Virgin Atlantic response to NERL NR23 Business Plan

Introduction

1. Virgin Atlantic welcomes the opportunity to comment on NERL's business plan for NR23.

2. As you know, we participated extensively in the CCWG process towards the end of 2021 and endorsed the co-chair report that was published. As an IATA member we have provided input into their separate response that has also been submitted under this consultation and support the points that they have made. However, we would like to make further independent comment on the following areas of the plan:

Traffic Forecast

3. We agree on the use of October 2021 STATFOR base case, but consideration should be given to any revised data that is published during 2022 that may impact thinking, assuming this data becomes available at an appropriate time in the process.

4. However, we feel that for the Oceanic environment it is not clear that STATFOR models this appropriately. Additionally, for RP3, it is noted that a NERL derived forecast was being used instead. We understand that it remains difficult to accurately forecast in the current environment, and we would like to see that analysis forthcoming from the ICAO EFFG is considered for predictions of future traffic in this airspace during NR23.

Price Profiling

5. As a concept we support the plan to spread the Traffic Risk Sharing mechanism (TRS) debtor for en-route, with 75% being recovered in NR23, 25% in NR28, but generally we have a concern that airlines are being used as the primary vehicle for covering pandemic revenue shortfalls for NERL.

6. It is our view that the pandemic was an exceptional circumstance, throughout which we were not able to operate in a viable manner due to circumstances beyond our control. The TRS mechanism can never really have been designed to apply in an environment where operations were so severely restricted at scale over such a long period, and we believe that this needs to be considered when evaluating the debtor proposals in this plan.

7. We would not support the introduction of a TRS mechanism in the Oceanic environment until some of the factors that impact this are better understood. For example, the overall location of the jet stream over the North Atlantic in one year could have a significant impact on traffic placement/throughput compared against a forecast, as could other events, and we would not want to see such examples being used as valid reasons for cost recovery in subsequent years.

8. Additionally, we have concerns over the introduction of a TRS that seeks to retrospectively recover revenue shortfalls incurred before the effective date of the mechanism, which seems to be the case under this plan. The price profiling in the example given would add significant cost to our oceanic operations during NR23 which would be unacceptable.

Oceanic

9. We welcome the initiative to remove oceanic clearances, but we have some concerns as to how the new profile optimiser development may diverge from our own onboard optimisation tools and therefore welcome engagement with NERL on this development during NR23 to ensure it fits the operational environment effectively.

10. There also remains the piece of work to complete between NERL and customers[1] to establish appropriate metrics for measuring the benefits (if any) of Space-Based ADS-B deployment.

Performance Metrics

11. We have always agreed with the concept of exemption days but note that 150 exemption days across NR23 seems to be very high and would mean, on average, at least 1 month per year. We request the CAA to review the appropriateness of this against the scale of the change programme.

Regulatory Return – Asymmetric Traffic Risk

12. NERL suggest that they face a similar asymmetric traffic risk to that faced by Heathrow under the H7 settlement and that a similar regulatory analysis should be undertaken for them as was done for Heathrow. For H7 we have opposed this approach as it would not have any impact on reducing the WACC.

13. Therefore, we could not accept this in a NR23 context either, unless it could be demonstrated that acceptance of any new risk increases would result in a lower WACC/charges.

[1] CAP1994, para 3.35