

14 July 2021

UK Civil Aviation Authority
Aviation House
Beehive Ring Road, Crawley,
West Sussex, RH6 0YR
United Kingdom
Email: economicregulation@caa.co.uk

By email

Re: CAP2160: Update on approach to the next price control review “NR23”

Dear Sir/Madam,

I refer to the above and the CAA’s invitation for views published on 7 June.

Ryanair welcomes the present consultation to review the approach to the next price control review of NATS (En Route) plc (NERL), subject to the following comments.

1. Business planning process

We support NERL adopting an agile approach to price control engagement and note that this will be managed as an iterative process. We caution the CAA that airlines are operating with rationalised personnel at present and the iterative process should not be excessively onerous on airline resources.

Principle 1 - We welcome the consideration of a plausible range of scenarios for creation of NERL’s business plan. This process, however, must not be overcomplicated which could result in unnecessary manpower requirements from NERL that would therefore add cost to the airlines. It would be more beneficial for NERL to dedicate time to redesigning its business processes to become more flexible so that it can adapt easily to changes in traffic and demand.

We support the use of Eurocontrol STATFOR Scenario 2 for traffic planning in line with the majority of ANSPs in Europe. Similarly, we request clarity on the intentions of NERL/UK authorities to align with European common projects/investments, how this will be funded, and the impact this may have on the NERL cost base.

When considering the scenarios to be taken into account, we are concerned by the absence of major critical success factors, namely: capacity (delay) and environment which should be considered alongside cost efficiency. It would be prudent for NERL to utilise a flexible budgeting approach

whereby airlines can visualise the potential impact on capacity and environmental efficiency arising from cost efficiency scenarios. This is referenced in Principle 3.

2. Consumer group

While we agree with the approach towards hearing the views of consumers while carrying out the price control reviews, we would argue that the airlines are the best representatives of the consumers given that consumers are impacted by airline service levels and prices that are passed through. For this reason, the proposed increases in unit rates as a result of alleged “*lost revenues*” are detrimental to customers, particularly for airlines that cannot afford to absorb the losses associated with these cost increases. We request further information on the nature or background of the consumers that will be consulted who may have an influence on the business environment that directly impacts only the airlines.

We continue to support joint NERL and airspace user co-chairs to ensure that airlines are represented at the highest level of coordination. While the airspace user champion concept has some merit, we do not support an approach that will increase costs. This suggestion risks that the entire industry’s views are not represented equitably.

3. Revenue shortfall

We note that the approach towards the recovery of the alleged “*revenue shortfall*” will be set out as part of the NR23 process. This is of crucial importance to airlines in their business planning process as it will generate a material change to airlines’ cost bases if introduced. We once again urge NERL, the CAA, and the UK Government to intervene to remove the burden of repaying alleged “*lost revenues*” for the next 7 years. In this respect, we support the proposal to implement improvements to the traffic risk sharing arrangements to better manage uncertainty and eliminate the recurrence of the unsustainable “*revenue gap*” that is being proposed.

4. Reconciliation review

While we note the decision not to “*use the benefit of hindsight to assess the efficiency of NERL’s decisions*”, it is imperative that previous decision-making is reviewed and learned from to guide spending and recommendations for future activities.

While we agree with the focus areas of the reconciliation review being Opex, Capex, pensions costs, service quality incentives, and Oceanic, we propose that cost of capital, net book value of total assets and depreciation be considered in the reconciliation review. These are areas where increased oversight is justified, and we are requesting similar scrutiny for many other European ANSPs.

5. Service quality incentives

We do not agree with allowing NERL to set its own service quality outcomes and incentives. While airline feedback is crucial to the process of arriving at targets and incentives, the influence of an

external body in ensuring ambitious targets are implemented should not be understated. We support the integration of Oberon indicators into service quality metrics.

We agree that service quality incentives should not apply for 2020/21 due to the low traffic levels and request that NERL waive any financial incentives until traffic returns to 2019 levels. Failure to meet targets should still be monitored closely and addressed appropriately.

The 2021 update and working paper on TRS is urgently required to provide certainty to all stakeholders. This working paper must conclude that there should be no incentive payments made to NERL. It should also ensure that airlines are not forced to pay for a service that could not be used due to government-imposed travel/flight restrictions.

6. Cost of capital

The equity beta for the cost of capital should be zero given that NERL are attempting to reclaim alleged “*lost revenues*” from airlines. There is evidently no risk to NERL as a result of traffic shocks.

Being the largest airline in the UK by passenger numbers, Ryanair is one of the main parties affected by this consultation. We therefore trust that our comments will be taken on board when the CAA makes its final determination.

Please do not hesitate to contact us if you want to discuss.

We look forward to hearing from you.

Yours sincerely,



Eoin Kealy
Head of Competition and Regulatory

cc Paul Smith – Civil Aviation Authority (Paul.Smith@caa.co.uk)
cc Matt Claydon – Civil Aviation Authority (Matt.Claydon@caa.co.uk)