easyJet

1. Summary of response

As set out in our response to the CAA's consultation on a UK Airspace Design Service (UKADS), easyJet continues to strongly support Government's intention to establish a single, well resourced entity that can drive the UK's overdue programme of airspace modernisation at pace.

The current airspace architecture is outdated and inefficient, lengthening flight times, increasing delays and frustrating the industry's efforts to decarbonise. We estimate that a modernised, optimised airspace network could reduce easyJet's carbon emissions by at least 10 %, while also delivering measurable customer benefits through shorter journey times and fewer cancellations.

Timely modernisation therefore remains critical to maximising benefits for communities, passengers, the environment and the wider aviation ecosystem, and it directly underpins the Government's growth and sustainability missions—including its ambition to expand airport capacity in the South East.

easyJet welcomes the CAA's progress in defining UKADS and its proposed charging framework, but reiterates that UKADS alone cannot solve the full set of challenges. System-wide improvements are also essential, in particular, streamlining the CAP1616 process and ensuring the CAA itself is sufficiently resourced to assess multiple Airspace Change Proposals (ACPs) in parallel.

In principle, we accept the consultation's view that the new licence conditions on NERL should remain high level "so far as reasonably practicable", providing flexibility while the institutional landscape develops.

However, further clarity on scope is needed. For example, key elements on NERL's scope, including whether UKADS will be required to deliver a single integrated design or multiple design options, how transitional arrangements will be handled, and the extent of stakeholder management obligations, remain undecided.

Each has the potential to materially affect the cost of the service and the quantum of user charges. easyJet therefore asks that the next stage of consultation sets out a more fully developed scope for the Airspace Design Service with associated cost estimates and, in turn, clearer justification of the proposed operating margin.

Clarity on prioritisation is also important. The four "options" presented on geographic prioritisation could lead to markedly different cost benefit profiles and timelines. Our view remains that modernising the London Terminal Manoeuvring Area (LTMA) must be the primary focus for UKADS.

Focusing on the LTMA in practice means that UKADS should coordinate and manage the Airspace Change Processes (ACPs) for this region first, and only once this stage has been completed should its focus turn to other ACPs elsewhere in the UK.

If the CAA adopts Option 4, the accompanying Direction from the Secretary of State should explicitly designate the LTMA as the initial and default area of work—rather than referring generically to regions "such as" the LTMA. We would welcome further detail on the rationale for an additional consultation on geographic scope, its expected duration and how it will be integrated with the overall modernisation timeline.

Finally, easyJet supports the establishment of the proposed Advisory Board. We believe it can play a valuable role in ensuring that UKADS remains responsive to the needs of users. To be effective, the Board must include balanced representation from across the sector, including airlines, and we encourage NERL to make this an explicit commitment in its governance arrangements.

2. Options for cost recovery, incentives and early costs

CAA proposals:

- *A cost pass-through approach to the Airspace Design Service and Airspace Design Support Fund costs;*
- *The additional costs to NERL of providing these services should be identified by NERL in its separate accounts and the recovery of these costs should not involve any cross-subsidy of NERL's other activities;*
- *A correction mechanism in NR28 to implement the cost pass-through arrangement during NR23; and*
- *Allowing NERL to recover appropriate and efficient early costs of setting up the Airspace Design Service and Airspace Design Support Fund, that is, costs which were incurred ahead of completing the statutory processes to modify the Licence.*

Response:

easyJet supports conferring responsibility for UK airspace modernisation on NERL. However, given NERL's previously stated concerns about administering the Airspace Modernisation Support Fund and the limited justification provided in this consultation, we ask that the next consultation set out a clear rationale before we take a position on NERL managing the UKADS Support Fund. We remain comfortable with a cost-pass-through model in principle, provided robust safeguards are in place.

Central to ensuring robust safeguards is the need to avoid double counting and double charging. Certain activities required to progress ACPs, including local consultations and technical studies, are already being funded by airlines through airport charges. The CAA should therefore ensure transparent cost attribution and establish clear responsibility remits to ensure that either NERL or airports, but not both, is recovering the cost of any given activity supporting airspace modernisation.

easyJet also asks the CAA to recognise the significant up-front financial contribution that existing users will make under a pass-through regime and to take this into account when designing future charging arrangements, particularly as new users become beneficiaries of UKADS outputs.

We agree that all incremental costs associated with the new services should be recorded in separate accounts and that no cross-subsidisation should take place. We also support the use of the proposed correction mechanism at NR28 and, in principle, the recovery of "appropriate and efficient" early costs, and welcome further consultation on the criteria that will define those terms.

3. The duration of the price control period

CAA proposals:

- *To have a short initial control period aligned with the NR23 period.*

Our response:

easyJet agrees with the CAA's proposals to have a short initial control period aligned with NR23, and that it will review its approach to the cost pass-through arrangements, treatment of risk and reward for the activities and other incentives at the NR28 price control review point.

4. The profile of cost recovery over time and risk and return

CAA proposals:

- *...it appears that the costs of these proposals will be both relatively uncertain and of low materiality, while the delivery of airspace modernisation will be of significant importance to consumers. Bearing this in mind, we consider that, for the remainder of the NR23 period, our duty in respect of economy and efficiency is best served by cost pass-through arrangements, and when taken together with* *allowing NERL to earn a return commensurate with the limited risks, this should also support NERL in financing these activities;*

- *Based on the currently available information, (the CAA) consider there are two approaches to return that are consistent with this approach;*
    - *The "opex with margin" approach, with the operating margin set at 1%; or*
    - *The "RAB-based" approach, with a regulated return set at 3% CPI-real.*
- *Either could appropriate remunerate NERL for providing Airspace Design Service and administering the Airspace Design Support Fund in a flexible and pragmatic way for the remainder of the price control period. Our preferred approach is to implement the "opex with margin" approach and to set the operating margin at 1%, while we consider further as part of NR28 whether a RAB-based approach would be proportionate and in customers' and consumers' interests.*
- *Any under-recovery or over-recovery of actual costs, such as through delays in implementing charging arrangements, and differences between forecast and actual costs and traffic, would be dealt with by a correction mechanism. We would consider this approach as part of the NR28 review.*

Our response:

easyJet supports the CAA's preferred opex-with-margin model based on the information provided in this consultation. This approach ties remuneration to actual expenditure, strengthening day-to-day cost-discipline relative to a RAB-based approach.

However, an opex pass-through regime carries inherent risks. This includes those related to scope uncertainty set out earlier in this response, leading to unplanned programme growth and associated cost increases, and the potential for redirection of organisational resources from other functions to the detriment of the objectives they are intended to deliver.

With approximately 85% of forecast costs relating to staff, the potential for cost escalation is material and exacerbated by the limited pool of specialist talent, a tight labour market and the urgency to progress airspace modernisation work at pace; all factors that cause upward pressure on pay and total salary costs.

Given these inherent risks, the opex model should therefore embed explicit, measurable efficiency incentives, alongside transparent reporting, and these mechanisms should be included in the final proposals set out in the next consultation round.

Clarity on scope is equally critical when assessing whether the proposed 1 % operating margin is proportionate. As highlighted earlier, key elements of the Airspace Design

Service's remits, such as the number of design outputs, responsibility for stakeholder management and transitional arrangements, remain undefined.

Without this information it cannot be judged whether a 1 % margin fairly reflects delivery risk or could lead to over-remuneration. We would also welcome an explanation of why those delivery risks are not incorporated through the WACC that underpins NERL's regulated return.

Relatedly, we ask the CAA to provide a more detailed rationale for selecting NERL as the delivery vehicle for Support Fund, alongside a breakdown of the incremental overheads NERL expects to incur and how these costs will be controlled.

Finally, we repeat our support for the correction mechanism at NR28 and, in principle, the recovery of appropriate and efficient early costs. But, as above, the definitions of "appropriate" and "efficient" must be consulted upon, and the strong efficiency incentives embedded in the opex model should apply equally to early-stage expenditure.

5. Charge design

CAA proposals:

- *The Charge should initially payable by airspace users in receipt of en route air traffic services in the UK Flight Information Region;*
- *NERL should decide how the Charge will be collected from users; and*
- *The Charge should be on a "per service unit" basis.*

Our response:

As already set out, easyJet agrees with the basic principle of "user pays" to fund UKADS, but ask the CAA to note its limitations with respect to future beneficiaries of this work, including users not currently operating in UK airspace, and to be mindful of this when designing future charging arrangements.

6. Illustrative charges (net present value of expected charge revenues, 2024 prices)

CAA proposals:

- *Opex with margin: 10-year value of £168.2m; and*
- *RAB-based (incl. closing RAB): 10-year value of £170.0m*.

Our response:

easyJet recognises that these figures are high-level estimates derived from a series of assumptions around the charge per service unit, per passenger and per flight alongside traffic and inflation forecasts. We understand that their primary purpose is to give airspace users an early indication of the potential order of magnitude of the programme costs rather than to serve as definitive figures.

Based on the information provided, it is difficult to form a view on whether the illustrative charges represent good value for money. Accordingly, when the CAA consults on its final proposals we would welcome a cost breakdown setting out how resources will be utilised (especially on staffing costs, given c.85% of estimated costs are personnel-related) and detail on governance arrangements that demonstrate how expenditure will be monitored and value-for-money tests will be applied.

To that end, given the Egis study highlighted a wide potential range for total programme costs, underlining the material uncertainty still attached to the current estimates, it is essential that robust cost-management and reporting mechanisms are in place from day one to promote efficient use of resources. This should be supplemented by regular engagement on out-turn expenditure with airspace users who fund the service and the establishment of early warning protocols to notify the CAA and users promptly if out-turn costs diverge materially from forecasts.

easyJet recognises that these figures are high-level and depend on a chain of assumptions around traffic volumes, inflation and the unit charge applied per flight or passenger. We appreciate that the purpose of outlining these estimates is to give users an early sense of the potential scale of the programme rather than to act as binding forecasts.

At this stage it is difficult to judge whether the illustrative charges represent value for money. To form a view, users will need a granular cost breakdown, particularly for staffing, which accounts for roughly 85 % of total costs. The terms and conditions on which additional staff are recruited (including contract length, pay levels, working location) will materially drive out-turn expenditure, so we ask that the next consultation sets these out in detail.

We are of the view that a high degree of cost uncertainty is inevitable while key scope questions remain open. In line with our views set out previously in this response, we would expect that clearer scope definition in the next consultation should narrow the current cost range and reduce the risk of cost overrun in the long run. We would also expect parallel work to streamline CAP1616 and other modernisation processes to help mitigate the costs of NERL's work; however, it is not yet clear whether these anticipated efficiencies have been reflected in the current estimates.

The Egis study identified wide estimates for total programme costs, underlining the residual uncertainty in the CAA's current estimates. One practical safeguard would be a pre-agreed cost-escalation trigger, meaning if updated forecasts exceed the Egis base-case estimate by a specified margin, the CAA would be required to reconsult on scope, cost drivers and funding arrangements. This would help to protect users from uncontrolled and unanticipated cost escalations.

We also note that several non-staff cost drivers cited (e.g. additional office space, specialist equipment and simulators) have the potential to inflate the budget unnecessarily. Wherever possible UKADS should make use of existing NERL or industry assets before committing to new leases or purchases.

Finally, consistent with comments already set out in this response, robust cost-management and reporting structures should be embedded from the outset. This should include transparent monthly reporting of spend versus forecast broken down by major cost category, regular external engagement with users to discuss out turn expenditure and early-warning protocols so that any significant variance from forecast is escalated quickly to both the CAA and charged users.

We believe these measures will help ensure both cost control and value for money as the programme progresses.

Ends