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Dear Laurence

CAP3190 NR28 price review: draft method statement and business planning guidance

In the interests of ensuring a transparent and accurate NR28 review process, I am writing to draw your early attention to several material errors in the CAA's CAP 3190 document, published on 17 December. These give an inaccurate description of some key aspects of the CAA's NR23 decision and of one of NERL's performance metrics. If left uncorrected, they could misinform stakeholders about the starting point for consideration of any changes in regulatory policy for the NR28 review.

In the relatively short working time since publication, taking account of seasonal holidays, we have identified three material errors in CAP3190 (plus one statement which should be clarified). We did not have the opportunity to identify these before publication as the CAA did not share a pre-publication draft or embargoed version with us.

Paragraph 2.171

"On the basis of the GAD review's findings, alongside our own analysis, **we adopted NERL's business plan forecasts of pension costs for NR23**. While we did not adjust PCA costs for NR23, we committed to considering PCA costs again at NR28, particularly in terms of the costs to NERL of the PCA scheme compared to the DB scheme." **[emphasis added]**

This is incorrect. The CAA's Final Decision for NR23 (CAP297) summarises the CAA's approach as follows (paragraph 4.77):

"We have maintained the approach from our Provisional Decision to set allowances for pension costs that we consider to be reasonable and efficient based on recent information and available benchmarks. This includes:

- the reduction in DB scheme costs in line with the mid-point in the range from GAD;
- reduction in DC pension costs from 2024, consistent with analysis by Steer;
- adjustments to DB and DC scheme costs in proportion to adjustments we have made to overall staff costs."

Paragraph 2.112

"3Di stands for 3-Dimensional Inefficiency/Insight and is a metric that estimates a score for the fuel inefficiency of a flight based on **comparing the actual path flown to its requested profile.**"

This is incorrect, as the 3Di metric compares the efficiency of the actual path to a theoretical optimum. A better summary description would be:

3Di scores the inefficiency of the flight by comparing the actual 3D trajectory flown to a theoretical one, using great circle and continuous climb and descent. The scores are based off an average of a (2012) sample of modelled fuel flow differentials which provide coefficients of inefficiency for track extension and for segments of level flight.

Paragraph 2.120

"The model coefficients are applied to all flights to estimate the **% of fuel inefficiency**, and the annual average is reported."

This summary implies that 3Di is very closely correlated with fuel efficiency, which is not the case in practice, given the wide range of factors affecting actual fuel consumption. A better summary would be:

The model coefficients are applied to all flights to provide an inefficiency score in three dimensions, and the annual average is reported.

Business Plan Guidance paragraph 90

"NERL should consider the appropriate notional financial structure starting from the assumption that the notional gearing will be **60%, as was used for NR23.**"

This is incorrect. The CAA's used a gearing ratio of 34% for the notional company, on which its cost of capital and other financial modelling was based. This is set out in Table 5.8 of the CAA's Final Decision (CAP2597).

In its check for financeability, the CAA made assumptions about the financial structure of the notional company. In the context of the impact of the pandemic on traffic in 2020 and 2021 in particular, the CAA assumed for the notional company that gearing would rise to 60% in 2022, before declining over NR23 period to around 35% in 2027. This is illustrated in Figure 6.5 of CAA's Initial Proposals for NR23 (CAP2394).

We hope that you will be able to correct these points at the earliest practicable opportunity.

We will respond in full to the CAA's consultation on CAP3190 by the deadline of 30 January 2026.

Best regards



Daniel Storey
Director Regulation

cc Matt Claydon CAA