

CAA – Civil Aviation Authority
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Luton, July 15, 2021

easyJet response to economic regulation of NATS (En Route) plc: UK CAA's further update on approach to the next price controls review CAP 2160

Dear Sir/Madam,

We welcome the opportunity to offer our views on the CAA's latest update on approach to the next price control review of NATS (EN Route) plc (NERL).

We would like to express once again our appreciation for the current engagement process with stakeholders; and the fact that all users views are being taken into consideration.

We have set out below our feedback on the reconciliation review you are now seeking from stakeholders.

We previously supported the CAA's intention to reconcile costs based on efficient costs rather than actuals.

The CAA is now proposing to reach a preliminary view on the efficient cost baseline in 2022, based on actuals and forecasts available at the time. A reconciliation might also take place in 2023, when actual costs for the whole of 2022 are available, if there is significant variation between forecast and outturn efficient costs. This will be based on a variance analysis of NERL's price control building blocks, namely OpEx, Pensions Costs, CapEx, Service Quality Incentives and Oceanic. We agree with this approach overall. However, we believe that for each of these, **efficient costs will need to be linked to the volumes that materialise over the next years**, to ensure these costs are reasonable.

We believe that the Cost of Capital should also be included in this analysis, as the assessment of efficient costs should not disregard NERL's ability to raise capital efficiently.

Finally, we support the CAA in the request to NERL for full disclosure of financial information, forecasts and assumptions to demonstrate basis for charges, cost-relatedness and cost efficiencies.

In the meantime, the CAA will need to modify NERL's licence condition to replace the current TRS mechanism for the period covered by the reconciliation review, in order to avoid a disproportionate increase in charges with a two-year lag in 2022 (as a consequence of the automatic recovery of the revenue shortfall). We understand that the CAA will set the approach to the recovery of these revenues as part of the NR23 process.

We welcomed the proposed delay to 2023 and the spread of the NERL's under-recoveries from 2020 and 2021 over multiple years, **at least a 10 year period**. As we have previously stated, we believe the main aim of the process should be to maintain NERL's financeability and charges' affordability. For all users, this means stable charges. In order to see faster traffic recovery, it will be critical for airlines to continue to keep costs under-control, including those related to air navigation services.

We would also like to stress again how important it will be to find additional financial support, other than from airspace users, where the existing regulatory framework and the pursuit of cost efficiencies by NERL prove insufficient to ensure affordability of the air navigation charges.

We are glad that the CAA continues to demonstrate best practice in Europe on how to effectively manage the post-COVID recovery and ensure affordable charges for users going forward.

Sincerely,



Francesco Rado
Airport Regulation and Economics Analyst
easyJet Airline Company Ltd..