

Matt Claydon
Civil Aviation Authority
CAA House
45-59 Kingsway
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06 May 2011

Dear Matt,

Draft UK National Performance Plan (NPP) for ANS

bmi welcome the opportunity to comment on the Draft UK National Performance Plan (NPP) for ANS, and also thank you for the recent consultation meeting on 19th April.

bmi are extremely disappointed that the proposal for the Plan does not even manage to meet proposed European targets for RP1, and is heavily anchored to CP3. Indeed, if one of the leading ANSPs in Europe is unable to meet the requirements, this sends an extremely poor message to the rest of Europe, and as such just appears to be an apparent 'tick' in the regulatory consultation process with little chance of any further changes or improvements. We believe that an opportunity to drive forward further improvements has been lost, and as such leads to a potential loss of confidence in the pan-European consultation process. We will be interested to see if the European authorities exercise their right to reject any plans which do not appear to meet the requirements.

In this matter we fully support the views expressed in the response from IATA, and would like to add further comments as follows: -

For Inclusion in response to Question 5.1:

bmi do not think that the general approach and level of ambition in scope and targets in the draft NPP is right, indeed we believe there is no level of ambition.

Traffic

Using CP3 traffic projections as the basis for the NPP builds in an assumed traffic growth for RP1. In the event of a demand shock, it is unclear to bmi how the Determined Unit Rate (DUR) will reflect the increased desire for cost efficiencies. To tailor the targets to any potential downturn, they should be reflected in accentuated targets for cost efficiencies. As we have seen with the 2008-2009 downturn, when the air industry was on its knees and required cost efficiencies from the air navigation branch of the industry, the inflexible nature of arrangements meant that such cost efficiencies were not realised. Building flexibility into the targets as part of the NPP would provide the air industry with more flexibility for downturns.

Risk

A theme comes through in the consultation document that NERL has a risky business in comparison to the full cost recovery models of its European continental mainland counterparts. It is worthy of stating here that, nevertheless, NERL presides over a relatively risk free business. In demand shocks NERL has protections in place for traffic falls greater than 10%; NERL will indeed take the risk of smaller demand shocks, but as they are smaller, the effects of such shocks on costs can be taken care of at the margin. In the event of larger traffic shocks, it is left to NERL's customers to manage the impact of these costs. So in this sense, NERL presides over a relatively risk free environment.

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With NERL presiding over a low business and financial risk, the targets set are low and not ambitious enough.

For inclusion in response to Question 5.6:

Pension reform

The UK NPP has been set on the basis of the CP3 control period, the decision for which was published by the CAA on 10th December 2010. Since the CP3 decision was formally ratified, there have been developments with regard to the provision of pensions in the UK. The UK government-appointed independent Public Service Pensions Commission led by the labour peer John Hutton reported on 10th March 2011. Our comments on this topic were made extensively within the context of CP3, and can be viewed in our consultation papers to the CAA. At that time of reaching its decisions on CP3, the recommendations of Lord Hutton were not known as he had not at that point published his final report. The UK government in budget 2011 has accepted its findings as the basis for consultation with the public sector.

The Hutton review proposes the ending of final salary pension provision for the UK public sector, within both central and local government, replacing it with a career average scheme, making it more affordable and sustainable for the UK tax payer, whilst still providing a sufficient pension for the public sector employee.

Retaining NERL's final salary scheme in its current state is not sustainable, and the impact can be seen on the unit rate in CP3. At the time of CP3 the funding of the deficit came to £6 per chargeable service unit.

The cross-party Hutton pensions review was unambiguous in its conclusions, and as this report is now available, we believe the CAA should take this into account in forming the NPP, and as such do not agree with the comments on paragraph 23 in the Executive Summary that pensions are an 'exogenous factor', as we believe the CAA is in a position as regulator to make pensions endogenous and to make them more sustainable. One way for the CAA to do this is to stretch the target by calculating a DUR from a pension provision under a career average scheme, and using this as the new target.

An argument posited during CP3 asserted that the PPP expressly stipulates the pension provision cannot be amended. We have seen nothing to this effect throughout the CP3 process and would state that given the unsustainable nature of the pension provision, that it is absolutely imperative this issue is addressed.

With the public sector now moving towards career average schemes, and the private sector predominated by defined contribution schemes, NERL are now left as one of the few institutions that have a defined benefit scheme.

To ignore the recommendations of the Hutton review is to ignore the events that have unfolded since 10th December 2010.

Yours Sincerely

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