

CAA PUBLISHES REVIEW OF RESPONSES TO ITS CONSULTATION DOCUMENT ON THE ISSUES FOR THE NATS PRICE CONTROL REVIEW

The CAA has published today its review of the responses to its consultation document published on 30 March 2004 which launched the review of the price controls on NATS from 2006 onwards and sought views from interested parties on the CAA's proposed approach to the review. In the document published today the CAA identifies the main issues raised by those who responded to the earlier consultation and explains how the CAA will be taking these into account in its work programme going forward to the publication of indicative proposals planned for November 2004.

The CAA has reached no definitive conclusions on the future price controls at this stage. However, its analysis of the responses to the consultation lead it to the view that it should adopt the following approach towards the key issues identified for the review:

- The existence of a direct user interest in NATS through the shareholding of the Airline Group and other governance arrangements should help towards aligning the interests of NATS and its users but is not, of itself, sufficient to persuade the CAA to adopt a more relaxed approach towards the setting of future regulatory controls.
- The CAA will need to take account of NATS' capital structure when assessing the risks that NATS should bear in any revised price controls.
- The CAA will consider whether to extend charge control to London Terminal Approach. Beyond this, there was no user support to extend the scope of price regulation to any other parts of NATS' business that are not already subject to controls.
- Currently 50% of NATS revenues are fixed and 50% are tied to a measure of volume. The CAA will explore the appropriate volume risk for NATS going forward although, consistent with previous CAA policy statements, it does not therefore expect to revert to a position where NATS bears 100% of the volume risk.
- At present, a small part of NATS revenues is linked to its annual average delay performance. The CAA will explore how service quality incentives can be sharpened and better targeted, for example by imposing a proportionately larger penalty on longer delays. It will also consider whether, in practice, revenues could be partly linked to measures other than delays and whether the publication of a wider set of key performance indicators for NATS, without a direct link to revenues, could also help to improve service quality.
- The CAA sees benchmarking as a potentially useful source of information about NATS' costs to inform the price control review, recognising that the outputs from such studies cannot be used mechanically to arrive at an allowance for operating costs.
- The CAA will explore the scope for developing appropriate incentives for efficient and timely capital investment by NATS.

- The CAA expects to use the Capital Asset Pricing Model as the basis for determining an appropriate cost of capital for NATS.

The planned timetable for the review going forward is as follows:

November 2004	Publication of a consultation paper setting out the CAA's initial conclusions on the policy issues together with indicative price control proposals.
March 2005	Publication of a consultation paper setting out the CAA's firm proposals including a specification of the price control conditions.
July 2005	Publication of a formal proposal, under section 11 of the Transport Act 2000, to modify licence conditions.
October 2005	Publication of the CAA's final decision.
January 2006	New Eurocontrol price cap takes effect.
April 2006	New Oceanic price cap takes effect.

Civil Aviation Authority
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