

**NATS (En Route) plc price control review for Control
Period 3, 2011-2015:**

Timetable for the CAA-led phase of the CP3 review

October 2009

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1. Background

1.1 On 27 July 2009 the CAA published a document setting out the background to the mid term review by the CAA of the process of Customer Consultation between NATS (En route) plc (NERL) and its airline customers, together with the CAA's conclusions. Stemming from the review, the document also described and explained a proposal to modify the timetable for the CAA-led stage of the process of setting NERL's price controls for the next five year price control period starting on 1 January 2011 (CP3).

1.2 Chapter 3 of the CAA's July document explained that under the CAA's then existing timetable, it would be publishing firm price control proposals for CP3 in January/February which is almost a year before the new Eurocontrol price controls would take effect and over a year before the new Oceanic controls. This raised two questions:

- given the greater than usual economic uncertainties would such an early consultation enable the CAA's firm price control proposals to be founded on the best available information?
- would this timetable allow the CAA fully to consider the outputs from Customer Consultation and take them into account in its firm proposals?

1.3 The CAA considered that there would be sense in modifying the timetable for the CAA led-stage of the CP3 review so that, first, against a background of economic uncertainty it could have available to it the most up-to-date information on items such as traffic, pensions and spectrum costs and, second, it could take fully into account the results of Customer Consultation. The CAA had written to the CCWG co-chairs on 17 June suggesting that it might be sensible to modify the timetable for 2010 so that rather than consulting on its firm proposals in one go it would do so in two stages in February 2010 and May 2010. This letter was subsequently published on the CP3 customer website. The CAA put the following proposal to a meeting with the CCWG co-chairs, NERL and airline representatives on 10 July 2009:

- In early February 2010 the CAA would publish, and invite comments on, a paper on the issues arising from the Customer Consultation process together with its provisional conclusions on the structural features of the price control such as its scope and design. The CAA would allow six weeks for responses.
- The CAA would then expect to publish comprehensive price control and other proposals in May 2010, allowing three months for written comments, followed in early September 2010 by hearings with interested parties.

- Compared with the currently published timetable this would allow interested parties to make a major input while the CAA's proposals were still at a formative stage.
 - Finally, the CAA would conduct a statutory one month consultation on its final proposals before announcing decisions in November or early December 2010.
- 1.4 The effect of this modified timetable would be to allow a longer overall period of consultation by the CAA during 2010 than under the previous timetable and on what should be a better informed series of proposals. Consultation would also be staggered which the CAA believed would be in the interest of all parties in terms of their future workloads.
- 1.5 At the meeting on 10 July there appeared to be a broad measure of support for the modified timetable although questions were raised about how the timetable would cater for:
- the production by NERL of documents that were required under Condition 10 of its air traffic services licence and in particular the 2010 Service and Investment Plan (SIP) and the 10 year Business Plan;
 - reviews of traffic and other forecasts that were expected to take place after the process of Customer Consultation had been completed; and
 - the annual consultation by NERL on en route charges for the following year.

The SIP and Licence Business Plan

- 1.6 The CAA explained that under its licence, NERL had to deliver both of these documents by 31 March 2010. Their subject matter was prescribed in some detail in the licence. NERL's view was that to avoid confusion and potential overlaps it would be sensible if these documents could be made as consistent as possible with what emerged from Customer Consultation. NERL had, therefore, submitted proposals to the CAA for the form, scope and level of detail of these documents that would in its view achieve this objective together with a timetable for their production, including necessary consultation with users. The CAA said that it would be considering these proposals noting that at the meeting on 10 July airlines expressed some sympathy with NERL's aims. NERL has since been consulting users on the form, scope and level of detail of the 2010 SIP through the CCWG process.

Review of forecasts

- 1.7 NERL had explained that it would be reviewing its traffic forecasts in September 2009 and these would be fed into the latter stages of the Customer Consultation process and, following discussion with airlines, incorporated in the revised business plan for CP3 for delivery to the CAA in

early December 2009. Subsequently, NERL would next expect to review its traffic forecasts in March 2010 and these would be reflected in the 2010 SIP, the 10 year Business Plan and a final CP3 business plan.

- 1.8 The CAA understood the concerns of airlines that key inputs, such as traffic forecasts, might well change after Customer Consultation had ended and that such changes would be likely to impact forecasts of costs and charges. The CAA believed that the current uncertain economic climate presented a particular challenge in reaching decisions in the light of the best available information against the CAA's statutory duties. The CAA believed that NERL could assist understanding by providing airlines with information during the Customer Consultation process that demonstrated, either quantitatively or qualitatively, the sensitivity of its CP3 operating costs, investment needs and charges to movements in CP3 traffic forecasts. NERL had indicated its readiness to consider how best to do so and has since provided information to airlines for discussion in CCWG.

Consultation on 2011 charges

- 1.9 At the meeting on 10 July, airlines asked how the CAA's modified timetable, with final decisions being taken later in 2010, would affect the annual consultation that takes place with users, usually during October, on the UK unit rate for 2011. The CAA appreciated that the modified timetable would mean that the annual consultation would be held before the CAA had announced its final decision on the NERL price controls applying from 1 January 2011. However, a similar situation had arisen during the equivalent review for the CP2 price controls where the charges consultation for the first year of CP2 had been conducted on the basis of the CAA's final proposals.

Consultation on modified review timetable

- 1.10 While the July document was not intended for the purposes of formal consultation the CAA invited comments on it, in particular on the modified timetable for the CP3 review. It asked for any comments to be submitted by Friday 11 September 2009.
- 1.11 No written comments were received on the CAA's proposal to modify the review timetable for 2010. However, as noted above airlines at the meeting on 10 July had expressed a broad measure of support for the CAA's proposal subject to clarification on the issues as described in paragraphs 1.6 to 1.9. NERL has also indicated its support.

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2. CAA decision on the review timetable

- 2.1 The CAA continues to believe that a two stage process of consultation in the early months of 2010 will have the benefits for all parties described in paragraphs 1.3 and 1.4 above. The CAA therefore confirms that it will adopt the following timetable for the CAA-led phase of the CP3 review in 2010 as it proposed in July.

Timetable for the CAA-led phase of the CP3 review

Early December 2009	NERL provides the CAA with the results of Customer Consultation.
Early/mid February 2010	CAA publishes paper on (i) issues arising from Customer Consultation and (ii) provisional conclusions on structural issues such as scope of price control and price control design. Invites comments within six weeks (by end March)
March 2010	NERL delivers SIP 2010, final CP3 business plan and final 10 year Business Plan taking account of updated traffic and other forecasts.
May 2010	CAA publishes comprehensive price-cap and other proposals, including draft licence conditions. Invites comments within three months.
Early September 2010	CAA holds hearings with parties.
October 2010	CAA issues formal proposals with licence conditions for statutory one month consultation.
November/early December 2010	CAA issues final CP3 decision with price control and other licence conditions.
January 2011	Eurocontrol price controls take effect.
April 2011	Oceanic price controls take effect.