allowing for resilience enough to “come-back-better” after a war-end this forecast to not serve a purpose.

SE NSA would propose to apply a broader viewpoint of the Swedish ANPS development in a fair manner, setting a status quo – a baseline, from how the ANSPs have developed if the number of service units were not changed. It has to be recognised that fundamental target of Single European Sky and the performance scheme regulation is to address the challenges of a sustained traffic growth. As learned from the Covid period, the regulation work less well under times of crisis, and therefore this structural crisis for part of Europe needs to be very well addressed in order to prove the applicability of the regulation when heterogeneity across the European region is obvious.

SE NSA therefore suggests that the long term efficiency should be measured from a baseline where the service units of 2019 is equal to the forecast of 2029.

a) RP4 cost-efficiency performance targets

En route charging zone	Baseline 2019	Baseline 2024	RP4 cost-efficiency targets (determined 2025-2029)				
	2019 B	2024 B	2025 D	2026 D	2027 D	2028 D	2029 D
Sweden							
Total en route costs in nominal terms (in national currency)	2 036 382 554	2 360 518 834	2 388 603 216	2 374 663 153	2 398 154 525	2 454 291 649	2 472 065 334
Total en route costs in real terms (in national currency at 2022 prices)	2 217 644 507	2 214 306 099	2 205 893 980	2 164 635 607	2 156 631 289	2 177 761 549	2 162 130 531
Total en route costs in real terms (in EUR2022) (1)	208 745 024	208 430 782	207 638 956	203 755 340	203 000 900	204 990 874	203 519 539
YoY variation			-0,4%	-1,9%	-0,4%	-1,0%	-0,7%
Total en route Service Units (TSU)	3 359 000	2 888 000	3 046 000	3 135 000	3 212 000	3 297 000	3 359 000
YoY variation			5,5%	2,9%	2,5%	2,6%	1,9%
Real en route unit costs (in national currency at 2022 prices)	660,21	766,73	724,19	690,47	671,43	660,53	643,68
Real en route unit costs (in EUR2022) (1)	62,14	72,17	68,17	64,99	63,20	62,17	60,59
YoY variation			-5,5%	-4,7%	-2,8%	-1,6%	-2,6%

2029D vs. 2019B (CAGR)	2029D vs. 2024B (CAGR)
2,2%	0,9%
-0,3%	-0,5%
-0,3%	-0,5%
0,0%	3,1%
-0,3%	-3,4%
-0,3%	-3,4%

As stated, the EU wide long term efficiency target is not met applying this criteria since the value is – 0,3%. However, according to the NSA, as the DUC 2029 is lower than DUC 2019 this demonstrates a long term efficiency improvement.

If the method referred to in COMMISSION IMPLEMENTING DECISION (EU) 2024/1688 recital (23) is applied, the long term efficiency target is met.

Cost containment measures

Safety is always overriding and paramount for the planning. As this annex also demonstrated, a concern has also been the future possibility for Sweden to contribute positively to the network in the event of traffic increases.

This aside, the planning of RP4 also implies a very negative impact of the charges, which together with increases in other aviation charges, will have negative impact on the industry. The major tool for mitigating this issue is through different cost containment measures and the focus to contribute to EU wide cost efficiency KPI. This section will present the most important measures, which in some cases are detailed, and in other more general.

In the context, Sweden would like to inform that there are three open cases, regarding three different organisations, in the administrative court concerning decisions of determined costs for RP3. There are indications that there will be additional cases for RP4.

Staffing

The NSA assessment has covered staffing in all areas.

For ATCOs there is a certain description available in the Performance scheme where the ATCO planning of LFV is available and where a background on the major issues regarding ATCO staff levels are described. It should be noted that the NSA has set a specific cap for the costs of staff of LFV to 2029 when the new ATC One system should be introduced according to the planning. Depending on the upcoming traffic situation, it could be better to apply savings somewhere else in the organisation than for the ATCOs, but there needs to be an ambition level for cost efficiency from investing in new system. **The cost cap of 2029 is not reflected in ATCO capacity planning numbers.** With this staffing reduction, the NSA has also imposed reductions on other operating costs, which will restrict costs for among other things training.

It should be mentioned that previous to this reductions, there were major discussions on staffing in ACCs due to the targets in all areas, especially on capacity. There were reductions of the ANSPs initial requests. Note that the NSA has suggested capacity incentives with higher penalty than bonus. The incentive scheme is modulated according to NOP which the NSA has assessed as the best model taking the situation into consideration.

SWEA project has been mentioned previously and in many parts of the Performance plan and will contribute positively in several KPIs. For costs it will reduce the need of number of ATCOs.

FIS (Flight information services). This will introduce a better use of resources since it will off-load and replace ATCOs that can be re-placed by briefing staff. It will also enhance sector capacity in controlled airspace while keeping the level of safety. The concept is not new, but will now be introduced in Sweden.

Another area where cost containment measures has been taken is in service levels in approach centers, where the NSA has considered opening hours as excessive taking the traffic situation into account. This has no safety impact, and no relevant impact for capacity.

Investments

The costs of investments for RP4 are heavily influenced by inflation as well as the exchange rate of Sweden. The inflation is naturally taken into consideration by the real term assessment in the plan, however from

indications in the audit process much of the equipment relating to this sector has been experiencing even higher inflation than the index applied in the plan.

On top of these effects the Swedish currency has depreciated to both EUR and USD. Since there are lack of Swedish manufacturers, the Swedish providers rely on import.

A cost containment measure applied by the NSA has been to set caps to investments, especially for equipment to be re-placed due to end of life. This will increase incentives in the procurement processes, prioritisation and foster re-valuation of the necessary requirements. Especially the latter has a direct connection with the traffic situation. Since all changes has to be safety assessed by the NSAs ANS department, this will not contribute negatively to the safety.

The increasing costs of depreciation during the period is well correlated with the introduction of CP1 compliant assets.

Cap for Return on equity parameters

As introduced from RP3, Sweden applies caps to the parameters underpinning the Return on equity (RoE).

In order to do this Sweden has engaged an external, independent, consulting firm who has taking the legal aspects of the regulation as well as market preconditions into consideration. The consultants has finalised a report with its findings. Sweden has decided according to the proposal.

Variabel	RP3 (2020-2024)		RP4 (2025-2029)	
	Låg	Hög	Låg	Hög
Bedömt tillgångsbeta	0.50	0.60	0.55	0.70
Bedömd skuldsättningsgrad	e.t.	e.t.	e.t.	e.t.
Beta	0.50	0.60	0.55	0.70
Risfri ränta	0.8%	0.8%	2.3%	2.3%
Marknadsriskpremie	6.4%	6.4%	6.1%	6.1%
Storleksrelaterat/specifikt tillägg	0.0%	1.0%	0.0%	1.0%
Avkastningskrav på eget kapital	4.0%	5.6%	5.7%	7.6%
Kreditriskpremie	e.t.	e.t.	e.t.	e.t.
Skatt	e.t.	e.t.	e.t.	e.t.
Långfristig låneränta efter skatt	e.t.	e.t.	e.t.	e.t.
Andel eget kapital	100%	100%	100%	100%
Andel lånefinansiering	0%	0%	0%	0%
Avkastningskrav (WACC efter skatt)	4.0%	5.6%	5.7%	7.6%
Avkastningskrav (WACC före skatt)*	5.0%	7.2%	7.1%	9.5%

e.t. = ej tillämplig

Table: Return on Equity parameters in Low (Låg) and High (Hög)

In the above table the parameters are divided into two categories Low (Låg) and High (Hög). For RP4, the High category is applied to organisations providing their services subject to market conditions, while the remaining (majority) falls under Low.

The increase between RP3 and RP4 is due to minor change in Beta and the risk-free interest rate (Riskfri ränta).

Note that LFV and Sjöfartsverket (SAR) waived their RoE during RP3.

Audit of the application of allocation model

The NSA has audited that the allocation of Terminal/En Route model described in TSFS 2020:44 is applied correctly. It is not a real cost containment measure, but since the work through led to costs being excluded from En Route cost base it has decreased costs for RP4. Information on costs and how it has been taken into consideration for RP4 is described in the section 3.4.1.

Allocation of Search and Rescue costs

The Swedish Maritime Administration (SMA) provides the Search and Rescue (SAR).

SAR is allocated 16,51 percent to En Route today. In the preparation of RP4 the NSA has however informed SMA that the allocation model needs to be updated considering the latest circumstances, including aviation traffic evolution. Since a new model was not presented by the SMA in time of the submission the NSA has estimated a lower allocation from 2025 going forward in RP4 plan.

After the submission of the draft Performance plan the SMA has proposed a new model, actually providing a further decrease in allocation in comparison to what is suggested in the draft plan. The NSA has not had the opportunity to audit it in time so for the purpose of RP4, the NSAs initial proposal stands.

SMA is in the legal context a state organisation that is compensated on the basis of its actual costs after audit by the NSA. In a performance planning perspective there could of course be incentives for applying a too low allocation. Sweden wants to apply a realistic view of the final outcome of the new allocation model.

Aside from allocation, the NSA has a set a strict cap to cost development of SMA according to inflation index. The reasoning behind this is that there is poor correlation of SAR provision and traffic evolution.

Pensions

For 2024 there is an anticipated and severe effect on the pensions for LFV relating to the pension debt and due to an increase in the interest rate underpinning the calculations. There is not a 100 percent reconciled number at the time of this submission, however there will be a net financial surplus for RP3 when 2024 actual is summarized. In order to meet the charges increases Sweden has proposed to include a reimbursement to the users already from 2025 using preliminary figures. On the pre-requisite that this is done transparently all stakeholder have accepted.

The numbers are available in 3.4.6 ANSP#1 a) Staff costs row 43-44 accounting provisions. Note that they are not included in all reporting because they were not estimated in time for the consultation.

In the baseline a correction is done for pension costs, but they are not according to the positive effect of 2024 but in according to the consulted numbers.