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**To:** [Stewart Carter](#)  
**Cc:** [R Sergison - IATA](#); [Elena Vega Fernandez](#)  
**Subject:** [External] Lufthansa Feedback on NR23 business plan  
**Date:** 10 March 2022 16:27:35

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Dear Mr. Carter,

On behalf of the Airlines of the Lufthansa Group (Lufthansa, Swiss International Air Lines, Austrian Airlines, Eurowings, Eurowings Discover and Brussels Airlines) we thank you for the opportunity to comment on NERL's NR23 Business Plan.

We fully support the statements to be filed by IATA later today. Please treat them also as comments made by the above mentioned airlines of the Lufthansa Group. As the IATA statement contains much more details, we also would like to highlight a few special topics:

General:

- The assessment of the business plan is significantly more difficult as numbers for 2021 and 2022 are mostly redacted. Those two years are crucial for airspace users to understand to scalability of service provision by NERL.

Targets:

- We could not understand if the proposed target ranges include the Oceanic Part of the airspace?
- We regard the capacity target as not very ambitious, as they would represent 33% to 50% of the delay to be achieved in the overall European SES airspace, which is significantly bigger than the UK airspace.

Traffic Outlook:

- Lufthansa Group supports the application of Statfor's October 21 Base scenario for the continental airspace.
- The document lacks details how NATS extended the underlying assumptions for the North Atlantic airspace. We think that a whole range of additional parameters would need to be regarded and not only the Statfor forecast.

Traffic Risk Sharing:

- We understand NERL's considerations around the traffic risk sharing mechanism being extended to up to 30% traffic variation, but Lufthansa Group is of the opinion that when traffic is fluctuating significantly above +/- 10%, there is need for:
  - Cost containment procedures to keep the unit cost stable
  - an overall redrafting of the business plan might be necessary

Therefore Lufthansa Group is not supporting the extension of the traffic risk sharing mechanism to the above mentioned 30% variation band as well as it is not supporting including the Oceanic airspace into the traffic risk sharing mechanism.

Capacity:

- Lufthansa Group does not support the bonus threshold to be on the same level as 2019 as long as traffic has not yet recovered to 2019 levels. As mentioned above the delay target seems not very ambitious.

Service delivery:

- Lufthansa Group misses measures for flexibilizing the service delivery according to demand. According to the metrics shown from winter 2025/26 NATS will have a significant ATCO surplus in fall, winter and spring months. Lufthansa Group expects

NATS to show measures to adjust also demand to capacity over the whole year by either adjusting training years, flexibilization of labour contracts, etc.

#### Determined Costs:

- Cash pension contributions:  
Lufthansa Group expects the cost for defined benefit pensions significantly decreasing during NR23, but assesses the contrary:
  - Why is there such a massive increase in defined benefit future service cost from 2020 to 2023?
  - Why is the defined benefit deficit repair not decreasing?
- Regulated return:
  - We think that the approach to follow closely the Heathrow proposals is not fit for purpose for an ANSP, as there is less regulatory safeguards with airports than with ANSPs for traffic volatility. Further ENAV has a significant wider business activity, like its shareholding in Aireon, which has also a higher exposure to traffic volatility as charging is based on controlled flight hours.
  - We are fully opposing the full application of the WACC on the TRS debtor. Those amounts should not be regarded in any WACC calculation, as they are origination from an exceptional and external shock. Most other industry actors need to offset the loss in the year of the event. Lufthansa Group has no possibility to offset the losses it incurred in 2020 and 2021 by higher ticket prices to its customers until end of NR28.
  - Lufthansa Group would like to draw the attention to France and Germany:
    - France: There is no WACC applied on the carry-overs deriving from the loss of traffic in 2020 & 2021
    - Germany: The German regulator did not allow DFS to apply any return on equity during RP3 and therefore only the average interest on debts is applied with cost of capital pre-tax being on average below 0.9% for the 2023 onwards.
  - On the gearing we want to comment that the efficient model of the PRB says that 70% of the capital employed should be financed by debt. NATS should not be allowed to have a gearing of 50%, as there is no evidence shown, that the cost of debt would go up significantly by maintaining the gearing at 30%. Cost of debt is nearly 10%-points less expensive than equity.

#### Oceanic Plan:

- Why has traffic a dip in 2024 after a peak in 2023
- Why is there a higher traffic risk on the TATL market then on the overall continental market? The downturn in the TATL market was only realized by the unprecedented closure of the US and Canada borders in March 2020.
- Lufthansa Group is not supporting the extension of the traffic risk sharing mechanism to the oceanic airspace. We further want to highlight that we are also not supporting a retroactive application of such an scheme. A retroactive application affects future customers about effects that were caused in the past. This is critical from a customer's perspective as customers are made liable for past developments and we had no chance to regard this risk when doing business with our past customers.

Overall we see need for significant updates to the business plan by putting stricter targets on NERL to drive modernization, automatization and flexibilization of service provision in the British controlled air spaces. This plan puts significantly more risk on the customer side and may affect service provision as well as ticket prices negatively. In our point of view, NR23 should see an overall fall in the level of charges compared to current levels. We encourage the CAA to set out stronger safeguards and regulation in NR23 - with the industry in the recovery stage - to ensure greater cost efficiency and the ability for the CAA

to intervene especially in areas that directly affect airlines and consumers.

I would appreciate confirmation of receipt of this message and if the format of this eMail is enough to be deemed as a submission. Otherwise please allow me to resend the statement by tomorrow. If you have any questions or remarks regarding this statement, please do not hesitate to contact me at any time.

Sincerely,

Stephan Weidenhiller

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