

# PRB assessment of the revision of the performance targets during a reference period

## Lithuania

December 2022

## REMARKS FROM THE CHAIR

This report assesses the request from Lithuania to revise their performance plan following circumstances that were unforeseeable at the time it was adopted. These circumstances relate to the severe and sustained reduction in traffic in Lithuanian airspace as a direct result of Russia's war of aggression against Ukraine. The PRB recommends the Commission to accept the revision of the Lithuanian performance plan to support Oro Navigacija through this ongoing crisis.

I would like to thank the NSA of Lithuania for the excellent cooperation under considerable time constraints. In addition, the PRB could not have carried out its task without the unwavering support of the colleagues from the PRU (Eurocontrol), the Network Manager, EASA, and the PRB Support Team.



Regula Dettling-Ott  
PRB Chair

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## 1 INTRODUCTION

- 1 In November 2021, Member States submitted draft performance plans as required by the Commission Implementing Regulation (EU) 2020/1627 based on the revised Union-wide targets.<sup>1</sup> These performance plans covered each year of RP3, from 2020 to 2024, taking into account that the effects of the pandemic set in as of March 2020.
- 2 The PRB assessed the performance plans and advised the Commission on their consistency with the Union-wide targets. The performance plan of Lithuania was assessed as consistent with the Union-wide targets. Lithuania adopted the plan which came into force.
- 3 Article 18(1) of the Commission Implementing Regulation (EU) 2019/317 allows, under specific conditions, Member States to revise during a reference period one or more performance targets contained in the performance plan.
- 4 On the 26<sup>th</sup> August 2022, Lithuania submitted to the Commission a request for revision of the approved plan (hereafter revised performance plan). The submitted revised performance plan includes a revision of the capacity and cost-efficiency targets. The reasoning for the request for revision of Lithuania during a reference period is detailed in Section 2 of this report.
- 5 The remainder of this report assesses the revised performance plan and presents the PRB's recommendation to the Commission on the consistency of the revised targets.

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<sup>1</sup> With Member States we refer to EU Members plus Norway and Switzerland.

## 2 ASSESSMENT OF THE REASONING FOR THE REQUEST FOR REVISION

- 6 The reasons presented by Lithuania for the request for revision of the capacity and cost-efficiency targets contained in the approved performance plan are based on the significant differences from the data, the assumptions, and the operational and macroeconomic circumstances in Lithuania since Russia's war of aggression against Ukraine.
- 7 Lithuania reported local circumstances that it is facing and that have an impact on the ANSP's operational and financial situation:
- The geographical position of Lithuania;
  - The significant part of the Lithuanian en route traffic from and to Russia (before Russia's war of aggression against Ukraine);
  - The future possible sanctions imposed that could also possibly affect the environmental KPA;
  - The inflation rates; and
  - The significant increase in salaries.
- 8 Lithuania describes that the updated en route traffic forecast for the period 2022-2024 is significantly lower than initially forecasted in the approved performance plan. Indeed, Russia's war of aggression against Ukraine and the sanctions imposed on Russia as well as the counter-sanctions from Russia caused a significant drop of traffic flows in Lithuania (see Section 4.1). Lithuania noted that during the period of March to August 2022, the en route service units were lower on average by -35% compared to the traffic forecasted in 2021. As a result of this drastic decrease in traffic, the Lithuanian ANSP will face a financial distress due to the important under-recovery of the costs and the resulting negative cash-flows.
- 9 Lithuania also noted that the inflation rates are currently significantly higher than initially forecasted in 2021, as well as for the period 2022-2024. According to the IMF April 2022 forecast, the inflation rates of Lithuania are: 17.9% in 2022, 8.5% in 2023, and 3.0% in 2024. In the IMF October 2021 inflation forecast (i.e. the one applied in the approved performance plan), the inflation rates were: 2.3% in 2022, 2.5% in 2023, and 2.5% in 2024.
- 10 Lithuania reports that the 10 years government bond yield of Lithuania has also significantly increased, currently reaching a level of 3.5%, with an increase of more than 10-fold since January 2022. As a consequence, the cost of capital of Lithuania in the approved performance plan is lower than the risk-free rate.
- 11 As a result of the significantly lower traffic than forecasted in the approved performance plan, together with a high inflation pressure, Lithuania noted that the ANSP would not be able to meet its financial obligation nor to implement important surveillance investment projects. At the same time, defensive military activities increased in Lithuanian airspace, which requires adequate resources. Lithuania noted that the daily number of flights controlled is comparable to low-season pre-COVID-19, with therefore no possibility of operational level change.
- 12 Support from the Lithuanian government has not been approved as there are other public funding priorities. In order to face a potential liquidity-crisis, the ANSP is currently in negotiations to obtain short and/or long-term borrowing. However, considering the local circumstances, Lithuania noted that there is a possibility that commercial banks would not approve any borrowing to the ANSP.
- 13 The PRB considers that the reasoning for the revision of the performance plan of Lithuania are justified and compliant with Article 18(1) of the Commission Implementing Regulation (EU) 2019/317.

### 3 CAPACITY

- Lithuania requested a revision of capacity targets due to the significant decrease in IFR movements forecasted for the remaining years of RP3 proposing more ambitious revised targets than included in the approved performance plan.
- The PRB concludes that the capacity targets proposed by Lithuania should be approved.
- Lithuania should clarify the maximum bonus parameter of the en route capacity incentive scheme.

#### 3.1 En route ATFM delay per flight

14 Lithuania revised downwards the national targets on average en route ATFM delay per flight compared to the approved performance plan for each year in the 2022-2024 period. The revised target for each year is 0.02 minutes per flight for every year, -0.01 minutes per flight lower than in the approved performance plan (Table 1).

Average en route ATFM delay per flight (min/flight)			
	2022	2023	2024
Approved performance plan	0.03	0.03	0.03
Revised performance plan	0.02	0.02	0.02
Difference	-0.01	-0.01	-0.01

Table 1 – En route ATFM delay per flight, approved and revised performance plans.

15 The proposed revised targets fall in the range of the delay forecast of the latest edition of the European Network Operations Plan (NOP)<sup>2</sup> are 0.01 lower than the national reference values, and are thus consistent with the Union-wide targets on en route capacity. The proposed targets are also consistent with past performance of Oro Navigacija.

#### Review of planned capacity enhancement measures

16 The revised performance plan contains the following minor changes with respect to the approved performance plan regarding the capacity enhancement measures.

17 As provided by the revised performance plan, Lithuania has implemented the new ATM system (iTEC 2.1) in 2021, and has also conducted the

sector capacity analysis (CAPAN studies). These measures were included in the approved performance plan with implementation dates in 2021.

18 The revised performance plan still commits to improving cooperation between ATM, ATFM, and operational units: A measure that was included in the approved performance plan as well.

19 In addition to the above measures, the revised performance plan also commits to improve cooperation with military operational units. However, the plan does not provide specific details regarding this measure.

20 The measures included in the approved performance plan were based on the en route IFR movement forecast from the STATFOR May 2021 base scenario.

21 The revised performance plan applies a local forecast for en route IFR movements. The local forecast of Lithuania is more optimistic than the STATFOR June 2022 base forecast but still substantially lower than the STAFOR October 2021 base forecast (Figure 1, next page).

22 Lithuania considered the STATFOR June 2022 base forecast as too pessimistic as it was based on the flights from the period March to April 2022 (i.e. at the beginning of Russia's war of aggression against Ukraine and the sanctions imposed). However, traffic in Lithuania improved since May 2022. Considering the improvement of the traffic, Lithuania applied a local traffic forecast (based on the assumption of a "long-term conflict and stagnation in H2 2022"). The same justification has been included for the service unit forecast (Section 4.1).

<sup>2</sup> European Network Operations Plan 2022-2026 Edition July 2022.

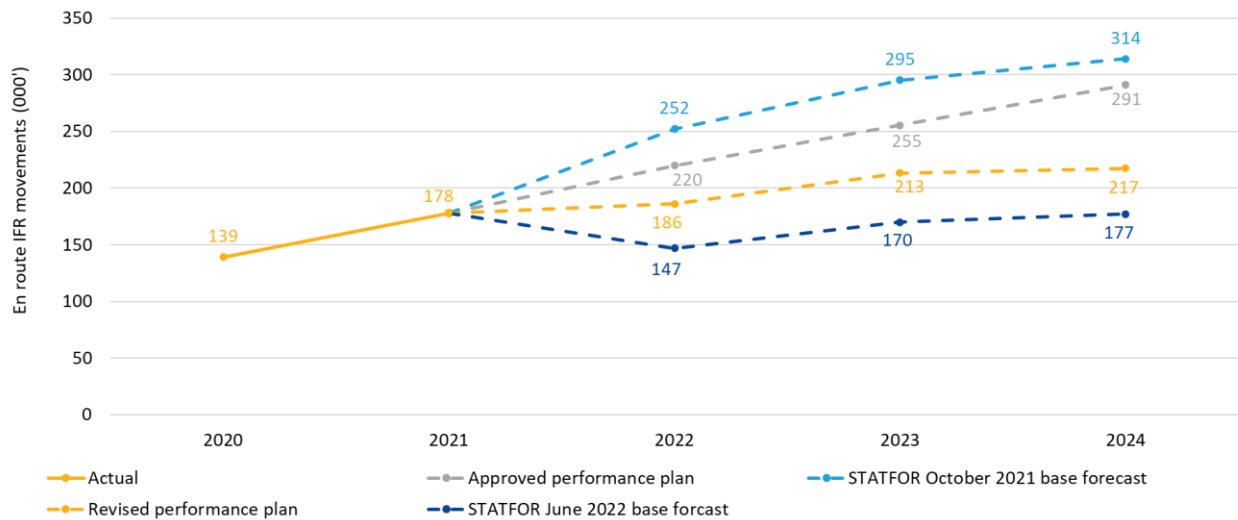


Figure 1 – Comparison of IFR movements from the approved performance plan, the revised performance plan, the STATFOR October 2021 base forecast, and the STATFOR June 2022 base forecast.

- 23 The approved performance plan included plans to increase by one the number of sectors (from four to five) to accommodate additional traffic. However, this is not foreseen anymore by the revised plan due to the most recent traffic levels and forecasts. The revised performance plan does not provide information on whether the technical and operational capabilities required to increase the number of sectors have been/will be implemented.
- 24 In addition to these changes, Lithuania has also revised the planned number of ATCO FTEs downwards compared to the approved performance plan (16 FTE less than the approved plan) (Table 2). The revised plan is to maintain the number of controllers at pre-pandemic levels until the end of RP3.
- 25 Lithuania justifies the revision of the planned number of ATCO FTEs by the lower traffic forecast. The revised performance plan also notes that the ongoing projects and trainings require additional ATCO resources, that is the reason why the reduction in the planned number of ATCO FTEs is not proportionate to the reduction of IFR movements.
- 26 The proposed set of measures are appropriate and sufficient in order to achieve the capacity targets. Moreover, the measures are in line with the latest available NOP.

#### Review of previous and existing capacity profile plans per ACC

- 27 The latest planned capacity profiles at the time of the assessment of the approved performance plan were in line with the corresponding reference profiles as published in the NOP, and were also largely in line with the capacity improvement measures and the ATCO training plans included in the approved performance plan.<sup>3</sup>
- 28 With respect to the revised performance plan, the latest capacity profile plan is fully in line with the corresponding reference profile values from the latest NOP. The profiles show an average annual growth of +14% during 2022-2024 (Table 3, next page).<sup>4</sup>

Planned number of ATCOs in OPS FTEs			
	2022	2023	2024
Approved performance plan	38	42	42
Revised performance plan	35	35	36
Difference	-3	-7	-6

Table 2 – Planned number of ATCOs in OPS FTEs at the end of the year, in the approved and revised performance plan.

<sup>3</sup> European Network Operations Plan 2022-2024 Edition September 2021.

<sup>4</sup> European Network Operations Plan 2022-2026 Edition July 2022.

Latest capacity profile plans (IFR movements per hour)			
	2022	2023	2024
Approved performance plan	55	64	66
Revised performance plan	66	81	85
Difference	+11	+17	+19

Table 3 – Planned capacity profiles for Lithuania at the time of assessing the approved and revised performance plans (source: European Network Operations Plan 2022-2024 Edition September 2021 for the approved performance plan, and European Network Operations Plan 2022-2026 Edition July 2022 for the revised performance plan).

- 29 The increase in the capacity profile plans is directly linked to the difference between the STATFOR May 2021 and the STATFOR October 2021 forecasts for en route IFR movements, and to the fact that the latest planned capacity profiles for the revised performance plan are based on the high forecast scenario. This is part of the methodology used for developing the NOP.
- 30 The increase of the capacity profile plan figures shows that Lithuania is capable of accommodating traffic demand without a capacity gap, even if the high forecast scenario of the STATFOR October 2021 forecast is realised.<sup>5</sup> The capacity profile plans are not constrained by the capacity performance of Vilnius ACC, thus no capacity gap is expected for Lithuania based on the capacity profile planning.

#### *Review of capacity enhancement measures related to mitigating higher delays due to significant /special events*

- 31 The review of capacity enhancement measures related to significant/special events is only undertaken for Member States where significant/special events are reported by the Member States to affect capacity performance during the reference period. This analysis is not applicable for Lithuania.

#### *Review of the measures to increase capacity and address capacity gaps*

- 32 The review of the measures to increase capacity and address capacity gaps is only undertaken for

Member States where a capacity gap has been observed in the past years and/or a capacity gap is foreseen for at least one ACC in the Member State during the reference period. This analysis is not applicable for Lithuania.

### *3.2 Capacity incentive schemes*

#### *En route capacity incentive scheme*

- 33 In the revised performance plan, Lithuania includes an incentive scheme based on a fixed pivot value set equal to the revised national targets (0.02 minutes per flight in each year between 2022-2024): 0.01 minutes per flight lower than the national reference value. This is also 0.01 minutes per flight lower than in the approved performance plan.
- 34 All other parameters of the en route capacity incentive scheme are unchanged in the revised performance plan. The dead-band is set as +/- 0.001 minutes per flight, which may not be sufficient to accommodate minor variations in the performance without financial impact. The alert threshold is set at +/- 0.05 minutes per flight.
- 35 The incentive scheme is asymmetric: The maximum bonus is set at 1% of determined costs, whereas the maximum penalty is 2% of determined costs of the ANSP. The calculation of the bonus/penalty is linear between the dead-band and the alert threshold.
- 36 Given the relatively low pivot values, the maximum bonus is practically capped at 0.4% of determined costs, as negative delays are not possible. Lithuania should clarify the maximum bonus parameter of the en route capacity incentive scheme.

### *3.3 Investments*

#### *Determined costs of investments over RP3 and analysis of major investments of main ANSP*

- 37 In the revised performance plan, Lithuania details the information of three new major investments for SE Oro Navigacija. None of the investments is above 5M€ in total asset value. The new major investments in the revised plan are corresponding to the ones reported in the approved plan.

<sup>5</sup> Capacity profile plans in the European Network Operations Plan 2022-2026 Edition July 2022 are based on the STATFOR October 2021 forecast of en route IFR movements.



38 In 2021, the airspace users expressed their concerns regarding the necessity of the new major investments and the lack of increase in efficiency. The investments also result in an increase of the number of ATCOs (mainly due to the re-design of the Latvian airspace). During the stakeholders consultation on the revised performance plan, airspace users raised their concerns about the fact that some investments of NINTA-ADAXA would be related to terminal provision. As a reply, Lithuania clarified that the costs for the NINTA-ADAXA investments that are now included in the cost-base of Lithuania were also previously fully allocated and related to en route.

39 New major investments represent 2.2% of the total determined costs of investments over RP3, other new investments represent 10%, and existing investments the remaining 88%. Lithuania noted that other investments relate mainly to: Oldest nav aids (DVOR/DME), air-ground radio equipment renewal, radio coverage improvement project continuation, and green-energy solar-plant construction. For the remaining investments Lithuania mentioned that relevant amounts relate to: Various small investments and renewals of IT systems, hardware, software and licenses, etc.

40 Compared to the approved plan, in the revised performance plan Lithuania increased its determined costs of investments for the period 2022-2024 by +676K€. The increase can be mainly attributable to the increase in the cost of capital as explained in Section 1. However, in the revised plan, Lithuania slightly increased the CAPEX allocated to ANS in the scope of the performance plan (and the net book value of fixed assets). These increases are unclear considering that the percentage allocated to en route decreased in the revised plan compared to the approved one (as per the allocation methodology of Lithuania). Moreover, depreciation costs slightly decreased in the revised plan compared to the approved one, which is also not in line with the increase in CAPEX and in the net book value of fixed assets.

41 The summary of the determined costs of investments of SE Oro Navigacija in the approved plan compared to the revised one is shown in Table 4.

<b>Determined costs of investments of main ANSP (‘000€ nominal)</b>			
	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Approved performance plan</b>	<b>3,979</b>	<b>4,152</b>	<b>4,117</b>
<i>Of which new major investments</i>	7	90	329
<i>Of which other new investments</i>	364	543	645
<i>Of which existing investments</i>	3,609	3,519	3,143
<b>Revised performance plan</b>	<b>3,875</b>	<b>4,442</b>	<b>4,607</b>
<i>Of which new major investments</i>	5	115	302
<i>Of which other new investments</i>	155	662	1,059
<i>Of which existing investments</i>	3,715	3,665	3,246
<b>Total difference</b>	<b>-104</b>	<b>+290</b>	<b>+490</b>

Table 4 – Determined costs of investments comparison between revised plan and approved plan.

42 During RP2, the actual CAPEX was 53% higher than the planned and the amount overspent was 12M€. Despite this overspending, in terms of depreciation and cost of capital the actual costs related to investments were -1.7M€ lower than planned. It is unknown if this amount will be reimbursed to the airspace users.

#### *Review of investments contribution to capacity*

43 The revised performance plan and the approved performance plan contain the same major investments. Similarly, the contents of the investments and their foreseen impact on capacity performance remain unchanged.

44 There are no major investments reported as investments contributing to en route capacity. The investments related to surveillance capabilities (PSR/MSSR renewal and WAM/ADS-B implementation) mainly contribute to resilience and scalability. The Aeronautical data management digitalisation investment contributes to scalability and flexibility.

- 45 During RP2, an ATM-system upgrade was planned to be implemented in 2017 (Baltic FAB Performance Plan for RP2) and according to the 2020 edition of the Local Single Sky Implementation Plan of Lithuania the system implementation was postponed to Q1 2020. According to the revised performance plan, the commissioning took place after some delays in February 2021.
- 46 The reference capacity profile for Lithuania shows growth from 2022 to 2024, which can be delivered by the capacity enhancing measures taken during RP2 and the deployment of the new iTEC ATM system.
- 47 No issues are foreseen related to capacity improving investments in Lithuania.

### 3.4 Results of the assessment of the capacity KPA

- 48 The proposed national capacity targets are set at 0.02 minutes per flight, 0.01 minutes per flight lower than the national reference values, and fall within the range of the delay forecast during 2022-2024.
- 49 Lithuania is expected to have sufficient capacity to meet traffic demand in RP3.
- 50 It is unclear if Lithuania implemented operational capabilities to increase the number of sectors planned in the approved performance plan, and if/how this impacts the readiness to accommodate future traffic recovery.
- 51 There is a minor lack of clarity as regards the maximum bonus applicable in the en route capacity incentive scheme. Based on the information provided in the performance plan, bonuses are capped at 0.4% of determined costs, as negative delays are not possible. However, the performance plan indicates that the maximum bonus parameter of the en route incentive scheme is set at 1% of determined costs.

## 4 COST-EFFICIENCY

- Lithuania requested a revision of cost-efficiency targets due to the significant differences from the data, the assumptions, and the operational and macroeconomic circumstances in Lithuania since Russia’s war of aggression against Ukraine.
- The PRB concludes that the cost-efficiency targets proposed by Lithuania should be approved.
- Lithuania has been heavily impacted by Russia’s war of aggression against Ukraine.
- The decrease in traffic forecasted for the remaining years of RP3 would not allow Lithuania to meet the trends without a drastic and unrealistic decrease in costs.
- The PRB recommends the Commission to consider these external factors when assessing the performance plan of Lithuania by applying the STATFOR October 2021 base forecast in the calculation of the short and long trends.

### 4.1 En route traffic forecasts overview

- 52 The revised performance plan applies a local forecast for en route service units. The local forecast of Lithuania is more optimistic than the STATFOR June 2022 base forecast.
- 53 Lithuania considered the STATFOR June 2022 base forecast as too pessimistic as it was based on the flights from the period March to April 2022 (i.e. at the beginning of Russia’s war of aggression against Ukraine and the sanctions imposed). However, traffic in Lithuania improved since May 2022. Considering the improvement of the traffic, Lithuania applied a local traffic forecast (based on the assumption of a “long-term conflict and stagnation in H2 2022”).
- 54 In the approved performance plan, Lithuania also applied a local forecast: The STATFOR October 2021 base forecast for the period 2020-2021 and the STATFOR October 2021 low forecast for the period 2022-2024.
- 55 The revised performance plan traffic forecast, the approved performance plan forecast, the STATFOR October 2021 base forecast, and the STATFOR June 2022 base forecast are shown in Figure 2.
- 56 The traffic forecast submitted in the revised performance plan is significantly lower than in both the approved performance plan and the STATFOR October 2021 base forecast, and higher than the STATFOR June 2022 base forecast.
- 57 The current situation in Lithuania is heavily impacted by Russia’s war of aggression against Ukraine and the sanctions imposed. As a consequence, the total number of service units in the revised plan for the period 2022-2024 is lower by -26% to -35% compared to the approved plan (Table 5, next page), and overall lower by -41% compared to the STATFOR October 2021 base forecast for those years.

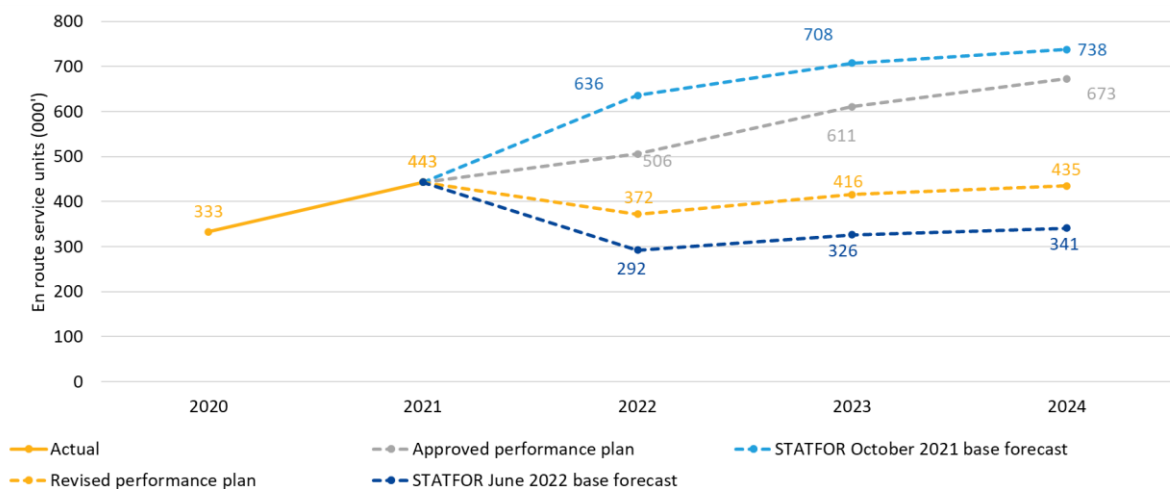


Figure 2 – Comparison of services units from the approved performance plan, the revised performance plan, the STATFOR October 2021 base forecast, and the STATFOR June 2022 base forecast.

	2022 (%)	2023 (%)	2024 (%)
<b>Difference between revised plan vs approved</b>	-26%	-32%	-35%

Table 5 – Service units comparison between revised plan and approved plan.

#### 4.2 En route costs overview

- 58 This section analyses the planned real and nominal total costs of Lithuania submitted in the revised performance plan for RP3, in the approved performance plan, and its differences. A summary is shown in Table 6.
- 59 The inflation assumptions included in the revised plan have been revised. The inflation reported is from an IMF press release of July 2022, which is similar to the IMF October 2022 forecast.<sup>6</sup> The local inflation included in the revised performance plan of Lithuania seems justified. The inflation in

the revised plan is significantly higher compared to the approved plan (overall +21% for the period 2022-2024).

- 60 The real en route revised performance plan determined costs compared to the approved performance plan costs are overall -21% for the period 2022-2024. When looking at the total determined costs in nominal terms, the decrease in costs is overall -10% lower for the same period. Half of the real decrease of the cost base for the period 2022-2024 in the revised plan of Lithuania can be attributed to the higher inflation rates forecasted for the coming years of RP3.
- 61 Lithuania noted in its revised performance plan that, as a result of Russia's war of aggression against Ukraine and the sanctions imposed, the proportion of en route flights compared to terminal movements decreased, therefore decreasing the allocated en route determined cost base for the period 2022-2024, as per the methodology for cost allocation between en route and terminal of Lithuania (see Section 4.4).

	2020 D	2021 D	2022 D	2023 D	2024 D	2022-2024 D
Revised plan total costs (000'€ nominal)	19,504	20,911	21,945	24,906	26,083	72,934
Approved plan total costs ('000€ nominal)	19,504	20,911	24,495	27,956	28,633	81,084
% Difference between revised and approved	0.0%	0.0%	-10%	-11%	-8.9%	-10%

Revised plan total costs (000'€ <sub>2017</sub> )	18,662	19,622	18,189	19,502	19,990	57,682
Approved plan total costs ('000€ <sub>2017</sub> )	18,662	19,622	22,466	25,066	25,252	72,783
% Difference between revised and approved	0.0%	0.0%	-19%	-22%	-21%	-21%

Table 6 – Nominal and real total costs comparison between revised plan and approved plan.

<sup>6</sup> Republic of Lithuania: 2022 Article IV Consultation-Press Release; and Staff Report (imf.org).

62 When considering the approved plan, the total costs of Lithuania were planned to increase by +9.3% (+2.2M€<sub>2017</sub>) between 2019 actuals and planned 2024, while when considering the revised plan, the total costs are planned to decrease by -13% (-3.1M€<sub>2017</sub>). In nominal terms, when considering the approved plan, the total costs of Lithuania were planned to increase by +20% (+4.7M€) between 2019 actuals and planned 2024. In the revised plan the nominal costs are planned to increase by +9.0% (+2.2M€) between 2019 actuals and planned 2024.

63 When analysing total costs at entity level, the following can be observed:

- The total ANSP costs were planned to increase by +8.7% (+1.8M€<sub>2017</sub>) in the approved plan between 2019 actuals and planned 2024. In the revised plan, the total costs are planned to decrease by -16% (-3.3M€<sub>2017</sub>) between 2019 actuals and planned 2024.
- The total MET costs were planned to increase by +26% (+0.1M€<sub>2017</sub>) in the approved plan between 2019 actuals and planned 2024. In the revised plan, the total costs are planned to increase by +3.5% (+19K€<sub>2017</sub>) between 2019 actuals and planned 2024.
- The total NSA costs are planned to increase by +12% (+0.2M€<sub>2017</sub>) between 2019 actuals and planned 2024 in both the approved and revised plan.

64 No major issues have been identified.

### 4.3 En route cost categories overview

65 This section analyses the determined costs of Lithuania by cost category submitted in the revised performance plan for RP3, in the approved performance plan, and its differences. A summary is shown in Table 7 (next page).

#### Staff costs

66 In the revised plan, the staff costs of Lithuania are planned to decrease by -25% (-3.6M€<sub>2017</sub>) between 2019 actuals and determined 2024. Lithuania proposed to increase the level of ATCOs by one FTE in 2024 compared to 2019. In the approved plan, Lithuania proposed to increase the level of ATCOs by seven FTEs in 2024 compared to 2019.

67 Compared to the approved plan, Lithuania decreased its staff costs for the period 2022-2024 by -12M€<sub>2017</sub> (or overall by -27%).

68 No major issues have been identified.

#### Pension costs

69 As in the approved performance plan, SE Oro Navigacija has not included pension costs for RP3 in the revised plan. Instead, Lithuania has PAYG pension system scheme in which no contributions from the employer are required as all taxes for social insurance system are made from employees' gross salary (this system has been reformed like that since 2019). Therefore, all changes to the pension tax rates have no additional risk to costs associated with pensions. There is no information from the government on planned possible changes to the system in the foreseeable future.

70 However, Ninta Adaxa (ANSP and NSA) decreased its pension costs for the period 2022-2024 in the revised performance plan compared to the approved one by -98K€<sub>2017</sub> (or overall by -52%).

71 No major issues have been identified.

#### Other operating costs

72 In the revised plan, other operating costs of Lithuania are planned to decrease, in real terms by -9.6% (-0.5M€<sub>2017</sub>) between 2019 actuals and planned 2024. However, in nominal terms, they are planned to increase mainly due to: (i) high inflation rates; (ii) increase of costs of third parties' services; (iii) and the post warranty of ATM is expected to be realised at the end of RP3. Lithuania explained that the planned nominal increase in other operating costs has been partially offset due to the decrease of the determined costs allocated to en route, as from Russia's war of aggression against Ukraine and the sanctions imposed (as explained in Section 0).

73 Lithuania decreased its other operating costs for the period 2022-2024 in the revised performance plan compared to the approved one by -3.9M€<sub>2017</sub> (or overall by -24%).

74 No major issues have been identified.

#### Depreciation costs

75 In the revised plan, depreciation costs of Lithuania are planned to increase by +21% (+0.6M€<sub>2017</sub>) between 2019 actuals and planned 2024. This

increase is mainly due to the delay of the finalisation of two major projects from the end of RP2 to RP3.

- 76 Lithuania decreased its depreciation costs for the period 2022-2024 in the revised performance plan compared to the approved one by -0.6M€<sub>2017</sub> (or overall by -6.0%). The reason of this decrease is unclear considering that the CAPEX allocated to ANS in the scope of the performance plan and the net book value of fixed assets slightly increased in the revised plan compared to the approved one.

#### Cost of capital

- 77 In the revised plan, the cost of capital of Lithuania is planned to increase by +30% (+0.4M€<sub>2017</sub>) between 2019 actuals and 2024 planned.
- 78 Regarding the components of the weighted average cost of capital (WACC) of SE Oro Navigacija:
- SE Oro Navigacija is fully financed through equity, thus no interest on debts is specified.
  - SE Oro Navigacija did not include cost of capital in the cost base of 2020. Moreover, Lithuania kept the pre-tax cost of capital rate at 3% until 2022. As of 2023, the pre-tax cost of capital rate will be at 5% due to the sharp increase of the 10-year government bonds.
  - The efficient cost of capital is computed in line with the maximum risk exposure.
  - Over RP3, the reported cost of capital is slightly above the efficient cost of capital (+0.8M€<sub>2017</sub>). Moreover, the monetary value of the return on equity is not commensurate to the total determined costs for the period

2021-2024 (ranging between 5.0% and 7.3% in those years).

- 79 Regarding the regulated asset base of SE Oro Navigacija:
- The fixed asset base is planned to decrease over RP3. This is not in line with the investments described in Section 3.3 of this document, which are planned to increase.
  - Net current assets do not seem to present major issues.
  - The regulated asset base does not include adjustments to the total asset base.
  - The total asset base is planned to decrease over RP3, driven by both the decrease in the fixed asset base and the net current assets.
- 80 Lithuania increased its cost of capital for the period 2022-2024 in the revised performance plan compared to the approved one by +1.2M€<sub>2017</sub> (or overall by +39%). This can be attributable to the increase of the pre-tax cost of capital rate as of 2023 (from 3% in the approved plan to 5% in the revised plan) due to the sharp increase of the 10-year government bonds of Lithuania.
- 81 The reported cost of capital does not seem to present major issues. Even though the monetary value of the return on equity is not commensurate to the total determined costs for the period 2021-2024, this is mainly due to the decrease in total determined costs.

#### Exceptional items

- 82 Lithuania has no exceptional items planned during RP3.

	Approved plan ('000€ <sub>2017</sub> )			Revised plan ('000€ <sub>2017</sub> ) / Difference with the approved plan (%)		
	2022	2023	2024	2022	2023	2024
Staff costs	13,618	14,824	14,881	10,117 / -26%	10,728 / -28%	10,732 / -28%
Of which pension	62	63	62	28 / -55%	30 / -53%	32 / -49%
Other operating costs	4,627	5,819	5,983	3,983 / -14%	4,091 / -30%	4,408 / -26%
Depreciation costs	3,221	3,394	3,369	3,120 / -3.1%	3,071 / -9.5%	3,192 / -5.3%
Cost of capital	1,000	1,029	1,018	969 / -3.0%	1,613 / +57%	1,658 / +63%
Exceptional costs	0	0	0	0	0	0
VFR exempted	0	0	0	0	0	0
<b>Total costs</b>	<b>22,466</b>	<b>25,066</b>	<b>25,252</b>	<b>18,189 / -19%</b>	<b>19,502 / -22%</b>	<b>19,990 / -21%</b>

Table 7 – En route determined costs from the revised plan, approved plan, and its difference, by cost category, for the period 2022-2023.



#### 4.4 Methodology for cost allocation between en route and terminal

- 83 This section analyses the methodology for cost allocation between en route and terminal of Lithuania for RP3. Lithuania has not established any terminal charging zone for RP3.
- 84 As in the approved performance plan, Lithuania did not mention changing the cost allocation methodology with respect to RP2 in the revised performance plan.
- 85 For each cost centre, the appropriate percentage of cost is allocated between different activities, i.e. en route and terminal services: facilities and services that serve only en route are allocated fully to en route services, facilities and services that serve only terminal are allocated fully to terminal services, and for facilities that serve both en route and terminal, costs are allocated based on the proportion of number of flights. When it is difficult to allocate the utilisation between en route and terminal, allocations are attributed under “the normal traffic conditions” (75% / 25%, or 50% / 50%, or 25% / 75%).
- 86 No major issues have been identified.

#### 4.5 Determined unit cost (DUC) baselines

- 87 In the revised performance plan Lithuania did not modify the 2014 and 2019 traffic baselines compared to the approved performance plan:
- Lithuania adjusted the 2014 and 2019 traffic baselines to take into account the NINTA-ADAXA services units, and the traffic baselines are adjusted by the M2/M3 CRCO 12-months coefficient.<sup>7</sup>
- 88 Similarly, in the revised performance plan Lithuania did not modify the 2014 and 2019 cost baselines compared to the approved performance plan:
- The NINTA-ADAXA adjustments increased the 2014 cost baseline by +400€<sub>2017</sub> and the 2019 cost baseline by +1.0M€<sub>2017</sub>. This adjustment is justified.
  - The depreciation adjustments increased the 2019 cost baseline by 0.7M€<sub>2017</sub>. These adjustments do not seem justified as: (i) the actual

depreciation costs in RP2 were -1.2M€ (-9.5%) lower than the determined; (ii) they are not concerning a change of scope between reference periods. Excluding the depreciation adjustments from the 2019 baseline costs, the 2019 baseline costs would be lower by -0.7M€<sub>2017</sub>, and the baseline DUC would be equal to 36.62€<sub>2017</sub>.

- 89 The determined unit cost baseline as included in the revised performance plan are:
- 45.12€<sub>2017</sub> for the 2014 baseline;
  - 37.64€<sub>2017</sub> for the 2009 baseline.

#### 4.6 Determined unit cost (DUC) evolution

- 90 Although Lithuania decreased total real costs in the revised plan compared to the approved one, the DUC for the period 2022-2024 increased as a consequence of a drastic lower traffic forecast (for both the STATFOR June 2022 base forecast and the local forecast). The evolution of the unit cost (from 2014 baseline to 2024 planned) is shown in Figure 3 (next page).
- 91 Regarding the DUC consistency from the revised performance plan:
- The DUC is planned to increase on average by +5.1% between 2019 and 2024, which is worse than the RP3 Union-wide trend (+1.0%).
  - The DUC is planned to increase by +0.2% between 2014 and 2024, which is worse than the long-term Union-wide trend (-1.3%).
  - The 2019 DUC level is +46.4% higher than the average of the comparator group. It is also noted that the DUC for Lithuania is expected to remain above the average DUC of the comparator group for the remainder of RP3.
- 92 When considering the STATFOR October 2021 base forecast, the DUC would:
- Decrease on average by -7.9% between 2019 and 2024, which is better than the RP3 Union-wide trend (+1.0%). Excluding the adjustments on the 2019 cost baseline relating to depreciation costs would result in a DUC decrease on average by -7.3%, which is still consistent with the RP3 Union-wide trend.

<sup>7</sup> Lithuania explained that from 2020 the costs of provision of services by LGS on the part of NINTA-ADAXA route (which is under the legal responsibility of Lithuania), are now included in Lithuania and not in Latvia's charging zone.

- Decrease on average by -5.5% between 2014 and 2024, which is better than the long-term Union-wide trend (-1.3%).

Lithuania adjusted the cost baselines but some elements should not be included in the adjustments (Section 4.5). However, Lithuania would achieve the DUC trends even if not including such adjustments.

4.7 Results of the assessment of the cost-efficiency KPA

93 In the approved performance plan, Lithuania was consistent with the RP3 DUC trend in terms of average reduction and with the DUC long-term Union-wide trend. Lithuania was not consistent with the average DUC baseline of the comparator group.

94 In the revised performance plan, Lithuania is not consistent with any of the cost-efficiency criteria. However, Lithuania has been heavily impacted by Russia’s war of aggression against Ukraine. The decrease in traffic forecasted for the remaining years of RP3 would not allow the Member State to meet the trends without a drastic and unrealistic decrease in costs. Therefore, the PRB recommends the Commission to consider these external factors when assessing the performance plan by applying the STATFOR October 2021 base forecast when calculating the trend criteria. By using the STATFOR October 2021 base forecast, Lithuania is consistent with both the short and the long-term criteria. Therefore, the PRB recommends the Commission to approve the cost-efficiency targets proposed by Lithuania.

95 A summary of the results of the assessment of the cost-efficiency KPA is shown in Table 8.

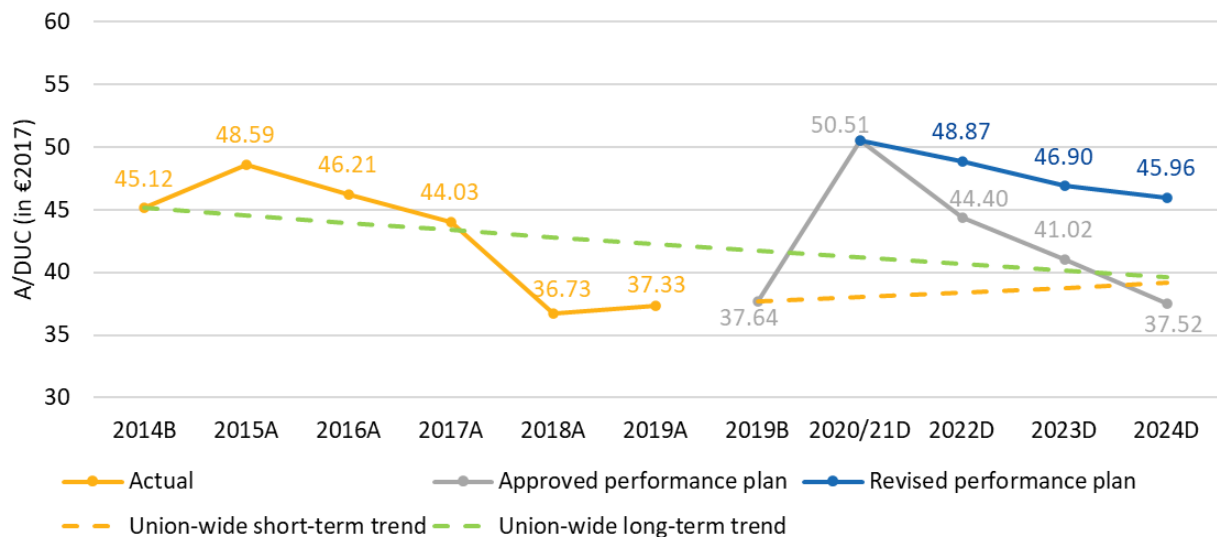


Figure 3 – Actual and determined unit cost overview from 2014 to 2024.

	Criterion a: Short-term trend (+1.0%)	Criterion b: Long-term trend (-1.3%)	Criterion c: Comparator group	Criterion d i): deviation for capacity	Criterion d ii): deviation for restructuring costs
Approved performance plan	-0.1%	-2.0%	+46.4%		
Revised performance plan	+5.1%	+0.2%	+46.4%		
Revised performance plan, considering the STATFOR October 2021 base forecast	-7.9%	-5.5%	+46.4%		

Table 8 – Assessment criteria applied to local cost-efficiency KPA targets.



## 5 CONCLUSIONS

### 5.1 Capacity assessment

- 96 The PRB concludes that the capacity targets proposed by Lithuania should be approved.
- 97 There is a lack of clarity as regards the maximum bonus applicable: Based on the information provided in the performance plan, bonuses are capped at 0.4%, as negative delays are not possible.

### 5.2 Cost-efficiency assessment

- 98 The PRB concludes that the cost-efficiency targets proposed by Lithuania should be approved.
- 99 Lithuania has been heavily impacted by Russia's war of aggression against Ukraine. The decrease in traffic forecasted for the remaining years of RP3 would not allow Lithuania to meet the trends without a drastic and unrealistic decrease in costs. Therefore, the PRB recommends the Commission to consider these external factors when assessing the performance plan of Lithuania. When considering the STATFOR October 2021 base forecast for the calculation of the trend criteria, Lithuania would be consistent with both the RP3 DUC trend in terms of average reduction and with the DUC long-term Union-wide trend.

### 5.3 Overall assessment

- 100 The PRB concludes that the request submitted by Lithuania for the revision of its performance plan is justified and should be approved, as the intended revised capacity and cost-efficiency targets were found to be consistent with the Union-wide performance targets.
- 101 The PRB recommends the Commission to consider the impact on traffic of Russia's war of aggression against Ukraine when assessing the performance plan of Lithuania.