

NR28 price review: final method statement and business planning guidance

CAP 3234

Published by the Civil Aviation Authority 2026

Civil Aviation Authority
Aviation House
Beehive Ring Road
Crawley
West Sussex
RH6 0YR

You can copy and use this text but please ensure you always use the most up to date version, credit the CAA, and use it in context so as not to be misleading.

First published April 2026

Enquiries regarding the content of this publication should be addressed to: Laurence.Crook@caa.co.uk

The latest version of this document is available in electronic format at: www.caa.co.uk/CAP3234

Contents

| | |
|--|-----------|
| Contents | 3 |
| Chapter 1: Introduction and Summary | 5 |
| Introduction | 5 |
| Timetable and process | 6 |
| Method statement for NERL | 6 |
| Business plan guidance | 9 |
| Document structure | 9 |
| Next steps | 10 |
| Chapter 2: Method Statement | 11 |
| Introduction | 11 |
| Overall priorities and context | 11 |
| Priorities | 11 |
| Structure of the existing charge controls | 13 |
| Airspace modernisation | 13 |
| Future of flight and new users | 16 |
| Length of regulatory period | 18 |
| Proposed approach to setting price controls | 19 |
| Scope of the price control and overall approach | 19 |
| Consumer priorities | 19 |
| Traffic Forecasts - UK en route and London Approach services | 23 |
| Traffic Forecasts - Oceanic services | 26 |
| Service quality and resilience | 27 |
| Environmental sustainability | 32 |
| Efficient costs | 37 |
| Capex incentives | 44 |
| Business plan incentives | 47 |
| Incentives for efficiency and the Eurocontrol framework | 51 |
| Pension costs | 53 |

| | |
|--|-----------|
| Traffic risk sharing | 56 |
| Inflation risk sharing | 58 |
| 'True up' of 2026 and 2027 airspace design costs | 59 |
| Regulatory asset base (RAB) | 59 |
| Simplification | 60 |
| Regulatory depreciation | 62 |
| Corporation tax | 63 |
| Financeability | 64 |
| Format of the RAB Rules | 66 |
| Inflation | 67 |
| Cost of capital | 69 |
| Chapter 3: Business Plan Guidance | 72 |
| Introduction | 72 |
| Summary of changes | 72 |
| Appendix A: Business Plan Guidance | 75 |
| Business Plan Guidance - Scope and priorities | 75 |
| Business Plan Guidance - Consumer priorities | 77 |
| Business Plan Guidance - Traffic | 78 |
| Business Plan Guidance - Service quality and resilience | 79 |
| Business Plan Guidance - Environmental sustainability | 80 |
| Business Plan Guidance – Cost-efficiency and value for money | 82 |
| Business Plan Guidance - Financial issues | 89 |
| Business Plan Guidance - Cost of capital | 91 |
| Appendix B: Our Statutory Duties | 93 |
| Transport Act (2000) | 93 |
| The UK's international obligations | 94 |
| Appendix C: Glossary of Abbreviations | 95 |

Chapter 1

Introduction and Summary

Introduction

- 1.1 NATS (En Route) plc (“NERL”) is the monopoly provider of En Route, London Approach Service (“LAS”) and Oceanic air traffic services in the UK. Subject to the final outcome of statutory processes, NERL will also be designated as the provider of the UK Airspace Design Service and associated activities.
- 1.2 NERL is subject to economic regulation under the Transport Act 2000 (“TA00”) which provides for the Civil Aviation Authority (“CAA”) to set licence conditions to ensure that NERL retains a clear focus on safety, and to establish price control conditions to protect the users of its services from its monopoly power.
- 1.3 The UK is also party to the Eurocontrol Multilateral Agreement relating to Route Charges¹ and has agreed to adopt the Eurocontrol common policy in respect of charging for en route services.² Consistent with our TA00 duty to take account of any international obligations notified to the CAA by the Secretary of State, we will continue to take account of the determined costs methodology set out in the Eurocontrol Principles.
- 1.4 In December 2025, we published a consultation on our draft method statement for the next NERL price review covering the period January 2028 to December 2032 (“NR28”), including draft business plan guidance (the “Draft Method Statement”).³
- 1.5 We received several responses, including a ‘joint airline response’ from British Airways, the International Air Transport Association, the International Airlines Group and easyJet. Other than where specific airlines are named, references to ‘airline responses’ in this document relate to this group of respondents.
- 1.6 In developing this document, we have considered the responses to the Draft Method Statement consultation, and discussions between NERL and airlines as

¹ Multilateral Agreement relating to Route Charges, European Organisation for the Safety of Air Navigation, October 2006. See: <https://www.eurocontrol.int/sites/default/files/2019-06/multilateral-agreement-relating-to-route-charges.pdf>

² Principles for establishing the cost-base for en route charges and the calculation of the unit rates, Eurocontrol, January 2020. See: <https://www.eurocontrol.int/sites/default/files/2019-12/doc-20.60.01-eurocontrol-principles-january-2020-en.pdf>

³ NR28 price review: draft method statement and business planning guidance, December 2025. See: www.caa.co.uk/CAP3190

part of Round 1 of Constructive Engagement⁴. We have also taken into account the CAA's Final Decision on modifications to NERL's air traffic services licence in support of the new UK Airspace Design Service⁵.

1.7 This document contains:

- the NR28 method statement, which sets out our approach to setting price controls for NR28; and
- updated business planning guidance for NERL as it develops its NR28 plan.

1.8 We summarise each of these sections below.

Timetable and process

1.9 The NR28 timetable remains consistent with that set out in the Draft Method Statement:

- draft method statement in December 2025;
- final method statement in April 2026;
- multiple rounds of Constructive Engagement between NERL and airlines:
 - Round 1 between January 2026 and February 2026;
 - Round 2 between May 2026 and July 2026;
 - Round 3 between January 2027 and February 2027; and
 - Round 4 between August 2027 and September 2027.
- a single business plan submission from NERL in November 2026;
- initial proposals in July 2027 for consultation;
- final proposals and statutory consultation on licence modifications in March 2028; and
- final decision and statutory notice on licence modifications in August 2028.

Method statement for NERL

1.10 We have reviewed responses to the Draft Method Statement consultation, and held further engagement sessions with both NERL and key airline stakeholders. Chapter 2 (Method Statement) sets out our overall objectives for NR28 and discusses our approach to the key issues, taking account of stakeholder views

⁴ Round 1 of Constructive Engagement took place in January 2026.

⁵ Economic Regulation of NERL: Decision to modify NERL's Licence to support the implementation of a UK Airspace Design Service, March 2026. See: www.caa.co.uk/CAP3225.

and further work conducted by the CAA since publication of the Draft Method Statement.

- 1.11 Our priorities for the NR28 review remain unchanged from those set out in the Draft Method Statement.
- Safety: continuing to prioritise our “primary” duty under the TA00 to maintain a high standard of safety in the provision of air traffic services (“ATS”), by ensuring NERL continues to deliver a safe service.
 - Understanding the needs of users: we will support Constructive Engagement (including with key airline and airport stakeholders) and wider consumer engagement and ensure that we understand and can reflect the needs of users in our approach to the regulation of NERL’s quality of service.
 - Resilience: ensuring NERL delivers a resilient service, including by reviewing and where appropriate improving its incentives, and supporting the organisation to achieve any necessary changes to provide for better resilience.
 - Efficiency and value for money: striving for increased efficiencies, by:
 - i. creating a balanced set of service quality and capex incentives;
 - ii. appropriately allocating risk across service quality, cost efficiency, nonregulatory revenues and passenger traffic; and
 - iii. better informing NERL’s business plan through our own business plan guidance.
 - Supporting airspace modernisation: to deliver user and environmental benefits.
- 1.12 In the Draft Method Statement, we had been considering the merits of extending the NR28 regulatory period to six years. Consultation with Eurocontrol suggests that this may not be feasible, and so we plan to proceed with the established five year regulatory period for NR28.
- 1.13 We recognise the importance of understanding consumer priorities, which should inform both NERL’s business plan and our approach to setting its price control. We expect NERL to carry out its own research and engagement with consumers and relevant stakeholders and take this information into account when developing its business plan.
- 1.14 As a first step, we have reviewed the consumer research that NERL has shared with us to date and consider that it provides some useful directional insights. We also highlight potential refinements to NERL’s approach for future research and have updated our business plan guidance to provide more detail on how we expect NERL to demonstrate that its business plan reflects consumer priorities.

- 1.15 Two areas of key importance to consumers, airlines and airports are NERL's quality and resilience of its main services. In relation to the price control incentive arrangements for these matters, we will consider whether existing outcomes and metrics should be updated and/or explore the introduction of new incentives in response to consumer priorities and priority areas such as resilience. We will also assess the balance of incentives around these performance measures and targets.
- 1.16 We will also support environmental sustainability through our work on airspace modernisation and will review the incentives on NERL to support the efficient routing of flights (which reduces fuel burn and greenhouse gas emissions). Our work since the Draft Method Statement suggests that a suite of reputational environmental metrics across a range of measures may be more appropriate than a single financial incentive on operational flight efficiency.
- 1.17 Capex incentives should provide reassurance to stakeholders that NERL's investment is being incurred efficiently and that it is updating its key business systems in a timely and effective way. We intend to build on the approach to capex incentives in NR23 and consider improvements to these incentives arrangements, with a particular focus on the orderly replacement of NERL's key flight processing systems.
- 1.18 Given the importance of NERL's capex programme it will be important that we retain an approach that allows for and promotes the efficient financing by NERL of these expenditures. Bearing this in mind we will retain the regulatory asset base ("RAB") and the "building blocks" approach⁶ to set the NR28 price control for NERL, as well as retaining a broadly similar approach to the assessment of NERL's financeability.
- 1.19 To support the identification of efficient levels of operating costs ("opex"), capital expenditure ("capex"), and non-regulated revenues, we expect to draw on a broad range of cost assessment tools. We will also assess the information provided by NERL in its business plan, including where practicable the use of benchmarking and targeted bottom-up analysis.
- 1.20 We will seek to understand the interaction between NERL's proposed capex projects and forecasts of key cost drivers, opex, and outcomes. NERL should be able to demonstrate that its chosen approach achieves maximum value for money in delivering outcomes for consumers.

⁶ The building blocks approach builds up a revenue requirement based on the sum of regulatory depreciation, return on capital and operating expenditure, less any relevant non-regulatory revenue.

- 1.21 We are minded to index both NERL's RAB and charges on the basis of the Consumer Prices Index including owner occupiers' housing costs ("CPIH") instead of the Retail Prices Index ("RPI"), which has become outdated.
- 1.22 We expect to update our estimate of NERL's weighted average cost of capital ("WACC") based on recent market information and regulatory precedent, including that established by the Competition and Markets Authority ("CMA"), and will consider potential refinements to the method we used in NR23. The inflation treatment of the real WACC will be on CPIH terms rather than RPI, consistent with the approach to RAB indexation noted above.
- 1.23 Having considered the feedback received in response to the Draft Method Statement, we are proceeding with the implementation of a business plan incentive for NR28. The incentive aims to encourage NERL to submit a complete, high-quality business plan, supported by appropriate evidence.

Business plan guidance

- 1.24 We have updated our business plan guidance to reflect stakeholder feedback and assist NERL in producing a NR28 business plan that appropriately supports the NR28 price setting process.
- 1.25 Key changes to the guidance since the Draft Method Statement include:
- revision of our guidance around costs and capex to reflect feedback from NERL on the feasibility of providing certain information, and adding greater detail on the form and nature of information to be provided;
 - changes to reflect feedback from airlines that they would like to see more information on how forecasts of key cost drivers, opex, and outcomes are built up;
 - provision of more detailed guidance on the form and nature of information to be provided for service quality, pensions and capex incentives; and
 - provision of data templates to be completed by NERL as part of its business plan submission.
- 1.26 Chapter 3 (Business Plan Guidance) provides an overview of the changes made to the guidance, and the basis for these changes. The detailed business plan guidance is provided in Appendix A.

Document structure

- 1.27 The structure of this Final Method Statement is set out below.
- Chapter 1 (Introduction and Summary)

- Chapter 2 (Method Statement) sets out our objectives for NR28 and discusses our approach to the key issues, taking account of stakeholder responses to the Draft Method Statement.
- Chapter 3 (Business Plan Guidance) provides an overview of the changes made to our business plan guidance since the Draft Method Statement, and the basis for these changes.
- Appendix A sets out our final Business Plan Guidance.
- Appendix B sets out a summary of our duties under the TA00.
- Appendix C contains a glossary of terms used in this document.

Next steps

- 1.28 The next key stage of the NR28 review is the second round of Constructive Engagement, which takes place between May and July 2026 and will be focused on discussion of detailed price control building blocks. We will participate in those discussions, and continue to monitor the progress of Constructive Engagement, to ensure the process is achieving its objectives.
- 1.29 We expect NERL to deliver its NR28 business plan by November 2026, and we will assess that plan against the business plan incentive, and the guidance we have set out in this document.
- 1.30 We remain open to stakeholders reaching out with views on, or requests to discuss, any of the issues set out in this document. Any questions related to this document should be sent to Laurence Crook at laurence.crook@caa.co.uk.

Chapter 2

Method Statement

Introduction

- 2.1 This Method Statement sets out our approach to the NR28 price control review. We first set out our views on the priorities and context for the NR28 review, including:
- a) our priorities for the NR28 review;
 - b) structure of the existing charge controls;
 - c) airspace modernisation;
 - d) future of flight and new users; and
 - e) length of regulatory period.
- 2.2 It then sets out our approach to each of the following key aspects of the price control review, taking account of stakeholder feedback on the Draft Method Statement:
- a) scope of the price control and overall approach;
 - b) consumer priorities;
 - c) traffic forecasts;
 - d) service quality and resilience;
 - e) environmental sustainability;
 - f) efficient costs;
 - g) effective financial incentives and risk-sharing; and
 - h) the financial framework and NERL's RAB.
- 2.3 For each of these issues we briefly summarise the position in the Draft Method Statement, set out the views of respondents and explain our approach.

Overall priorities and context

Priorities

Draft Method Statement

- 2.4 In the Draft Method Statement, we identified the following priorities for the NR28 price control review:

- Safety: continuing to prioritise our “primary” duty under the TA00 to maintain a high standard of safety in the provision of ATS, by enabling NERL to continue to deliver a safe service.
- Understanding the needs of users: We will support Constructive Engagement and wider consumer engagement and ensure that we understand and can reflect the needs of users in our approach to the regulation of NERL’s quality of service.
- Resilience: ensuring NERL delivers a resilient service, including by reviewing and where appropriate improving its incentives, and supporting the organisation to achieve any necessary changes to provide for better resilience.
- Efficiency: striving for increased efficiencies, by:
 - i. creating a balanced set of service quality and capex engagement incentives;
 - ii. appropriately allocating risk across service quality, cost efficiency, non-regulatory revenues and passenger traffic; and
 - iii. better informing NERL’s business plan through our own business plan guidance. To support this, we have included new material in our business plan guidance in Chapter 3.
- Supporting airspace modernisation: to deliver user and environmental benefits.

Stakeholder views

- 2.5 NERL stated that the subject areas for the CAA’s stated priorities were sensible, in line with its statutory duties, and looked to reflect appropriately the context of the aviation sector at present and the interests of passengers and airlines.
- 2.6 However, it was concerned that the way these priorities are described was not fully aligned with the statutory framework, and in particular considered that the CAA should more clearly recognise that safety is delivered through NERL’s enduring licence obligations and governance, and that the NR28 review should ensure that the economic regulation framework enables those obligations to be met.
- 2.7 NERL was broadly supportive of the other objectives stated by the CAA.
- 2.8 Airlines agreed with our list of priorities but set out five additional areas that they considered NERL should prioritise. These included ensuring accountability for service delivery, safeguarding service performance, driving flight efficiency and environmental improvements, efficiently executing in delivering capex, and affordability / delivery at the lowest sustainable cost.

Our Views

- 2.9 We welcome the broad support from stakeholders for our stated priorities.
- 2.10 With regards to NERL's concerns around the safety objective, we would like to clarify that this is intended to ensure that we do not compromise our primary duty in pursuit of any subsequent priorities. We consider this to be consistent with NERL's view that the NR28 review should retain a framework for economic regulation that enables NERL to meet its safety obligations.
- 2.11 We consider that the additional areas raised as priorities by airlines are already covered by the key aspects of the price control review that we discuss later in this section. We therefore do not consider it necessary to add to our list of five overall priorities for the review.

Updated NR28 position

- 2.12 We maintain our priorities for NR28 as summarised above and set out in the Draft Method Statement.

Structure of the existing charge controls

- 2.13 NERL is currently subject to price controls that set the maximum charges it can recover from airspace users for the provision of ATS for the following three charge controls:
- Eurocontrol En route ("UK en route"): provision of En route ATS within UK airspace;
 - London Approach: provision of approach ATS to traffic arriving and departing from London's five major airports (Heathrow, Gatwick, Stansted, Luton and London City); and
 - Oceanic En route: provision of En route ATS in the Shanwick Oceanic control area, which is divided into the "Atlantic" and "Tango" control areas.
- 2.14 Save for known developments in relation to airspace modernisation and the Future of Flight (aimed at new users of airspace) discussed below, we have not seen any evidence that would prompt consideration of significant changes to the scope of the existing charge controls, and stakeholders have not raised concerns about the scope of the current charge controls.
- 2.15 We therefore expect to maintain this charge control structure for NR28.

Airspace modernisation

Draft Method Statement

- 2.16 We highlighted our work with the Department for Transport ("DfT") to establish requirements on NERL to establish and provide a UK Airspace Design Service

(“UKADS”), replacing the current model for developing strategically important and interdependent airspace change proposals.

- 2.17 We noted our consultation on the design and implementation of a new charge control to fund the provision of the Airspace Design Service for the remainder of the NR23 period,⁷ and our plan to review and update the new charge control arrangements as part of the NR28 price control review.
- 2.18 We said that the new arrangements would cover the NR28 period and establish a longer-term regulatory framework for these activities. We said that the consideration of issues for NR28 would include (but not be limited to) the following.
- Mechanism for cost recovery: A cost pass-through approach had been established for the initial period covering the remainder of NR23. We said we would review whether this approach remained appropriate.
 - The profile of cost recovery over time and risk and return: We said that we would consider a range of options for the recovery of costs alongside those that had been assessed for the initial charge control.
 - Charge design: Initial NR23 arrangements levy charges on airspace users in receipt of en route air traffic services in the UK, on a “per service unit” basis. We said we would review this in the context of a longer, more enduring model.

Stakeholder views

- 2.19 NERL noted it was preparing to take on the new licence obligations to deliver UKADS. Its views on the regulatory framework for UKADS for NR28 built on the submissions made to CAA consultations on initial NR23 arrangements, including:
- that the costs of UKADS’ activities which supported development of new airspace structures should be capitalised in its RAB, which would be in line with the current treatment of NERL’s costs for airspace change;
 - that given the novelty of UKADS, continuing uncertainty about the precise level of costs for NR28, and the benefits to users from delivering strategic airspace change as soon as practicable, UKADS should operate with a flexible budget for NR28, subject to reasonable oversight and scrutiny; and
 - that for the Airspace Design Support Fund, the most straightforward arrangement would be to continue the operating model proposed for NR23.
- 2.20 Airlines shared views on a range of aspects of the UKADS work. On the costs and form of the charge control, they stated:

⁷ Economic Regulation of NERL: Decision to modify NERL’s Licence to support the implementation of a UK Airspace Design Service, March 2026. See: www.caa.co.uk/CAP3225.

- charge design needed to be transparent and fair, avoiding inappropriate cross-subsidy from users who received limited benefit from airspace modernisation;
- costs and outputs for UKADS should be clearly separated and identifiable, rather than being bundled within broader NERL cost envelopes; and
- broad support for moving to a determined-costs approach in NR28, while also acknowledging that UKADS costs, outputs and delivery maturity were still evolving, and therefore regulatory decisions should reflect this uncertainty.

2.21 British Airways said that it might be appropriate for UKADS costs to be recovered via a RAB model in the context of NR28, considering the balance of cost to benefit realisation between current and future consumers.

2.22 From a governance and delivery perspective, airlines:

- advocated for the CAA to require NERL to produce a strategic roadmap for UKADS delivery, with strong governance and incentives in place;
- requested further consideration of measures to ensure efficiency, transparency and delivery, in line with agreed milestones and value for money for airspace users; and
- in the context of feedback on wider governance arrangements, noted the value of introducing incentives to support delivery.

Our views

2.23 As part of the NR28 review, we will consider how best to address uncertainties in the level of efficient costs for UKADS over the NR28 period, while also creating meaningful incentives on NERL for cost efficiency and delivery. This will include consideration of whether to continue with the current cost-recovery approach of an operating allowance plus margin, or to move towards a RAB approach.

2.24 A separate initial charge control has been set up for UKADS, with the charge to be levied on airspace users in receipt of en route air traffic services in UK airspace, on a “per service unit” basis. This is the same charging basis as the main UK en route charge control, which was considered the most appropriate and proportionate approach, taking account of international charging principles, for these interim settings.⁸

2.25 We intend to re-test whether this design and charging basis continues to make sense in the longer-term context of NR28.

⁸ Economic Regulation of NERL: Decision to modify NERL’s Licence to support the implementation of a UK Airspace Design Service, March 2026. See: www.caa.co.uk/CAP3225.

- 2.26 The licence modifications set out in our UKADS Final Decision⁹:
- require NERL to appoint an Advisory Board to act as a forum to exchange views, ideas and information with, and obtain advice from, stakeholders;
 - require NERL to implement a stakeholder engagement plan and strategic delivery plan; and
 - establish formal reporting arrangements to DfT and the CAA as co-sponsors.
- 2.27 We note the further suggestions made by airlines, including requiring NERL to produce a 10-year strategic roadmap for forward work, and will consider these further, bearing in mind:
- in our interim work, we did not consider it appropriate to put further governance agreements in place.¹⁰ It is unclear what has changed to warrant their introduction for NR28;
 - whether there are other mechanisms that could better address stakeholder concerns regarding transparency and delivery; and
 - the cost and proportionality of any approach, in the context of the existing governance arrangements in place.
- 2.28 In considering the potential introduction of any delivery incentive for UKADS, we will need to assess whether there is sufficient evidence and information at the early stages of the operation of UKADS on which to reasonably establish delivery incentives.

Updated NR28 position

- 2.29 We will consider matters relating to incentivising cost efficiency, delivery, form of price control and governance arrangements for UKADS as part of the NR28 price review.

Future of flight and new users

Draft Method Statement

- 2.30 In the Draft Method Statement, we summarised the context for future of flight developments, and highlighted the continued uncertainty related to the nature of future users, the physical and digital infrastructure that might support them, and how it might be best to adjust the regulatory framework for NERL to reasonably support new users.

⁹ Economic Regulation of NERL: Decision to modify NERL's Licence to support the implementation of a UK Airspace Design Service, March 2026. See: www.caa.co.uk/CAP3225.

¹⁰ Economic Regulation of NERL: Decision to modify NERL's Licence to support the implementation of a UK Airspace Design Service, March 2026. See: www.caa.co.uk/CAP3225.

- 2.31 Taking account of the above, we took the view that it was too early to consider how any potential solution may be subject to price control arrangements, but said that we would monitor developments during the NR28 process and consider whether modifications to our NR28 approach were appropriate.

Stakeholder views

- 2.32 NERL said that there was a pressing need for the CAA to develop its thinking and regulatory policy in this area rapidly in order to meet the Government's goals for safe efficient Future Flight in the UK.
- 2.33 It advocated for the CAA to take forward a parallel assessment to the NR28 review of potential licence changes to establish a new common information service provider role, which would support system wide information management in lower airspace to enable integrated operation of crewed and uncrewed aircraft.
- 2.34 NERL also encouraged the CAA to set out clearer linkages between the development of airspace and system wide information management policies.
- 2.35 Airlines agreed that it was too early to incorporate enduring new user charging models. They said any dedicated charging arrangements designed by the CAA over time should be fair and efficient and:
- costs should not be inappropriately socialised to existing airline users; and
 - any new charging mechanism should reflect the user pays principle.

Our views

- 2.36 We acknowledge NERL's desire for us to make more progress on economic regulatory matters in relation to future of flight, but consider that at this time it continues to be most appropriate for us to respond to needs as they emerge.
- 2.37 There remains significant uncertainty about new users, the nature of new users' aircraft and flight patterns, or what physical and digital infrastructure would best support the management of new users in a safe and efficient way. Therefore, it is not yet appropriate to consider what regulatory arrangement might be required and best suited to any emerging market.
- 2.38 We note the Airline views around the importance of any new user charging arrangements being fair, efficient, and reflecting the user pays principle.

Updated NR28 position

- 2.39 The approach to future of flight activities for the NR28 review set out in the Draft Method Statement remains appropriate. We will continue to monitor developments during the NR28 review and remain ready to consider whether changes to our approach are appropriate, in response to any substantial new information and developments relating to new users and future of flight.

Length of regulatory period

Draft Method Statement

- 2.40 In our September 2025 consultation letter¹¹, we raised options for the length of the NR28 price control period. In the Draft Method Statement, we summarised stakeholders' responses to that letter and set out our assessment of the options.
- 2.41 We said that our preference would be for a one-off six-year control period, if practicable, as this would achieve our objective of reducing overlap between NERL and Heathrow Airport price controls, while minimising the impact of any potential challenges of a longer control period.
- 2.42 We acknowledged that the Eurocontrol Principles¹² specified a reference period of between three and five years, and said that we would engage with Eurocontrol to understand whether there was any flexibility on this issue.

Stakeholder views

- 2.43 NERL remained of the view that maintaining the five-year price control period for NR28 would be in users' interests, and that the alternative six-year period proposed would introduce additional risks for users and NERL, which would need to be compensated for through a higher return on capital.
- 2.44 Airlines stated that they had not seen enough information on the potential benefits of reducing overlaps between the current H8 and NR28 regulatory periods. They reiterated their previous positions on this issue, that:
- airlines could support a six-year period as a singular occurrence, if robust safeguards for users were considered; and
 - alternative approaches might present benefits and could be preferable.
- 2.45 Prospect said that while it recognised the regulatory challenges for the CAA, it viewed a five-year price control period as the most suitable duration.

Our views

- 2.46 We published our initial assessment of the available options in the Draft Method Statement, scoring each option against a range of criteria.¹³ This assessment

¹¹ Update and consultation on the timetable and approach to Constructive Engagement for the next NATS (En Route) plc (NERL) price control review (NR28), September 2025. See: www.caa.co.uk/CAP3174

¹² Principles for establishing the cost-base for en route charges and the calculation of the unit rates, Eurocontrol, January 2020. See: <https://www.eurocontrol.int/sites/default/files/2019-12/doc-20.60.01-eurocontrol-principles-january-2020-en.pdf>

¹³ The criteria we evaluated the options against were stakeholder support, H8/NR28 overlap, future charge control overlap, regulatory complexity, forecasting challenge, and potential legal implications.

identified the status quo and a one-off six-year control period as the two leading options to take forward at that time.

- 2.47 On this basis, we engaged with Eurocontrol in January 2026 to discuss whether it considered there was any scope for flexibility beyond the three to five year regulatory period set out in the Eurocontrol Principles.
- 2.48 Eurocontrol said that it considered that the existing Eurocontrol Principles provided no flexibility for reference periods outside of these bounds.

Updated NR28 position

- 2.49 Taking account of the Eurocontrol Principles and recognising that stakeholders have not expressed strong views in favour of a longer period, we have decided to retain a five-year duration for the NR28 price control.

Proposed approach to setting price controls

Scope of the price control and overall approach

Draft Method Statement

- 2.50 We said that, consistent with established regulatory practice, we intended to adopt a regulatory building blocks approach to determine an appropriate revenue requirement for NERL over the price control period.
- 2.51 We also said that we would develop and improve arrangements designed to ensure that NERL acts in a way consistent with providing high quality, resilient and value for money services, and which support airspace modernisation and system changes in an appropriate way.

Updated NR28 position

- 2.52 Stakeholders did not provide any commentary on this proposal. We therefore maintain this position in our final method statement.

Consumer priorities

Draft Method Statement

- 2.53 In the Draft Method Statement, we set out our expectation that NERL should undertake its own research and clearly and robustly demonstrate how consumer priorities were reflected in its business plan.
- 2.54 The conclusions of the independent review into the August 2023 NERL flight planning system failure (the “Halliwell Review”)¹⁴ included a recommendation that our business plan guidance should focus on outcomes associated with

¹⁴ Independent Review of NATS (En Route) Plc’s Flight Planning System Failure on 28 August 2023, May 2024. See: <https://www.caa.co.uk/data-and-publications/publications/documents/content/cap2993/>

consumer impact and resilience as well as safety and efficiency. We refined the principles established in NR23 to emphasise that NERL should ensure that its business plan contains clear links to consumer impact and resilience.

- 2.55 We noted that NERL had undertaken some consumer research in advance of NR28, which we would review. We also said that we would seek guidance from the CAA's Consumer Panel throughout the NR28 process to understand its views on the most appropriate approach to consumer engagement.

Stakeholder views

- 2.56 NERL welcomed greater emphasis on consumer interests in the business plan principles. It said it had published its annual Aviation Index survey of passengers in July 2025, and had supplemented this annual survey with bespoke research to inform the early stages of the NR28 review which it had shared with both airlines and the CAA Consumer Panel.
- 2.57 NERL said that it intended to commission further consumer research during 2026 to gain additional insights into specific aspects of its plan as it develops. Finally, it suggested that the CAA clarify which further stakeholders should be engaged with beyond those already identified.
- 2.58 Prospect said that minimising disruption featured heavily as a passenger priority.
- 2.59 Airlines supported the CAA's emphasis on users' priorities and said NERL should be required to account for any differences between consumer views and the outcomes in its business plan, in a transparent way.
- 2.60 They also suggested that the CAA place a requirement on a "golden thread" linking consumer/user priorities with all the building blocks of the NR28 business plan. Airlines said that the understanding of user needs as a priority should not be limited to service quality but should be applied broadly to all the price control building blocks.
- 2.61 Airlines expressed concerns and asked for clarity over how the CAA might assess and balance potential divergence between user, consumer, airline and other stakeholder views.

Our views

- 2.62 Our statutory duties require us to exercise our functions in the manner we think best calculated "*to further the interests of operators and owners of aircraft, owners and managers of aerodromes, persons travelling in aircraft and persons with rights in property carried in them*", with those interests being, "*the range, availability, continuity, cost and quality of air traffic services*".¹⁵

¹⁵ See Appendix B.

- 2.63 In this context it is important for us to understand the views and needs of users (aircraft operators and owners) and consumers (passengers and cargo) as applied across NERL's business plan (including all the price control building blocks) and not only to service quality.
- 2.64 While there is a possibility of divergent views across different groups of stakeholders this will be best dealt with on a case by case basis, in the context of a reasonable interpretation of our statutory duties.
- 2.65 With regards to NERL's suggestion that we clarify which further stakeholders should be engaged with, this was not written with specific stakeholders in mind, but with the aim of encouraging NERL to engage with any further stakeholders it considers to be appropriate.
- 2.66 We remain supportive of NERL's commitment to conducting consumer research and have concluded our review of the Blue Marble (2021)¹⁶ and Savanta (2025)¹⁷ reports provided to us before the Draft Method Statement. Our review assessed whether the research:
- adopted a method that was appropriate in evidencing the consumer value of NERL's business plan¹⁸; and
 - provided evidence about the outcomes that are important to consumers.
- 2.67 Our objective was to understand the robustness of the findings, consider whether any updates to the draft business plan guidance were appropriate, and identify any potential improvements that NERL could make to future consumer research.
- 2.68 Overall, we consider the research adopts a broadly appropriate method and provides some evidence about the outcomes that are important to consumers.
- 2.69 Both studies applied a mixed-methods approach, with initial qualitative research used to inform a quantitative survey and subsequent focus groups. This approach enables quantitative findings to be supported by qualitative research.
- 2.70 However, throughout both reports, there are some limitations, including limited understanding on participant recruitment and selection, limited transparency on the information respondents received, and limited detail on survey piloting and testing.

¹⁶ Fieldwork was undertaken from September to November 2021. Focus group participants were required to have flown at least once since 2019 (as the last full year before COVID-19 restrictions came into force).

¹⁷ Fieldwork was undertaken from February to May 2025.

¹⁸ This includes consideration of the robustness of the methods used and conclusions drawn, coverage and completeness of the research, targeting of consumer segments and the extent to which the research addresses the specific decisions, choices and trade-offs relevant to NERL's forthcoming business plan.

Updated NR28 position

- 2.71 In light of our review of NERL's consumer research and stakeholder views, we consider that NERL's consumer research provides useful directional insights, however there are areas where future work could be considered.
- 2.72 We set out below five recommendations which could further the production of insightful and robust evidence that could support NERL's understanding of the needs of users and consumers. In addition to these recommendations NERL should consider whether it is practicable to support its research findings based on stated preferences with information or evidence on the revealed preferences of consumers.
- 2.73 We would welcome engagement with NERL on the feasibility of exploring these recommendations in greater detail in advance of its business plan submission.
- 2.74 **Recommendation 1: NERL could consider producing a clear and complete technical appendix.** This document would enable the research to be assessed and interpreted fully. This could include, but may not be limited to:
- Information given to participants prior to, during and after the research process;
 - How questions were asked;
 - How participants were selected; and
 - How representative their participants are of the wider passenger population.
- 2.75 **Recommendation 2: NERL should seek to ensure that respondents can provide well-informed views.** NERL could seek to improve the awareness among respondents through:
- Informing respondents about current levels of service;
 - Asking respondents about their experience of service performance and ensuring this is considered when framing questions and analysing responses;
 - Using clear reference points and linking questions and responses to baseline performance; and
 - Consider making greater use of piloting, cognitive testing and deliberative techniques to improve robustness and relevance of findings.
- 2.76 **Recommendation 3: NERL could seek to use more granular and clearer descriptions of baseline and improvement options/scenarios when asking about preferences related to disruption.** Scenarios could be tailored to each respondent's experience. While we note the challenges in creating a truly robust estimate of consumers' willingness to pay, this could provide a better

understanding of which forms of disruption matter most to passengers, supporting effective prioritisation of improvements.

2.77 **Recommendation 4: NERL may wish to consider how it sets out the design of its consumer research in relation to the business planning process and specific strategic choices it is considering.** This may help to ensure that consumer research aligns with the process it intends to inform especially where information on user or consumer preferences or trade-offs may have a meaningful impact on decisions and work to strengthen the overall process.

2.78 **Recommendation 5: NERL should ensure that its research sample is representative of different passenger groups and journey types.** This recommendation may be explored through broadening engagement to potential passengers and non-passengers or carrying out further analysis of different travel experiences and preferences between passenger groups and where relevant, journey types. Overall, this recommendation would support the demonstration of how its proposals consider the needs of different groups.

Traffic Forecasts - UK en route and London Approach services

Draft Method Statement

- 2.79 In the Draft Method Statement, we said that traffic forecasts are a key input to the NR28 price control, and confirmed that:
- we expected NERL to prepare a 'base' business case using an appropriate traffic forecast supplemented with scenario analysis based on traffic forecasts to be discussed with airlines as part of Constructive Engagement; and
 - for UK en route and London Approach services, we expected the continued use of Eurocontrol's independent Statistics and Forecast service ("STATFOR") as the primary input for base case traffic forecasts.

Stakeholder views

- 2.80 NERL said its internal traffic forecast for en route services was more accurate than STATFOR, and provided several pieces of analysis:
- analysis comparing the historical accuracy of STATFOR and its own Long-term Traffic Forecasts ("LTF") against actual Total Service Units ("TSU") across 2023 and 2024, the first two years of NR23;
 - analysis comparing its LTF forecast and a derived-STATFOR forecast against UK Flight Information Region traffic and Chargeable Service Units ("CSU") across RP2, RP3 and the first three years of NR23 (2023-2025); and
 - during Constructive Engagement, NERL presented its own comparison of a STATFOR-derived forecast against an LTF forecast with actual CSUs, between 2023 and part of 2025.

- 2.81 NERL said its LTF was more accurate than STATFOR for the RP2 period and the NR23 period to date and that comparisons of the forecasts during the RP3 period were not unfeasible due to the impact of the covid-19 pandemic.
- 2.82 It said that the financial impact of this variance was significant and estimated that had its forecast been used for NR23, NERL would have made a net gain of £6.5m as a result of traffic variances over the first two years of NR23, after application of the Traffic Risk Sharing (“TRS”) mechanism. It estimated that the use of STATFOR’s forecast resulted in a net loss to NERL of £21.7m.
- 2.83 NERL proposed the CAA adopt a forecast produced by NERL, supplemented by high- and low-range scenarios agreed with airlines. To address concerns over independence, NERL suggested an independent review of its forecast.
- 2.84 Airlines expressed support for the continued use of STATFOR for en route and London Approach Services forecasting, and said that, in their view, using this independent forecast was crucial for avoiding any conflict of interest.
- 2.85 Airlines’ view was that an overly conservative traffic forecast would risk inadequate operational preparation, with resulting capacity pressures and increased delays if actual traffic were to exceed the forecast.
- 2.86 Prospect said they supported NERL’s position in the use of its own traffic forecast rather than the STATFOR forecast. Prospect said NERL’s forecast was more accurate and that using a different forecast to that used for daily operational planning might impact on NERL’s ability to deliver.

Our views

- 2.87 As stated in the Draft Method Statement, we consider that any submission on alternative approaches to traffic forecasts should be supported by robust evidence explaining why the alternative forecast is clearly preferable to STATFOR on a forward-looking basis, and why the use of this alternative forecast delivers benefits to consumers.
- 2.88 NERL’s submissions primarily rely on comparing the accuracy of the LTF and STATFOR forecasts for RP2 and the first three years of NR23.
- 2.89 We note that the STATFOR traffic forecast has not always exceeded the LTF forecast. NERL’s business plan submission for RP2 contained a comparison of its LTF forecast at that time to the relevant STATFOR forecast, with the LTF forecasting TSUs for RP2 that were 1.8 per cent higher than STATFOR¹⁹.
- 2.90 The CMA considered the historical accuracy of the NERL and STATFOR forecasts, including RP2, as part of its RP3 determination in 2020, and

¹⁹ NATS RP2 Revised Business Plan (2015-2019), Appendix A. See: <https://www.caa.co.uk/media/piadjbwi/appendices-to-rp2-revised-business-plan.pdf>

concluded that “*forecasting air traffic volumes is subject to material and fundamental uncertainty, much of which cannot be forecast accurately ... Given the scale of differences between forecast and actual in recent periods, we considered it was not plausible to say from the actual data on variance between STATFOR’s and NERL’s forecasts that either forecast was more accurate.*”²⁰

- 2.91 We agree with the conclusions reached by the CMA in 2020, and do not consider that NERL have presented any new evidence on the RP2 period that would lead us to reach a different conclusion on this issue.
- 2.92 The new evidence provided by NERL for the NR23 period was restricted to three years, a relatively limited timeframe. We note that the STATFOR forecast used for NR23 was produced at a time of significant challenges in accurately forecasting traffic volumes, due to the uncertainty around the recovery of traffic volumes from the covid-19 pandemic.
- 2.93 Additionally, the STATFOR forecast undergoes ongoing refinement with aim of improving accuracy and robustness. NERL routinely engages with Eurocontrol on this refinement, including contributing its own data and methodological information. We consider that this process may have enhanced the accuracy of the STATFOR forecast since NR23.
- 2.94 At this stage, we do not consider that the evidence provided by NERL is sufficient to demonstrate a systemic issue with the STATFOR forecast leading to over-forecasting of volumes that could be expected to persist into the NR28 period and beyond.

Updated NR28 position

- 2.95 For the reasons set out above, we consider that NERL has not presented robust evidence explaining why its forecast is clearly preferable to STATFOR on a forward-looking basis.
- 2.96 We therefore maintain that the STATFOR en route traffic forecasts should be the primary input for NR28 for en route and London Approach Services. We consider the use of these forecasts to be both independent and transparent.
- 2.97 We note that NERL may continue to present scenario analysis demonstrating the impact of different volume forecasts as part of its business plan submission.

²⁰ NATS (En Route) Plc/CAA Regulatory Appeal Final report, CMA, paragraphs 7.23, 7.28 and 7.33. See: https://assets.publishing.service.gov.uk/media/5f350e17e90e0732e0f31c2a/NATS_-_CAA_final_report_for_publication_August_2020_-----.pdf

Traffic Forecasts - Oceanic services

Draft Method Statement

- 2.98 For Oceanic services, we stated in the Draft Method Statement that we were minded to adopt NERL's forecast, which we described as applying STATFOR growth rates to historical Oceanic flight data.²¹ This would build on the approach taken in NR23, where no suitable independent Oceanic forecast was available.
- 2.99 We said that we would consider whether any clearly preferable alternative forecasts were available to use for Oceanic services. In this context, we noted that it would be unlikely to be proportionate for the CAA to commission the production of an independent forecast of Oceanic volumes.

Stakeholder views

- 2.100 NERL's submission clarified that its current approach to traffic forecasting for Oceanic services differed from our description in the Draft Method Statement, and utilises the NATS LTF Oceanic model, which applies internal growth rate assumptions (based on factors such as global economics) on historical actuals.
- 2.101 It did not consider that there was an existing independent traffic forecast which fully covers the Shanwick area of the North Atlantic for which NERL provides air traffic services.
- 2.102 NERL noted that there was no comparable independent forecast from STATFOR for this region, and the existing ICAO forecast addressed around only 80 per cent of NERL's oceanic traffic,²² and currently only covered the period 2025-2029.
- 2.103 Finally, it agreed with our position in the Draft Method Statement that it was unlikely to be proportionate for the CAA to commission the production of an independent forecast of Oceanic volumes.
- 2.104 Airlines noted the presence of an updated and independent industry forecast for Oceanic traffic, in the form of the ICAO EFFG and advocated for the forecast to be considered for Oceanic services in the context of NR28. British Airways and IAG expressed concern at the reliance on a traffic forecast derived by the regulated entity.

²¹ NERL contacted us in January 2026 to correct and clarify our description in the Draft Method Statement of its approach to the Oceanic services forecast.

²² Due to the data set used being trimmed of all flights other than commercial scheduled passenger flights and then excluding carrier combinations with fewer than three flights per week.

- 2.105 Airlines also requested, in the event that a fully independent Oceanic forecast was not considered proportionate to commission, that the CAA adopt a more robust approach to assessing the proposed NATS Oceanic forecast.

Our views

- 2.106 We have explored the availability of other forecasts for the Oceanic traffic volumes during NR23, but have been unable to identify a suitable alternative forecast at the time.
- 2.107 As noted by NERL, the ICAO forecast suggested by airlines addresses only around 80 per cent of NERL's oceanic traffic, and does not currently cover the full NR28 period. The ICAO forecast appears unlikely to be fit for purpose for traffic forecasting in the North Atlantic and Tango regions.
- 2.108 We consider that, in support of our NR28 initial proposals, and to address airline concerns about the robustness of our approach to assessing NERL's Oceanic forecast, it would be appropriate for us to review NERL's method and the historical performance of NERL's forecast.

Updated NR28 position

- 2.109 We acknowledge airline concerns regarding transparency and independence of NERL's forecast for Oceanic services, as well as their request for increased assurance over the proposed approach for NR28. We also accept NERL's submissions regarding the respective merits of its forecast and the availability of plausible alternatives for the Oceanic service.
- 2.110 Considering the above, we maintain our preference to use NERL's Oceanic forecast for NR28, subject to the assurance tasks we have outlined above.

Service quality and resilience

Draft Method Statement

- 2.111 We explained that we set targets and incentives for NERL to provide high levels of service quality. In NR23 and previous periods, NERL's capacity performance was measured using four metrics: C1, C2, C3 and C4. Metrics C1 - C3 and these were designed to incentivise NERL to minimise Air Traffic Flow Management ("ATFM") delay and improve the efficiency of day-to-day operations, while C4 was intended to capture the impact of major service outages.
- 2.112 In the Draft Method Statement, we said that for NR28 we would build on the NR23 approach, as well as considering recommendations from the lessons

learnt from the review of the approach to setting price controls (the “2024 review”)²³ and the Halliwell Review.

- 2.113 We set out four objectives the future service quality framework should aim to deliver.
- **Objective 1: Maintaining safety as a core priority, while incentivising NERL to build resilience to meet current and future demand.** Service quality incentives should support forward-looking investments that deliver long-term benefits while aligning with broader strategic objectives. Safety must remain paramount, but NERL should be incentivised to deliver across multiple objectives in a balanced way.
 - **Objective 2: Incentivising NERL to deliver a high standard of service quality including delivering broader outcomes that are valued by consumers and industry.** The service quality and resilience framework should promote actions that improve the full passenger experience, rather than just AFTM delay. Rewards and penalties should be sufficiently material to influence behaviour and drive broader service quality improvements.
 - **Objective 3: Ensure service quality incentives are transparent, clearly defined and understood by all stakeholders.** NERL’s performance should be visible and accessible, with rewards and penalties clearly tied to specific, measurable outcomes.
 - **Objective 4: Ensure incentives are proportionate to the significance of the outcomes they aim to deliver.** Incentives should be calibrated to encourage NERL to deliver high service quality, investment to deliver longer-term increases in capacity and resilience. Greater materiality should be placed on outcomes that matter most to consumers and industry.
- 2.114 We noted that delivering against these objectives may require changes to the existing service quality metrics, and that we would explore the introduction of new incentives that take a broader view of service quality and resilience.

Stakeholder views

- 2.115 NERL said that it considered the current suite of capacity metrics worked well and provided a balanced set of incentives. It cautioned against considering new metrics, such as measures of cancellations and knock-on delays, and said that the CAA had examined this previously and concluded against making such changes.

²³ Setting future price controls – lessons learnt from the review of approach, August 2024. See: <https://www.caa.co.uk/data-and-publications/publications/documents/content/cap3000/>

- 2.116 It said that any new metric would need to be measurable, proportionate and targeted. It suggested the CAA should draw on the good practice guide issued by the National Audit Office²⁴ and in particular that the activity measured must be capable of being influenced by actions attributed to the organisation.
- 2.117 NERL suggested instead exploring whether the parameters of the C4 metric (which it said had been developed as a proxy for major service outages) might be adjusted to align with what mattered most to passengers and then consider the proportionality of the C4 financial incentive.
- 2.118 It said the draft objectives implied a 'step change' improvement over current performance was necessary and challenged whether this was appropriate. NERL suggested revisiting the draft objectives and their specification to recognise the value of continuity. It said that Objective 3 (to ensure service quality incentives are transparent, clearly defined and understood by all stakeholders) was already being fully met through existing reporting arrangements with the CAA and airline customers.
- 2.119 Finally, NERL raised concerns that Objective 4 could imply that outcomes imposing large costs on users should lead to proportionately large penalties on NERL, which it considered overlooked and exceeded its risk-bearing capacity.
- 2.120 Prospect said that it viewed the existing metrics as well-understood and an appropriate framework for incentivising NERL.
- 2.121 Airlines expressed support for a comprehensive review of the existing service quality metrics, noting that the current targets did not fully address large-scale system outages.
- 2.122 They emphasised that service quality levels should not be allowed to deteriorate and recommended several areas for consideration in the review of service quality metrics and incentives, including further analysis of the drivers behind NERL's service performance.
- 2.123 Airlines supported the prioritisation of resilience through financial incentives and suggested that NERL should be subject to more demanding assurance requirements. Airlines also highlighted the need for resilience improvements to demonstrate value for users and remain cost-efficient and affordable.

²⁴ Performance measurement by regulators, National Audit Office, November 2016. See: <https://www.nao.org.uk/insights/performance-measurement-by-regulators/>

- 2.124 As part of constructive engagement, airlines highlighted that thresholds relating to resilience had not been updated since 2018²⁵ and questioned whether it would be appropriate to review them as part of NR28.

Our views

- 2.125 In the Draft Method Statement, we set out objectives that the service quality regime should aim to deliver. We understand the challenges involved in developing any new metrics and of change to the current system. We expect to consider these challenges as part of our review, and weigh them against the potential benefits that new metrics could bring. We do not agree that we should limit the scope of the work at this stage.
- 2.126 In taking this work forward, we recognise that the scope of the review will need to be proportionate to the scale of the potential benefits. We will seek to engage with stakeholders to ensure that this work remains targeted and evidence-based, and we will draw on work conducted in earlier price control reviews.
- 2.127 The resilience thresholds highlighted by airlines during constructive engagement are triggers for CAA enforcement and provide guidance to inform our approach to enforcement action under the licence.²⁶ They are not performance targets and do not have associated financial incentives. While there may be a case for reviewing those thresholds, this should be in the context of our approach to enforcement generally and not as a component of a periodic price control review.
- 2.128 We do not agree with NERL's characterisation that the draft objectives could be interpreted as targeting a 'step-change' in performance. However, in the context of the major failure in NERL's flight planning system in 2023 and its subsequent management, together with the conclusions of the Halliwell Review, we consider it is appropriate to review whether the current framework is optimal. This includes examining the quantum and mechanism of service quality incentives, and whether they reflect the range of outcomes that consumers value.
- 2.129 We agree that metrics should measure activity capable of being influenced by actions attributable to NERL, and that the influence NERL exerts on these outcomes should be separable from other influences. We note that this becomes more challenging with broader measures of service quality performance. NERL's ability to influence some service quality outcomes is limited and it may be more difficult to discern the impact of NERL's actions. This will be an important consideration for any future work on metrics. We consider there is scope to make this clearer in the wording of Objective 2.

²⁵ Decision on modifications to Condition 2 of NATS (En Route) plc licence in respect of resilience planning, policy statement on enforcement and resilience plan guidance, June 2018. See: www.caa.co.uk/CAP1682

²⁶ Alongside Economic Licensing Enforcement Guidance, May 2015. See: www.caa.co.uk/CAP1234

- 2.130 Objective 4 should not be interpreted as implying penalties should reflect the full costs to consumers. The purpose of the objective is to ensure incentives are calibrated to the relative value of expenditure on outcomes (including on reduction in risk) to users, rather than to expose NERL to the full cost of service failures. We consider there is scope to further clarify this balance and will also consider any changes to NERL's risk exposure and the impact of this on its financing costs, in line with our statutory duties.

Updated NR28 position

- 2.131 We have updated the objectives for our work on resilience and quality of service to reflect the discussion above:
- **Objective 1: Maintaining safety as a core priority, while incentivising NERL to build resilience to meet current and future demand.** Service quality incentives should support forward-looking investments that deliver long-term benefits while aligning with broader strategic objectives. Safety must remain paramount, but NERL should be incentivised to deliver across multiple objectives in a balanced way. *[No change]*.
 - **Objective 2: Incentivising NERL to deliver a high standard of service quality including delivering broader outcomes that can be materially influenced by NERL, and that are valued by consumers and industry.** The service quality and resilience framework should support continued improvement and promote actions that improve the full passenger experience, rather than just AFTM delay. Rewards and penalties should be sufficiently material to influence behaviour and drive broader service quality improvements.
 - **Objective 3: Ensure service quality incentives are transparent, clearly defined and understood by all stakeholders.** NERL's performance should be visible and accessible, with rewards and penalties clearly tied to specific, measurable outcomes. *[No change]*.
 - **Objective 4: Ensure incentives are proportionate to deliver the outcomes that users and consumers value, while also taking account of any potential impact on NERL's financing costs.** Incentives should be calibrated to encourage NERL to deliver high service quality, investment to deliver longer term increases in capacity and resilience. Greater materiality should be placed on outcomes that matter most to consumers and industry.
- 2.132 We will consider how we can meet these refined objectives through development of the service quality framework, including changes to the existing service quality metrics where appropriate. This includes:
- adjusting bonus/penalty percentages/amounts;
 - revising bonus/penalty thresholds;

- changes designed to increase transparency or change the weighting of different components of the performance measure; and/or
- reviewing the structure of the “deadbands”.²⁷

2.133 We also maintain our intent to consider the introduction of new incentives that take a broader view of service quality and resilience. The first stage of this work will involve assessing how existing metrics correlate with these wider outcomes and resilience, and consider whether additional measures are needed.

2.134 We will engage with stakeholders as this analysis develops to inform our thinking and ensure any changes reflect the priorities of consumers and industry.

Environmental sustainability

2.135 In terms of the provision of air traffic services, flight trajectories can be improved for fuel burn through the delivery of:

- i. operational efficiency through tactical interventions by controllers;
- ii. network efficiency through better use of existing capacity; and
- iii. increased capacity through airspace modernisation and changes to airspace design.

2.136 Since 2012, NERL’s price controls have included a financial incentive on a single operational efficiency metric (“3Di”). In the 2024 Review, we said that this measure should be reviewed ahead of NR28. In early 2024 NERL concluded that a more diversified framework could provide a more accurate, transparent and actionable approach of measuring Air Traffic Management (“ATM”) performance.

Draft Method Statement

2.137 In our Draft Method Statement we proposed two NR28 environmental objectives.

- **Objective 1: Incentivising NERL to invest flexibly and efficiently in projects that deliver environmental benefits, provided that the investment represents value for money for consumers.** Incentives should support forward-looking, value-for-money investments that deliver enduring environmental benefits and align with the UK’s net zero strategy.

²⁷ A ‘deadband’ is the range of service quality outcomes which do not result in either a bonus or a penalty.

- **Objective 2: Ensure environmental incentives are transparent, clearly defined, and understood by all stakeholders.** NERL's performance should be transparent and easy to understand and audit, with rewards and penalties clearly linked to measurable outcomes. At the same time, the environmental framework should make clear how incentives are balanced with other service quality priorities, so stakeholders understand how trade-offs are managed. The cost of collecting, processing and storing the data required to produce any metrics and to allow for its interrogation and audit should also be considered by NERL in its proposals.

- 2.138 We highlighted that NERL had developed a set of metrics intended to capture different aspects of environmental performance. We said that we would expect it to share details of any metrics proposed for incentivisation as part of the Constructive Engagement process and within its business plan submission.
- 2.139 Prior to publication of the Draft Method Statement, NERL identified Tactical Flight Emissions ("TFE") as its preferred metric for a financial incentive and considered six other metrics that could potentially be published primarily for information and monitoring purposes. NERL has continued to engage with the CAA and stakeholders as it refines these metrics, with preliminary discussions held during the first round of CE.

Stakeholder views

- 2.140 NERL supported moving to a broader suite of environmental metrics, and to move the key performance indicator to TFE, its preferred new metric. NERL supported some parallel running of any new metric with 3Di to help calibrate financial incentives, and suggested more precise wording for the CAA's description of the 3Di metric.
- 2.141 NERL said that actions to improve flight path efficiency and fuel burn were complementary to operational practices and airspace changes which are aimed at improving capacity and reducing delay.
- 2.142 NERL stated that our requirement that investments deliver value-for-money for consumers in Objective 1 was too limiting, and precluded balancing of long-term environmental impacts with short term consumer benefits. NERL supported Objective 2, and considered these factors to be key in metric development.
- 2.143 Airlines supported the CAA's objective of improving environmental incentives, and considered that, as a minimum, the 3Di metric should be reviewed.
- 2.144 Airlines considered that new environmental metrics should be assessed against a range of criteria, including effectiveness, transparency and auditability, interaction with other service metrics, and proportionality of any financial incentives. They said that metrics should align with real operational outcomes.

- 2.145 Airlines said that the timely delivery of airspace modernisation was a critical enabler in delivering environmental outcomes and that improving flight path efficiency was one of the most effective levers for reducing aviation emissions.
- 2.146 Airlines suggested there should be a greater focus on NERL's role in supporting the sector in meeting its collective commitments to net zero targets by reducing operators' flight emissions and welcomed exploration of more transparent CO₂-linked measures.
- 2.147 Airlines wanted investments to be prioritised in conjunction with users so that projects to improve NERL's own environmental performance were prioritised appropriately, relative to alternative investments or actions by NERL that would deliver improvements to operators' emissions.
- 2.148 Airlines said that NERL should be required to provide more detailed information on existing and proposed environmental metrics in its business plan.
- 2.149 Prospect considered that the scope for environmental benefits through tactical interventions was limited and that incentives should be aligned to the delivery benefits from the capex program and airspace modernisation. However, Prospect agreed that if tactical interventions were to be incentivised, it supported the redesign of the metric from 3Di.

Our views

- 2.150 We note NERL's comment on our description of 3Di. A more specific description of 3Di would be:
- "3Di scores the inefficiency of the flight by comparing the actual 3D trajectory flown to a theoretically optimal one based on the flight level requested, using great circle and continuous climb and descent. The scores are based off an average of a (2013) sample of modelled fuel flow differentials which provide coefficients of inefficiency for track extension and for segments of level flight".*
- 2.151 We agree that the current 3Di measure may not be appropriate to use in NR28 as a financially incentivised performance metric. However, it can still provide useful information.
- 2.152 We disagree with NERL's comment that value for money would preclude the balancing of short term consumer interests and long term environmental impacts. We have provided guidance on how NERL should demonstrate value for money in its business plan, and consider that this should support an appropriate level of investment in projects supporting long term environmental outcomes consistent with consumer preferences.

- 2.153 The PRC's Performance Review Report 2025²⁸ notes that while tactical interventions can reduce fuel burn at a flight level, they increase network variability, and that reducing network constraints would deliver efficiency and predictability for all stakeholders. Taking this into account, we agree with Prospect that, in the longer term, wider improvements to airspace design may reduce the scope for tactical interventions to deliver benefits. We do not intend to incentivise tactical interventions at the expense of potential larger gains in overall airspace efficiency.
- 2.154 We agree with airlines that NERL is in a unique position as a sector enabler to support operators in achieving their own environmental outcomes and we would seek to encourage this. We agree that any environmental incentives should not harm resilience or network performance.
- 2.155 More information and analysis is required to understand the scope for potential improvements in efficiency throughout the system, including measurement of network efficiency as well as operational flight efficiency. We support development of a wider range of metrics to improve understanding of where efficiency gains could be most effectively made. Stakeholders indicated that this could help the sector better understand the impact of investment and operational developments. Consistent with airline comments, we would expect flight path efficiency to remain a key element of this wider metric set.
- 2.156 We consider that a wider range of metrics could allow for a richer evidence base to support more robust and informed decisions across the sector by:
- i. identifying areas for greatest gains in both operational and network efficiencies, as well as potential airspace design improvements;
 - ii. promoting consistency and comparison between metrics, including alignment with Eurocontrol flight efficiency reporting where appropriate;
 - iii. allowing for data to be interrogated at a more granular level;
 - iv. embedding environmental outcomes into investment decision making;
 - v. allowing appraisal of outcomes delivered from investment made; and
 - vi. providing wider access to information supporting a broader range of objectives than an operational efficiency measure in isolation.
- 2.157 We agree that only performance clearly attributable to NERL's actions should be subject to financial incentives. However, multiple factors can have an impact on

²⁸ Performance Review Report (PRR) 2025, Eurocontrol, March 2026. See: <https://www.eurocontrol.int/publication/performance-review-report-prr-2025>

flight paths delivered and it is not necessarily practicable to isolate NERL performance from, for example, weather conditions at the time of flight.

- 2.158 NERL is in a position to report metrics that could support the sector in understanding operational and network efficiency, but where inefficiency may be the responsibility of another party, or may not clearly be the responsibility of any individual party. We would not want to discourage such reporting where it could lead to overall improvements in understanding and environmental outcomes.
- 2.159 While previous price controls have included a financial incentive on a single metric, we will consider the potential benefits of reporting incentives across a wider range of measures to support increased data provision, promote collaboration and better understanding, and act as a reputational incentive on NERL where appropriate. This is particularly the case where the efficient baseline is dependent on changes to airspace design and is not fixed over time, and there is no straightforward way to set targets.

Updated NR28 position

- 2.160 NERL is critical to the delivery of sectoral environmental outcomes not only through its own operations, but also through the provision of robust data to inform effective decision making. NR28 presents an opportunity for NERL to support the sector through increased data reporting to help identify sources of potential efficiency gains and measure the impact of investment and airspace modernisation initiatives.
- 2.161 We therefore propose to retain the two environmental objectives in the Draft Method Statement, and include an additional third objective relating to this opportunity. We set out the revised objectives below:
- **Objective 1: Incentivising NERL to invest flexibly and efficiently in projects that deliver environmental benefits, provided that the investment represents value for money for consumers.** Incentives should support forward-looking, value-for-money investments that deliver enduring environmental benefits and align with the UK's net zero strategy.
 - **Objective 2: Ensure environmental incentives are transparent, clearly defined, and understood by all stakeholders.** NERL's performance should be transparent and easy to understand and audit, with rewards and penalties clearly linked to measurable outcomes. At the same time, the environmental framework should make clear how incentives are balanced with other service quality priorities, so stakeholders understand how trade-offs are managed. The cost of collecting, processing and storing the data required to produce any metrics and to allow for its interrogation and audit should also be considered by NERL in its proposals.

- **Objective 3: To support the sector in achieving better environmental outcomes through NERL's provision of relevant, robust and accessible data** to help data users identify potential sources of operational, network and airspace efficiency gains and measure the wider impact of sectoral investment and airspace modernisation initiatives.

- 2.162 While 3Di has been a useful tool to incentivise NERL's operational flight efficiency and potentially provides a means of calibrating future incentives we recognise that updating and maintaining 3Di in its current form throughout NR28 could divert effort from developing more informative and useful measures.
- 2.163 We note NERL has identified Tactical Flight Emissions as a suitable KPI for incentivisation. We expect to see clear evidence to support the approach to setting targets and any financial incentives. Given the challenges identified with maintaining 3Di as an effective calibration tool, NERL may need to propose an alternative approach to calibrate any targets.
- 2.164 More broadly we consider that long term environmental outcomes may be better achieved by building a richer evidence base during NR28 to support a greater understanding of where efficiency gains could be most effectively made. This could potentially support more informed calibration of financial incentives in future price controls.
- 2.165 NATS have already identified a number of other potential performance indicators for reporting, and we look forward to working together as these are developed further. Throughout Constructive Engagement we expect NATS and airlines to work together to develop a detailed set of requirements for environmental metrics and data reporting.

Efficient costs

- 2.166 A key part of our work in the NR28 price control review will involve assessing the efficient level of costs that NERL is expected to incur. This will include setting allowances for opex, capex and non-regulated revenues.

Draft Method Statement

- 2.167 We said that our overall approach to assessing the efficient level of opex and non-regulated revenues at NR28 would seek to draw upon a broader and deeper evidence base than at NR23 by deploying a range of cost assessment tools, including:
1. targeted bottom-up assessment of key components of material opex and revenue items. This would be supported by independent expert inputs and the use of external benchmarks where practicable;
 2. targeted external benchmarking of opex and revenue items where we could find robust industry and/or external benchmarks of comparable items; and

3. top-down assessment of opex and revenues as overall cross checks. We would continue to explore whether top-down econometric benchmarking approaches were also a credible additional cross check in NR28.

2.168 We said our approach to setting an efficient capex baseline would complement the capex incentives framework, taking account of any changes we make to improve or strengthen these incentives and would broadly involve:

1. conducting initial work to understand the likely size and composition of the efficient capex envelope for NR28 and key uncertainties;
2. identifying and assessing projects to be included in the NR28 capex baseline;
3. assessing the cost efficiency of projects included in the capex baseline for NR28, using a combination of:
 - i. business plan analysis informed by top-down efficiency assessment
 - ii. where feasible, targeted external benchmarking with comparable projects (or components of projects)
 - iii. targeted independent technical “deep dives” on cost build-ups and business cases, focusing on material projects for which benchmarking was not feasible, and
 - iv. external benchmarking of indirect cost markups.

2.169 We expected NERL to consider a range of approaches to meet consumer needs, including both opex and capex solutions, clearly demonstrate how it had evaluated these potential approaches, and demonstrate that its chosen approach achieved maximum value for money in delivering outcomes for consumers.

Stakeholder views

2.170 NERL encouraged us to adopt a proportionately scaled cost assessment. It said that it was already efficiently run (and that Eurocontrol benchmarking reflected this) and, given this, there might be little benefit to users from the CAA investing resources more widely and deeply in cost assessment exercises.

2.171 It also suggested that, rather than an in-depth capex assessment, the CAA could form an overall judgement of the size and composition of NERL’s capex portfolio and complement this with additional scrutiny of its capex forecasts as these evolved during the NR28 period.

2.172 NERL asked us to take into account practical constraints on the level of accuracy and detail of its capex business plan submission and questioned the proportionality of the business plan guidance on capex. NERL said that there would be less detail available on projects in later years of NR28, reflecting the longer planning horizon and evolving project maturity, and pointed out that the detailed business planning guidance did not consistently reflect this.

- 2.173 It said that the investment portfolio itself would be expected to evolve and that it should not be penalised for making changes to the plan between the business plan submission and the CAA's final price control decision.
- 2.174 NERL agreed that costs and capex attributable to the provision of UK Airspace Design Services should be separately identified.
- 2.175 Airlines raised the goals and approach to cost assessment, and the standard of evidence NERL should make available (and the consequences of not doing so). They set out their expectations for how NERL should demonstrate how its business plan reflected user priorities. Airlines also made specific points around the treatment of inflation and cost allocation.
- 2.176 British Airways and IAG said that the CAA should focus on efficiency and the affordability of NERL's charges. More generally, airlines said that cost allowances should incorporate identified efficiency gains over time, and also incentivise NERL to pursue further, as yet unidentified, efficiency gains.
- 2.177 Airlines supported the CAA's proposal to use a broader evidence base for cost assessment. They were also supportive of the use of bottom-up cost assessment and encouraged deep dives on critical opex drivers and capex programmes.
- 2.178 However, airlines raised significant concerns about the use of top-down benchmarking, stating it should be used carefully, transparently, where appropriate and where comparability was robust and stakeholders could interrogate the underlying data and adjustments.
- 2.179 Airlines placed a strong emphasis on *ex ante* scrutiny of NERL's business plan submission, and said that NERL should justify its cost allowances and that the CAA should 'disallow' cost elements that had not been robustly and transparently evidenced. This should include NERL producing formal efficiency assessments, with costs subject to rigorous bottom-up cost analysis.
- 2.180 Airlines also said that prioritisation of investment proposals should occur within the NR28 constructive engagement process, and not be deferred to in-period mechanisms such as the Service and Investment Plan ("SIP"), to ensure clarity and cohesiveness of the plan and an efficient decision-making process.
- 2.181 Airlines said options and proposals should clearly link to consumer and user priorities, reflecting user inputs and preferences. NERL should provide a 'golden thread' linking cost elements, options and proposals with their impact on other building blocks.
- 2.182 In relation to capex, airlines said that projects specifically targeted to improve NERL's own environmental performance should be appropriately prioritised within the wider investment portfolio.

- 2.183 Airlines requested that the CAA review the relationship and effect of inflation on the elements of NERL's cost base and the appropriateness of the existing mechanisms to account for inflation effects, and NERL's approach to cost allocation between its regulated and non-regulated activities.

Our views

- 2.184 We understand the views of airlines that setting more challenging targets for efficiency gains over time may incentivise NERL to pursue further efficiency realisation. However, we note that any assumption of further unidentified cost-efficiencies would need to reflect the principle established by the CMA that regulatory arrangements should be a 'fair bet' and may also impact the level of risk borne by NERL, and so have a potential impact on financing costs. Our regulatory approach aims to incentivise NERL to identify cost-efficiencies during the regulatory period.
- 2.185 We agree that (1) NERL's revenue requirement should reflect user preferences with respect to trade-offs between outputs, service quality and charges and (2) a top-down analysis of the resulting level of charges is a sensible cross-check to apply, while recognising that there may be structural reasons for charge levels to vary between ANSPs. We have amended the Method Statement to reflect this.
- 2.186 We plan to use a range of cost assessment tools, with use of bottom-up assessments and external benchmarking on targeted building blocks meeting defined circumstances. We aim to be proportionate and focus on material programmes and cost elements. This is broadly consistent with the approach taken by other UK economic regulators.
- 2.187 We expect *ex ante* scrutiny of NERL's business plans to form an important element of our cost assessment approach, and would expect the standard of evidence and justification provided by NERL to be robust. However, we will form a view of NERL's reasonable revenue requirement taking into account the full range of information available.
- 2.188 Recognising the contrasting stakeholder views on the level and depth of scrutiny of NERL's capex programme, we consider the price control review process is a crucial component of establishing the incentives and baseline expectations for the subsequent regulatory period and we expect NERL to develop the best possible cost estimates for projects given their level of maturity.
- 2.189 While we acknowledge that evolution of the capital programme is reasonable in order to respond proportionately to emerging issues and context, NERL's capex plan should reflect its best possible understanding of the challenges and user priorities over the NR28 period and beyond. It should not expect to consult on one plan in 2026, and then seek to agree a substantively different plan in 2027 or 2028, without a strong justification and evidence base.

- 2.190 We will not limit our consideration of capex to the overall portfolio size: the efficiency of individual projects is important to ensure that users and consumers benefit to the greatest extent for the level of expenditure they are paying for. Nonetheless, we have said that both deep dive scrutiny and benchmarking will be targeted. We have amended the approach set out in the business plan guidance for the level of detail we expect dependent on the materiality of planned expenditure and to take account of varying levels of project maturity.
- 2.191 We recognise the natural evolution in cost estimates as projects become more mature and that it will be important to consider these effects and whether any mechanisms to deal with uncertainty are necessary when assessing capex and considering associated governance and incentives.
- 2.192 It is for NERL to demonstrate that forecasts of capex are both robust and efficient for a given level of project maturity and it is expected that greater levels of assurance should be provided for projects accounting for a significant level of committed expenditure. This might be provided through a combination of bottom-up assessment and benchmarking depending on the maturity of the project. NERL should explain its approach to authorising capital expenditure incrementally as maturity increases.
- 2.193 We consider that a clear link between costs, quality and outputs is important to support the identification of user priorities and scrutiny of the appropriateness of costs. We have amended the business plan guidance to make clear that this should be provided in a structured manner with an appropriate breakdown to allow stakeholders to understand the contribution of different cost elements.
- 2.194 We agree that NERL's scenario analysis should reflect appropriate choices and uncertainties and need not be restricted to traffic analysis. We have amended the business plan guidance to make this clear.
- 2.195 NERL's capex portfolio should reflect the benefits to users and consumers. Investments in NERL's own estate may have benefits for consumers through, for example, reduced energy costs, or delivery of NERL's existing net zero and environmental commitments and strategy, assuming NERL can demonstrate that these are supported by consumers.
- 2.196 NERL's price control revenue will reflect our determination of an efficient revenue requirement including appropriate and efficient allowances for inflation. We will consider the appropriate allowances to be made for inflation, which may differ by cost element. However, we do not expect to depart from the principle that NERL's charges (and RAB) are adjusted to reflect outturn general inflation. For NR28, we will use the CPIH index as a measure of general inflation. This framework helps NERL to finance its regulatory activities more efficiently by not exposing NERL and its funders to risks outside NERL's ability to manage, and these lower financing costs are reflected in NERL's charges.

- 2.197 NERL's approach to cost allocation was last reviewed by CEPA as part of the RP3 price control review, where it noted that "*inter-company trading represents a small percentage of NERL's cost and revenue allocation*".²⁹ CEPA did not identify any material irregularities or omissions, though it identified some issues with the transparency of inter-company trading and a lack of market testing of inter-company charges.
- 2.198 A full root-and-branch review NERL's of cost allocation practices would therefore not appear to be justified. In our draft business plan guidance, we said that NERL should explain the basis for any allocation between the regulated services, and between regulated and non-regulated services. In our updated business plan guidance, we have further specified that NERL should identify any areas in which it has diverged from the cost allocation method reviewed by CEPA, or where the CEPA study's conclusions may no longer be valid.
- 2.199 The separate regulated charges for NERL's London Approach and UK En Route services are determined based on a fixed percentage allocation of costs. We will consider whether it is appropriate to review this allocation as part of NR28.

Updated NR28 position

- 2.200 Our approach to cost assessment will seek to determine a reasonable and efficient overall revenue requirement that delivers an efficient level of output. NERL's revenue requirement should reflect user preferences with respect to trade-offs between outputs, service quality and charges.
- 2.201 We expect our overall approach to assessing the efficient level of opex and non-regulated revenues at NR28 to draw upon an evidence base that is broader and deeper than at NR23 by deploying a range of cost assessment tools, including:
1. targeted bottom-up assessment of key components of material opex and revenue items. This will be supported by independent expert inputs and the use of external benchmarks where practicable;
 2. targeted external benchmarking of opex and revenue items where we can find robust industry and/or external benchmarks of comparable items; and
 3. top-down assessment of opex and revenues as overall cross checks. This may include overall opex and revenue per unit. We said we will continue to explore whether top-down econometric benchmarking approaches are also a credible additional cross check as part of NR28.

²⁹ NERL's Cost Allocation and Non-Regulatory Income Forecasts, CEPA, January 2019. See: <https://www.caa.co.uk/media/2xohaxeo/cepa-cost-allocation-and-non-reg-income-report-4.pdf>

- 2.202 Our approach to setting an efficient capex baseline will be complementary to the capex incentives framework, taking account of any changes we make to improve or strengthen these incentives. Our approach will broadly involve:
1. conducting initial work to understand the likely size and composition of the efficient capex envelope for NR28 and key uncertainties. We will review information on projects that will carry over from NR23, and expect to be able to understand any significant variances to the most recent SIP NERL has provided to the CAA;
 2. identifying and assessing projects that will be included in the NR28 capex baseline, including projects that are presently known but also an estimate of spending for likely projects that are in the earlier stages of planning and presently have a low level of maturity;
 3. assessing the cost efficiency of projects included in the capex baseline for NR28, using a combination of:
 - i. analysis of business plan data informed by top-down efficiency assessment;
 - ii. where feasible, targeted external benchmarking with comparable projects (or components of projects);
 - iii. targeted independent technical “deep dives” on cost build-ups and business cases, focusing on material projects for which benchmarking is not feasible; and
 - iv. external benchmarking of indirect cost markups applied to direct project costs.
- 2.203 We will conduct top-down analysis of the resulting level of charges as a cross-check.
- 2.204 We will review NERL’s cost allocation methodology where it is proportionate to do so, for instance where changes have been made or new information justifies such a review.
- 2.205 We expect NERL to consider a range of approaches to meeting consumer needs, including both opex and capex solutions, to clearly demonstrate how it has evaluated these potential approaches, and to provide its basis for considering that its chosen approach achieves maximum value for money in delivering outcomes for consumers.
- 2.206 Costs and capex attributable to the provision of Airspace Design Services should be separately identifiable to allow an efficiency assessment as part of NR28. As with other key elements of NERL’s cost base, we will consider whether it is proportionate to conduct targeted bottom-up analysis on this expenditure.

Capex incentives

- 2.207 Our NR23 final decision included a package of incentives relating to capex and capex governance:
- an Independent Reviewer, reviewing the accuracy of NERL's reporting;
 - an *ex post* efficiency review of the cost efficiency of NERL's capex against a test of Demonstrably Inefficient and/or Wasteful Expenditure; and
 - a capex engagement incentive, designed to encourage improvements in the quality of NERL's engagement with customers on its capex programme.
- 2.208 These incentives were shaped to respond to concerns raised about increased costs and continued delays to the DP En Route programme, and the associated consumer impact³⁰.
- 2.209 We commissioned a review of NERL's key NR23 capital programme³¹ by Egis, which identified several shortcomings in NERL's planning process, and made recommendations for NERL on improvements and recommended that the CAA:
- "...should consider mechanisms for incentivising efficiency, delivery, and benefits in NERL's capex programme. The developmental nature of NERL's major technical projects mean that there is uncertainty in the programmes in later years. Therefore, the CAA should investigate mechanisms to monitor programme delivery, so that NERL can be incentivised to avoid slippage of milestones that deliver significant customer benefits."*
- 2.210 In the 2024 Review, we said that we would prioritise reviewing the way NERL's capex is incentivised as part of NR28.³²

Draft Method Statement

- 2.211 The Draft Method Statement confirmed our intent to review NERL's capex incentives in line with the 2024 Review and that the first step would be to establish the issues that enhanced incentives would seek to address and options to address these.
- 2.212 We provided an initial view of the main issues, which included how best to understand and incentivise the prioritisation of NERL's capital programmes,

³⁰ Economic regulation of NATS (En Route) plc: initial proposals for the next price control review ("NR23"), October 2022, 4.129-4.131. See: www.caa.co.uk/CAP2394

³¹ Review of key capital programmes proposed by NERL for the NR23 period, Egis, October 2023. See: <https://www.caa.co.uk/media/mxzji4ns/review-of-key-capital-programmes-proposed-by-nerl-for-the-nr23-period-redacted.pdf>

³² Setting future price controls – lessons learnt from the review of approach, August 2024. See: www.caa.co.uk/CAP3000

transparency, timely delivery, efficiency and NERL's capex governance and stakeholder engagement.

- 2.213 Bearing in mind the Egis findings, we said there appeared to be a case for seeking to improve the incentives and other arrangements that would enhance the transparency of NERL's capex and the timely delivery of projects. We sought stakeholder input on how to develop and design such incentives.
- 2.214 We also said it would be appropriate to review whether the existing mechanisms sufficiently incentivised Efficiency, Prioritisation and Engagement, noting that the stakeholder views summarised in the Halliwell Review report indicated that further work in these areas might be necessary.³³
- 2.215 We said we would consider whether a change, such as a move to an *ex ante* framework, could strengthen incentives on NERL on these issues.

Stakeholder views

- 2.216 NERL agreed that capex incentives were worthy of focus. It accepted that there were outstanding concerns about NERL's previous delivery and explanations of its investment plans. It said that the existing set of mechanisms were created in response to these concerns and that some of these measures had not yet been tested. It pointed out that the existing mechanisms were time consuming for NERL to administer, while stakeholders had questioned their value.
- 2.217 NERL asked the CAA to clarify its objectives for regulation of its capex. It encouraged the CAA to avoid imposing measures which might adversely impact on its ability to manage investment programmes effectively. NERL also encouraged the CAA to form its own independent views on these issues, informed by up-to-date technical assessment as necessary, rather than rely on high level findings from earlier reviews.
- 2.218 Airlines supported the review of capex incentives and suggested it should be a priority, highlighting a range of suggestions, examples, evidence, arguments and factors to consider as part of the review.
- 2.219 They suggested that the CAA should review whether investments were delivering for the consumer and should commit to defining capex delivery incentives early in the NR28 process, to ensure an appropriate baseline of information and assessment to support prioritisation was in place.
- 2.220 Airlines were also supportive of the capex engagement incentive and proposed that it be focused on improving the quality and transparency of information

³³ Independent Review of NATS (En Route) Plc's Flight Planning System Failure on 28 August 2023, May 2024. See: www.caa.co.uk/CAP2993, paragraph 4.15

provided by NERL, and that it should be complementary to the overall capex incentives framework.

- 2.221 They also cautioned against incentivising undesirable levels of flexibility into NERL's NR28 capex plan, as they anticipated the need for set requirements to be delivered in NR28.

Our views

- 2.222 We remain of the view that there are advantages in capex delivery incentives.
- 2.223 NERL and airlines have expressed diverging views on the benefits of flexibility in NERL's capex portfolio and how best to hold NERL to account for delivery. We recognise the need to hold NERL to account to a baseline plan, while at the same time not unduly constraining flexibility and delivery against service quality and environmental incentives.
- 2.224 We will conduct our review considering all of the information available and will seek to engage with stakeholders to understand where the evidence base could be strengthened. Past performance will inform our review of the effectiveness of existing capex incentives and inform the setting of future benchmarks and targets. Nonetheless, we will not act retrospectively and will not seek to reopen the incentive package from the NR23 period.

Updated NR28 position

- 2.225 We consider it appropriate to seek to improve the incentives and other regulatory arrangements relating to NERL's capex, including considering whether our existing mechanisms are sufficient for this purpose.
- 2.226 We will take a staged approach to reviewing NERL's capex incentives. The first stage will be to clearly establish the issues that enhanced incentives would seek to address and set out options to address these issues.
- 2.227 Our focus will include the prioritisation of NERL's capital programmes, transparency, timely delivery, efficiency and NERL's approach to capex governance and stakeholder engagement.
- 2.228 We intend to provide an update on our thinking during the summer and will provide our Initial Proposals after taking into consideration NERL's business plan submission, including the emerging shape of its capex programme and NERL's own proposals for capital incentives. We expect NERL and airlines to support and engage with our work over the coming months.
- 2.229 Consistent with the previous incentive arrangements we will conduct an *ex post* efficiency review on NERL's capex during the RP3 and NR23 periods and reflect any adjustments to NERL's RAB in the NR28 price control. This reflects the operation of the capex efficiency incentive outlined in Condition 10 of NERL's

licence and will follow the principles set out in the Regulatory Policy Statement within the RP3 Final Decision.³⁴

Business plan incentives

Draft Method Statement

- 2.230 In the Draft Method Statement, we said we were minded to introduce a business plan incentive on NERL for its NR28 business plan, and proposed a symmetrical incentive with potential for bonuses and penalties equivalent to up to 10bps of return on regulatory equity ("RORE") in each year of NR28, to be included in allowed revenue for the NR28 price control period.
- 2.231 We said we would make our assessment in the round and explain our assessment to avoid applying disproportionate rewards or penalties, for example where there is a single area of the business plan that was high or low quality.
- 2.232 We said we would set a high bar for NERL to earn a reward. For example, NERL would need to demonstrate it had met our criteria of a high-quality business plan, as well as achieving "very high-quality" status in the areas of its business plan we considered to be a high priority for its customers and consumers. If NERL did not meet the requirements of a high-quality business plan, and achieved "low-quality" status in priority areas, we would consider applying a penalty.
- 2.233 We specified the set of criteria we proposed to use to assess NERL's business plan, and said that we would assess NERL's business plan as falling into one of three categories, being very high-quality, high-quality or low-quality.

Stakeholder views

- 2.234 NERL said that the CAA had not made a compelling case for introducing a business plan incentive, and that there might be other means to ensure delivery of a high quality business plan. NERL asked that the CAA consider the evidence presented by the Independent Water Commission³⁵, which recommended that Ofwat withdraw its own business plan incentive because of the potential for it to distort companies' decision making.
- 2.235 NERL said that it was not clear how the mechanism would be assessed and therefore that it did not have a well-founded rational basis. It said that the largely qualitative assessment against criteria had not been fully explained. It also said that it should not be penalised for changing its business plan in response to further developments during the course of the NR28 review.

³⁴ Economic regulation of NATS (En Route) plc: Decision on licence modifications and guidance, December 2020. See: www.caa.co.uk/CAP2011

³⁵ Independent Water Commission: review of the water sector, June 2025. See: <https://www.gov.uk/government/publications/independent-water-commission-review-of-the-water-sector>

- 2.236 Airlines said it would be inappropriate for a regulated entity to earn incremental income for delivering an activity it was expected to do, and that any business plan incentive should therefore be penalty-only. Airlines said that Ofgem adopted a similar approach in its Stage A business plan incentive used for the RIIO-3 price control review, and that the CAA had also set a precedent for a penalty-only formulation in the NR23 capex engagement incentive³⁶.
- 2.237 They also raised concerns that the calibration of the incentive was unclear and unbalanced, both in the scale of the bonus and the absence of transparent assessment criteria, priority areas, and weightings, and that the size of the potential bonus was inappropriate.
- 2.238 Airlines recommended that, should a quality-related incentive proceed, the CAA should define in advance the priority areas requiring “very high quality” evidence, supported by transparent and objective assessment criteria.

Our views

- 2.239 Given the level of change expected in NR28, scrutiny of NERL’s business plan, including its capex programme, is a crucial element of our cost assessment. This relies on high quality and timely information. We therefore remain of the view that a business plan incentive is appropriate.
- 2.240 The circumstances that led to the Independent Water Commission’s conclusions on Ofwat’s business plan incentive are different to those that apply in NR28. The potential for perverse incentives seems to have been driven by Ofwat’s particular approach to price determinations, which is different to our approach to the price regulation of NERL. For example, we do not generally intend to provide NERL with assumptions that it must justify deviating from.
- 2.241 We consider the criteria in the Draft Method Statement provides clear and concise high-level guidance on our expectations. Our approach is intended to provide flexibility to allow an in-the-round assessment in the consumer interest, giving confidence that the assessment can respond to any particular issues that arise.
- 2.242 A penalty-only approach with rigid ex ante assessment criteria would necessarily require a much narrower and less flexible specification. While elements of the approaches adopted by both Ofwat and Ofgem are penalty-only, the other broader quality and ambition elements within their business plan incentive structures are symmetrical.
- 2.243 We do not agree that the NR23 capex engagement incentive is an appropriate comparator. The accompanying Regulatory Policy Statement includes a high level of specification, and as the incentive is calculated on the last SIP assessed

³⁶ NR23 Price Control Review Final Decision, Appendix D, December 2023. See: www.caa.co.uk/CAP2597b

during the price control period, NERL is also able to refine its approach to capex engagement in response to feedback received during the price control period.

- 2.244 We intend our approach and assessment to be transparent, and have refined the assessment criteria in response to stakeholder feedback as follows.
- We have removed the summary of requirements included within Chapter 3 of the Draft Method Statement, to provide a comprehensive statement of the guidance in one place. We have also rationalised the business plan guidance where possible, and updated our business plan guidance to reflect a number of the points raised by airlines.
 - We have refined the fifth assessment criteria to clarify the intended meaning of 'targets'. We have also adopted more specific criteria requiring NERL to demonstrate that the targets reflect user and consumer preferences.
- 2.245 The business plan incentive allows for NERL to provide further information after its business plan submission, provided this information is appropriate and NERL can justify why it could not have been expected to reasonably provide this information at the time the business plan was submitted.
- 2.246 Nevertheless, we do not expect NERL's plans to require extensive revision, and certainly not to the extent proposed by NERL after its NR23 business plan submission³⁷. We expect NERL to develop a robust plan that minimises the need for substantial unjustified changes.
- 2.247 We agree that the overall balance of incentives and risks is an important consideration for NR28, for the business plan incentive to operate effectively we must determine the level of incentive well in advance of NERL's business plan preparation, before work on NERL's broader incentives can be completed.
- 2.248 We note that Ofwat's Quality and Ambition Assessment offers a staged incentive structure with an overall combined symmetrical incentive of ± 30 bps of RORE, while Ofgem's RIIO-3 business plan incentive is a staged incentive structure with an overall combined symmetrical incentive of ± 60 bps. We remain of the view that a material financial incentive is appropriate to ensure that the business plan incentive effectively drives NERL's behaviours. The proposed maximum reward or penalty of ± 10 bps of RORE provides a level of incentive that is material but not disproportionate.

³⁷ Review of key capital programmes proposed by NERL for the NR23 period, Egis, October 2023. See: <https://www.caa.co.uk/media/mxzji4ns/review-of-key-capital-programmes-proposed-by-nerl-for-the-nr23-period-redacted.pdf>

2.249 In context, assuming a Regulated Asset Base of £2,074m as of 31 March 2025³⁸, and notional gearing of 41%³⁹, a reward or penalty of ±10 bps would be around ±£1.2m per annum over a five year regulatory period, or ±£6.1m in total.

Updated NR28 position

- 2.250 We will introduce a business plan incentive on NERL for the NR28 price control period. This will be a symmetrical incentive with potential for bonuses and penalties equivalent to up to ±10bps of RORE in each year of NR28, to be included in allowed revenue for the NR28 price control period.
- 2.251 Our assessment will be made in the round and we will explain our assessment to avoid applying disproportionate rewards or penalties, for example where there is a single area of the business plan that is high or low quality.
- 2.252 We will set a high bar for NERL to earn a reward. For example, NERL would need to demonstrate that it meets our criteria of a high-quality business plan, as well as achieving "very high-quality" status in the areas of its business plan that we consider, having reviewed the plan, to be a high priority for furthering the interests of users.
- 2.253 In contrast, if NERL were not to meet the requirements of a high-quality business plan and achieves "low-quality" status in priority areas, we would consider applying a penalty. Nonetheless, a full penalty would only be appropriate if NERL's business plan was assessed as low quality across a significant number of criteria or areas of the plan and there was consumer detriment.
- 2.254 In assessing the business plan incentive, we will apply the criteria set out below:
- NERL's plan meets the requirements that we have set out in our business plan guidance, particularly on areas that are material and where high-quality information will be important for us to be able properly to develop our proposals for NR28;
 - the plan is coherent and joined up across its separate sections, and presented in a clear and coherent way, so that stakeholders can engage with the material presented;
 - the way in which the business plan benefits consumers is clearly demonstrated;

³⁸ NATS (En Route) plc Annual Report and Accounts, Year ended 31 March 2025. See: <https://www.nats.aero/wp-content/uploads/2025/06/NATS-En-Route-plc-2025-signed-EY.pdf>

³⁹ Our modelled average gearing of the notional company over the NR23 price control period, as per the NR23 Final Decision. See: <http://www.caa.co.uk/CAP2597>

- the plan demonstrates that the targets and projections it adopts across all aspects (including costs, non-regulatory revenues, outputs, and service and environmental performance) reflect an efficient and value for money plan reflecting user and consumer preferences;
- the assurance provided throughout is robust;
- NERL submits its plan on time;
- NERL responds to follow-up information requests in a timely way; and
- any additional information that NERL might submit to us late in the price control process is appropriate and NERL can justify why the further submission is necessary, proportionate, appropriate and in the interests of consumers.

2.255 We will use the categorisation set out below, which refers to the criteria above:

- Very high-quality plan: NERL's plan exceeds our expectations against the criteria. For example, it is clear how consumers' needs (as ascertained through consumer research and stakeholder engagement) have informed the development of the business plan and how they will be furthered by the implementation of the business plan.
- High-quality plan: NERL's plan meets the requirements set out in the criteria. For example, there is some evidence of how consumers' needs have informed the development of the business plan and how they will be furthered by the implementation of the business plan.
- Low-quality plan: NERL's plan fails to meet a number of the requirements set out in the criteria. For example, there is insufficient evidence of how consumers' needs have informed the development of the business plan and how they will be furthered by the implementation of the business plan.

Incentives for efficiency and the Eurocontrol framework

2.256 The Eurocontrol framework sets out cost recovery principles, which we reflect in the regulatory framework for NERL. They state that, in general, the air traffic control provider keeps any underspend and is responsible for any overspend. However, they specify five categories of costs for which this does not apply:

1. unforeseen changes in costs of new and existing investments;
2. unforeseen changes in the costs incurred by competent authorities or by qualified entities and unforeseen changes in Eurocontrol costs;
3. unforeseen and significant changes in pension costs resulting from unforeseeable changes in national pensions law, pensions accounting law or unforeseeable changes in financial market conditions;

4. unforeseen and significant changes in costs resulting from unforeseeable changes in interest rates on loans that finance costs arising from the provision of air navigation services;
5. unforeseen and significant changes in costs resulting from unforeseeable changes in national taxation law or other unforeseeable new cost items not covered in the performance plan but required by law.⁴⁰

2.257 In broad terms this framework means that NERL retains incentives to seek out efficiencies in the delivery of the majority of its opex base, with exceptions for certain aspects of pension costs and other limited exceptions.

Draft Method Statement

- 2.258 In the Draft Method Statement, we said that, to improve transparency around the risk-sharing mechanisms, we were considering whether it was appropriate to define more clearly what we consider to constitute an 'unforeseen and significant' change in items 3-5 of the list above, and any implications this has for our risk sharing mechanisms.
- 2.259 We sought stakeholder views on providing greater transparency around risk sharing mechanisms and whether the present incentives in relation to operating efficiency remain appropriate or could be improved.

Stakeholder views

- 2.260 NERL said that it was not necessary for CAA to allocate resources in the lead-in to NR28 to more clearly define "unforeseen and significant".
- 2.261 It considered there to be a well-established process for capturing the value of unforeseen and significant changes in items subject to cost exempt principles, and highlighted the process for pension costs as set out in the CAA's regulatory policy statement⁴¹ which provides commentary on "unforeseen" changes.
- 2.262 NERL stated that it shares the view outlined in the regulatory policy statement that the CAA should consider cost changes on a 'case by case' basis, and that amendments to this approach could expose NERL to greater risk, which would not be in the wider interests of airspace users.
- 2.263 NERL said that cost exempt principles are explicitly restricted to unforeseen changes arising from factors outside of NERL's control so in no way encourage, or reward, inefficient spend.

⁴⁰ Principles for establishing the cost-base for en route charges and the calculation of the unit rate, Eurocontrol, January 2020. See: <https://www.eurocontrol.int/sites/default/files/2019-12/doc-20.60.01-eurocontrol-principles-january-2020-en.pdf>, page 16, paragraphs 3.3.4.1-3.3.4.2

⁴¹ Economic regulation of NATS (En Route) plc: Update on approach to the next price control review, Appendix C, March 2021. See: <http://www.caa.co.uk/CAP2119>

2.264 Airlines were supportive of further clarification being provided on “unforeseen and significant” changes within the EUROCONTROL framework.

Our views

2.265 There is a regulatory policy statement setting out how pension costs are passed through. However, no similar process has been established for other cost types.

2.266 As a result, we have typically taken a case-by-case approach when considering the mechanism for passing through any “unforeseen and significant” costs outside of pension costs, and do not agree with NERL’s position that a well-established process exists for all “unforeseen and significant” costs.

2.267 We acknowledge NERL’s concern that changes to our approach could change its risk exposure, and would like to clarify that we do not intend for any change to materially impact NERL’s risk exposure. Our primary objective is to provide clarity and transparency over the application of the cost pass through process.

Updated NR28 position

2.268 We propose to continue exploring formalising the definition of “unforeseen and significant” costs, and establishing a more universal process for the passing through of any such costs that may arise. Our intention is to provide stakeholders with greater regulatory certainty, and support a consistent approach to these costs in future regulatory cycles.

Pension costs

2.269 NERL participates in two pension schemes for its employees: a defined benefit (“DB”) pension scheme and a defined contribution (“DC”) pension scheme.

2.270 New joiners to NATS are automatically enrolled in the DC scheme, and the DB scheme is now closed to new members. NERL also operates a pension cash alternative (“PCA”) arrangement.

Draft Method Statement

2.271 In the Draft Method Statement, we said that our main objectives for assessing pension costs in NR28 will be about protecting users and having regard to our financeability duty, and this would likely involve:

- a) incentivising NERL to continue managing the rising costs generated by specific design elements of its DB scheme; and
- b) assessing the current DC scheme on the basis of it generating a reasonably attractive rewards package to prospective employees, while not allowing any inefficient costs to be passed to users.

2.272 We said we expected to maintain the existing overall approach to pension costs for NR28, but we intended to review:

- the proposed level of PCA costs by NERL; and
- whether our approach to the DC scheme could be usefully informed by benchmarking against other similar schemes.

2.273 We also noted that there is limited scope to make changes to the DB pension scheme, due to protections in place under the scheme's Trust Deed and Rules.

Stakeholder views

- 2.274 Prospect raised concerns that deep dive and bottom-up approaches to cost assessment risk "*unintended consequences*" and are "*regulatory overreach*". It said that a bottom-up approach targets specific cost areas which then directs NERL's actions around its spending and that the CAA is "*effectively making NERL managerial decisions*". It said this approach with respect to opex spending is "*unique amongst other government regulatory approaches*" and an outlier.
- 2.275 Prospect raised particular issues with the application of bottom-up assessment to NERL's pension contributions, saying "*the decision the CAA took on the funding of NATS's DC scheme from 1st January 2024 is one such area where industrial risk remains very real, and we would suggest the CAA reflect on what other union's reactions in other industries might be to such an approach by another regulator, for example, the RMT in rail.*"
- 2.276 Regarding benchmarking, Prospect says this is "*fraught with opportunity for inaccuracy, and often in the past the benchmarking comparators have been inappropriate*" and the "*methodology is also often flawed*".
- 2.277 NERL highlighted an inaccuracy in our description of the conclusions of the NR23 review of pensions. In the Draft Method Statement, we said that the CAA 'adopted' NERL's business plan forecasts of pension costs for NR23. NERL pointed out that the CAA adopted lower levels of DB and DC pensions costs, as reflected in the Final Decision for NR23.
- 2.278 It said that the existing regulatory policy statement provides an appropriate framework for protecting users and discharging its financeability duty with respect to defined benefit scheme pension costs.
- 2.279 Airlines supported the CAA reviewing PCA levels and benchmarking DC scheme contribution rates and supported the CAA gathering supporting evidence in the assessment of pension cost allowances. They provided suggestions for evidence the CAA should seek through its business plan guidance, and said NERL should introduce a new DC scheme for new joiners.

Our views

- 2.280 We do not agree with Prospect that deep dive and bottom-up approaches are an outlier or risk regulatory overreach. Our price control review determines the

overall price cap reflecting an efficient revenue requirement and does not determine NERL's spending decisions.

- 2.281 We do, however, recognise that both bottom-up and benchmarking cost assessment approaches need to be appropriate to the particular circumstances of NERL's pension schemes and that efficiency and the consumer interest include a broad set of factors including the recruitment and retention of staff.
- 2.282 Our Method Statement says that we would assess the current DC scheme on the basis of it generating a reasonably attractive rewards package to prospective employees, while not allowing any inefficient costs to be passed to users.
- 2.283 We agree with NERL's observation regarding the outcome of the NR23 price control review with respect to pensions, which was erroneously reported in the Draft Method Statement. As our Final Decision for NR23 states, the allowances we set included a reduction in DB and DC scheme costs, and adjustments to DB and DC scheme costs in proportion to adjustments we made to overall staff costs.
- 2.284 We do not currently intend to review the Pensions Regulatory Policy Statement as part of NR28. Nonetheless, we have incorporated the additional information that airlines suggested NERL should be required to provide into our business plan guidance.
- 2.285 Our main objectives for assessing pension costs in NR28 will be about protecting users and having regard to our financeability duty. We will assess NERL's pension costs to identify an efficient revenue requirement, noting that this includes wider factors. It is then for NERL to manage its pension schemes within the income it receives from charges.

Updated NR28 position

- 2.286 Consistent with what we said in the Draft Method Statement the main objectives for assessing pension costs in NR28 will be about protecting users and having regard to our financeability duty. This is likely to involve:
- a) incentivising NERL to continue managing the costs generated by specific design elements of its DB scheme; and
 - b) assessing the current DC scheme on the basis of it generating a reasonably attractive rewards package to prospective employees, while not allowing any inefficient costs to be passed to users.
- 2.287 We expect to maintain the existing overall approach to pension costs for NR28, but intend to review:
- the proposed level of PCA costs by NERL; and

- whether our approach to the DC scheme could be usefully informed by benchmarking against other similar schemes.

2.288 If NERL brings forward proposals for changes to pension arrangements in its business plan, it should provide a business case for any proposed changes.

2.289 As noted, we do not intend to review the regulatory policy statement on pensions, and as at NR23, we expect to seek external support to validate our approach.

Traffic risk sharing

2.290 TRS arrangements are designed to protect the regulated business from undue risk and prevent unnecessary increases in its cost of capital that would lead to higher charges for customers.

2.291 This mechanism is consistent with the approach to these matters set out in the Eurocontrol Principles, the European Union (“EU”) performance scheme, and the approach applied to other European air navigation service providers (“ANSPs”).

2.292 TRS arrangements have been in place for NERL since 2003, but were adjusted in NR23 in response to the unprecedented downturn in air traffic as a result of the impact of the covid-19 pandemic. We therefore allowed the recovery of TRS revenues over a longer than the usual period of 10 years, starting in 2023.

Draft Method Statement

2.293 In the Draft Method Statement, we said we expect to retain the existing broad approach to TRS arrangements for NERL for NR28, consistent with our findings in the 2024 Review.

2.294 We asked for stakeholder views on available options around design and calibration (particularly in the context of future market shocks).

2.295 We also said we would consider if it would be appropriate to introduce a TRS mechanism for Oceanic services to address forecast risk, noting that this could add complexity to a relatively small element of the overall charge control.

Stakeholder views

2.296 NERL agreed that the TRS mechanism is an essential part of NERL’s regulatory framework, which serves customers by capping NERL’s financial exposure to traffic volatility, enabling NERL to access lower priced debt and equity funding.

2.297 It asked the CAA to clarify its objectives in reviewing the TRS parameters, noting the value that NERL’s investors attach to stability in the regulatory framework.

2.298 NERL supported a TRS mechanism for Oceanic services and noted that it had argued for such a mechanism at NR23, and had highlighted the historical volatility in Oceanic traffic. It considered that the benefits to users of reducing

windfall gains and losses more than balance the relatively modest additional complexity that would be added to NERL's price control conditions.

- 2.299 Airlines supported risk sharing in principle and the CAA's intentions around calibration. However, airlines stated that the TRS in its current form had placed an undue burden on users and consumers, and said that fully insulating NERL from all traffic-related risks would be inconsistent with the risk profile of a regulated business.
- 2.300 Airlines asked that the CAA to evaluate the TRS with a focus on affordability and balanced risk allocation, particularly in exceptional circumstances.
- 2.301 Airlines were cautious but open to considering a TRS mechanism for Oceanic traffic as part of a wider review of the approach to Oceanic traffic forecasting and risk, but noted that this would require assessment of the benefits and impacts to the proportionality and complexity of regulation.
- 2.302 Airlines highlighted that the CAA should be mindful of creating duplicative adjustments, including for issues that would be captured in the estimate of NERL's asset beta and cost of capital.

Our views

- 2.303 The en-route TRS parameters were established based on a common approach applied across all European ANSPs by EUROCONTROL. We have not recently conducted a detailed review of the appropriateness of these parameters for NERL. Given this, and noting the concerns raised by the airlines, we consider that it is appropriate for us to conduct such a review as part of NR28.
- 2.304 This review will take account of the benefits of regulatory stability and alignment with the approach taken in other European countries. As such, we do not expect to change the overall framework of the TRS mechanism, but to consider the appropriateness of its parameters.
- 2.305 Our primary objective is to assess whether the existing TRS mechanism results in NERL being appropriately exposed to traffic risk, and whether this is consistent with our assessment of NERL's exposure to traffic risk as part of our estimation of NERL's cost of capital.
- 2.306 In relation to Oceanic we note that the terms of NERL's ADS-B contract for the North Atlantic, which makes up a large portion of the Oceanic cost base, means that NERL's costs vary significantly with traffic volumes.⁴² We consider that this significantly insulates NERL from traffic risk, as any reduction in revenue would be partially offset by a reduction in associated costs. In the light of these considerations we see limited benefits in introducing TRS for Oceanic.

⁴² UK RP3 CAA Decision Document, 11.63, December 2025. See: <http://www.caa.co.uk/CAP1830>

Updated NR28 position

- 2.307 We intend to keep the framework of the TRS mechanism the same, but to conduct our own analysis to consider the appropriateness of the parameters, and whether they result in NERL being appropriately exposed to traffic risk.
- 2.308 If we find that there is a case to change the parameters, we will set this out, and our views on why this is beneficial for customers, in our Initial Proposals.
- 2.309 At this point, we do not think the benefits of introducing a TRS mechanism for Oceanic traffic in NR28 outweigh the added regulatory complexity, but remain open to considering new evidence on these matters.

Inflation risk sharing

- 2.310 The current regulatory framework passes risks from variations between forecast and actual inflation to customers and consumers, through:
- a) Consumer Prices Index ("CPI") indexation of the unit rate: determined costs are expressed in NERL's licence in nominal terms, based on forecast inflation. There is a revenue adjustment with a two-year lag to correct for the difference between forecast and actual CPI inflation; and
 - b) RPI indexation of the RAB: an adjustment in the RAB rules to "true-up" for unexpected changes in the RPI-CPI wedge.

Draft Method Statement

- 2.311 The Draft Method Statement confirmed that for NR28, we expect to retain the overarching principle that variations in costs arising from variations between forecast and actual inflation should be passed on to customers and consumers, in line with the Eurocontrol Principles.
- 2.312 We said that we would explore policy options for how the RAB is indexed, including both a transition to CPI or CPIH and/or using a nominal cost of debt, and would also consider whether the 'true-up' for unexpected changes in the RPI-CPI wedge continues to be necessary.

Stakeholder views

- 2.313 NERL firmly supported the CAA's intention to retain the overarching principle that costs arising from variations between forecast and actual inflation should be shared with customers symmetrically, so that neither NERL nor airlines experience windfall gains or losses from this macroeconomic factor.
- 2.314 NERL also highlighted that stability in relation to this matter, and maintenance of the alignment with Eurocontrol principles generally, is important for maintaining efficiency in NERL's financing costs. Nonetheless, it agreed that it would be sensible to consider whether a true up of the RPI-CPI wedge remains necessary.

- 2.315 Airlines encouraged the CAA to ensure its inflationary allowances and mechanisms remain appropriate and do not present opportunity for windfall gains by NERL.

Updated NR28 position

- 2.316 As it is consistent with the EUROCONTROL principles, and stakeholders are supportive of its retention, we will retain the overarching approach that variations in costs arising from variations between forecast and actual inflation should be passed on to customers and consumers.
- 2.317 Our present view is that the replacement of RPI with CPIH removes the need for a true up of the RPI-CPI wedge

'True up' of 2026 and 2027 airspace design costs

- 2.318 Our UKADS Final Decision said that we would true up the NR23 cost allowances for UKADS at the NR28 review, and ensure NERL recovered no more than is necessary and appropriate in relation to the costs of providing the UKADS service.⁴³
- 2.319 We intend to implement these arrangements as part of our NR28 review, alongside consideration of the broader regulatory model for UKADS.

Updated NR28 position

- 2.320 Stakeholders did not provide any commentary on this proposal and we intend to retain the approach set out above.

Regulatory asset base (RAB)

Draft Method Statement

- 2.321 In the Draft Method Statement we said that the RAB is a fundamental part of our regulation of NERL. Retaining this provides regulatory consistency and stability for investors, which avoids unnecessary increases in charges for consumers through higher costs of financing investment, as well as having the benefit of being well understood among stakeholders.

Stakeholder views

- 2.322 NERL supported the use of the RAB and endorsed the benefits of stability in this area. It disagreed with our statement that the RAB “*reflects the amount of revenue that NERL can recover in future and provides remuneration for efficient investment*” stating that the use of ‘and’ incorrectly reflects the historical nature of the investment being remunerated.

⁴³ Economic Regulation of NERL: Final proposals for modifying the Licence to support the implementation of a UK Airspace Design Service, December 2025. See: <http://www.caa.co.uk/CAP3164>

2.323 Other stakeholders did not comment on these matters.

Our views

2.324 We note NERL's concerns with the precise description of its RAB.

Updated NR28 position

2.325 We will continue to use NERL's RAB in setting NR28.

Simplification

Draft Method Statement

2.326 In the Draft Method Statement, we outlined our thinking on how we could simplify some of the calculations in our Price Control Model ("PCM"). We identified four proposed simplifications, and two areas for further consideration. We stated that our intent was not to change the overall balance of risk but rather to make the regulatory framework more transparent and proportionate.

2.327 We proposed:

- simplifying the working capital calculations by focusing solely on TRS payables/receivables;
- eliminating the use of adjustments for backlog depreciation and noted that this would have no net impact on the long-term NPV of charges;
- performing calculations on a CSU basis wherever possible and converting to TSU where necessary for Eurocontrol reporting and charging;
- removing the RPI/CPI wedge adjustment, as deriving these variances will likely be disproportionate to the relatively low materiality.

2.328 We noted that we were exploring whether the mechanics of true-up calculations for pension and spectrum costs calculations can be simplified, while not impacting the balance of risk.

2.329 We noted that we were exploring whether the mechanics of the TVar calculation⁴⁴ could be simplified, while maintaining consistency with the Eurocontrol Principles and avoiding an impact on the balance of risk.

Stakeholder views

2.330 NERL supported the approach outlined in the Draft Method Statement in several areas. NERL supported our proposal to remove backlog depreciation, provided we update inputs to the regulatory depreciation forecasts, and supported consideration of whether a true up of the RPI-CPI wedge remained necessary.

⁴⁴ TVar is a true up to adjustments for issues such as inflation and TRS to reflect the actual traffic for the year in which the adjustment is made, calculated a two further years later using actual traffic for that year.

- 2.331 It also said that performing all calculations on a CSU basis may provide benefits and that immaterial items could be removed from the working capital calculation, though cautioned about ignoring certain other amounts recoverable or payable arising from regulatory mechanisms.
- 2.332 NERL did not support some of our other proposed simplifications. For example, NERL noted that removing pension and spectrum passthroughs could increase volatility in the unit rate.
- 2.333 Airlines were broadly supportive of the proposed simplifications.

Our views

- 2.334 We welcome NERL's support for our simplifications relating to the performing of calculations on a CSU basis wherever possible, and for the removal of the RPI/CPI wedge if no longer necessary.

Working Capital

- 2.335 We recognise that items such as TRS payables or receivables can be material and it would be important to model the working capital impact of such balances.
- 2.336 Conversely, many other items such as trade payables and receivables are not likely to be particularly material. We therefore make a distinction between TRS and other working capital items on the grounds that the TRS receivable arising from the covid-19 pandemic is not a typical working capital item.

Backlog Depreciation

- 2.337 We remain of the view that there is no need to update the regulatory depreciation allowance to reflect outturn capex. Variation in outturn capex will affect the RAB and NERL would be compensated for this through the normal return on RAB and regulatory depreciation without the need for a backlog depreciation adjustment. As long as we maintain the approach of efficient capex being added to the RAB and regulatory depreciation being one of the building blocks of revenue, NERL's investors are fully compensated without the need for a backlog depreciation adjustment.

Pension and Spectrum Passthroughs

- 2.338 We have explored possible ways to simplify the pension cost and spectrum pass through mechanisms. These amounts are currently included within the RAB.
- 2.339 We note that spectrum cost passthrough amounts are typically immaterial. At the same time, we observe that pension cost movements can be significant, and that it would likely still be most appropriate to handle these through the RAB to avoid introducing material volatility in the unit rate.
- 2.340 Should we retain the RAB treatment for pension cost passthroughs, there appears to be minimal benefit from altering the mechanism for handling

spectrum cost passthroughs. We therefore propose to retain the existing mechanisms for pension costs and spectrum.

TVar Removal

- 2.341 We note NERL's points about the importance of the TVAR term for both Eurocontrol purposes and the investor perspective. We agree that, on balance, the value that this term offers to important stakeholders appears to justify the additional calculational burden of retaining it.

Updated NR28 position

- 2.342 In respect of working capital, we continue to explore options for simplifying the calculation while still ensuring that the PCM reflects the finances of the notional company with an appropriate degree of accuracy. In particular, we are considering a simplified approach to modelling general working capital.
- 2.343 We will continue to explicitly model TRS payables or receivables. We will engage with NERL on whether working capital balances associated with other regulatory balances should also be explicitly modelled, but maintain the principle that this is not proportionate unless the balances are material.
- 2.344 We intend to exclude backlog depreciation calculations from the NR28 price control on the basis that they do not offer any benefit to consumers. We will continue to ensure that all depreciation deducted from the RAB is matched with a depreciation allowance that feeds into revenues.
- 2.345 We intend to exclude the RPI/CPI wedge from the NR28 price control. We note that our proposed indexation policy is to index all elements of the price control to the same measure of inflation, removing any need for this adjustment.
- 2.346 We are continuing to develop the PCM and will identify ways to reduce the instances of calculations being performed in both TSU and CSU terms.
- 2.347 We intend to retain the existing mechanisms for TVAR, pension cost passthrough and spectrum cost passthrough.

Regulatory depreciation

Draft Method Statement

- 2.348 In the Draft Method Statement, we said we expected to maintain our NR23 approach to estimating regulatory depreciation. That is:
- 15-year straight line depreciation of new assets added to the RAB through capex
 - to allow only efficiently incurred capex to be recovered through the depreciation allowance; and

- a depreciation adjustment to remove costs associated with NERL's pension cost pass-through which are recovered through revenue adjustments instead.

Stakeholder views

- 2.349 Airlines questioned the appropriateness of a uniform 15-year life for new assets, particularly when assessed against new investment programmes proposed by NERL for NR28.
- 2.350 Airlines said this approach should be reviewed and requested a breakdown of the opening RAB and the asset life projections for new assets during NR28 to support this work.
- 2.351 NERL supported the overall proposed policy of retaining the NR23 approach but noted clarifications around the use of the term 'new assets', the calculation of depreciation forecasts and the removal of pension pass-through costs.

Our views

- 2.352 We note that the choice of asset life for regulatory depreciation purposes would not be expected to have an impact on the overall NPV of NERL's cost recovery.
- 2.353 However, we consider that the request from airlines that we ensure our depreciation policy remains appropriate for NR28 appears reasonable.
- 2.354 We therefore intend to conduct a broad assessment of our 15-year asset life assumption against the average useful economic life of NERL's fixed assets, considering asset life projections for new assets during NR28 and the impact of any changes on NERL's financeability and charges.
- 2.355 At present, we do not consider it proportionate to require a full breakdown of NERL's RAB as requested by airlines, however we remain open to requesting further information as it emerges and where relevant. We will also engage with NERL to better understand its concerns around the impact of the adjustments listed above.

Updated NR28 position

- 2.356 We intend to maintain our NR23 approach to estimating regulatory depreciation, but carry out a broad review of this approach to ensure it remains appropriate.

Corporation tax

Draft Method Statement

- 2.357 As well as incurring operating and capital costs and providing a return on investment, NERL will need to fund payments of corporation tax. We therefore provide an allowance for corporation tax costs.
- 2.358 In the Draft Method Statement, we said that we expect to maintain the NR23 approach to estimating the corporation tax payable by the notional company, by

providing a specific tax allowance as part of our 'building block' calculations of NERL's price control revenue.

- 2.359 This also included the use of tax uncertainty mechanisms to true up changes to the full expensing rules as made permanent by the government in Autumn 2023.

Stakeholder views

- 2.360 In its response, NERL noted its intention to assess the impact of changes to expensing rules and increases in employer national insurance contributions during NR23 on corporation tax.
- 2.361 NERL also indicated that the quality of its submission is dependent on a detailed and transparent explanation of the specific tax allowance calculation.

Our views

- 2.362 We intend to engage with NERL to better understand its concerns around the calculation of the regulatory allowance. We will consider its other comments around the impact of changes noted above in responding to NERL's business plan.

Updated NR28 position

- 2.363 We are retaining the same approach set out in the Draft Method Statement and summarised above.

Financeability

- 2.364 Under the Transport Act 2000 the CAA has an obligation to act in the manner it thinks best calculated to secure that licence holders are able to finance the provision of air traffic services.
- 2.365 We carry out a financeability analysis in support of this duty; to ensure NERL is able to fund necessary investments efficiently, that customers pay no more than is necessary and NERL is able to deliver an appropriate level of service.

Draft Method Statement

- 2.366 In the Draft Method Statement, we proposed to assess financeability similarly to NR23.
- 2.367 Central to that assessment was the use of a notional financing structure, testing that the efficient notional company continues to attract debt and equity financing for investment, even in reasonable downside scenarios.
- 2.368 While in practice this structure has significantly differed from NERL's actual financial structure, assessing the impact of our policy proposals on this notional entity avoids the CAA making judgements on, or allowances for, NERL's actual financial structure. This ensures that the actual choices remain the responsibility of NERL, its directors and shareholders.

- 2.369 We also welcomed views from stakeholders on the appropriate target credit rating that we should assume for the notional company and the downside traffic scenarios for us to consider.

Stakeholder views

- 2.370 NERL requested that the CAA share views on what we consider to be the notional financial structure, further than an assumption of the gearing.
- 2.371 NERL highlighted our inaccurate reporting of NR23 notional gearing. We actually modelled the notional company as achieving gearing of 25% in the final year of NR23, and an average gearing of 41% over the price control period. NERL said that the notional gearing assumption should be higher, and the target credit rating should reflect this higher level of notional gearing.
- 2.372 In respect of downside traffic scenarios, NERL said that this should not be limited to 10 per cent, in order to reflect the actual cash flow risks it faces and should include scenarios associated with opex and capex.
- 2.373 NERL also suggested that its credit rating may be impacted by regulatory simplifications proposed by the CAA, nor did it see value in setting out the consequence of a higher or lower rating on consumers.

Our views

- 2.374 We consider that it remains appropriate to use a notional structure to assess NERL's financeability for NR28.
- 2.375 We understand the appeal of a higher notional gearing for NERL and may examine the impact of higher gearing as part of our financeability testing, with the expectation that we would start with a level consistent with NR23. We encourage NERL to include and explain its own assumptions of notional gearing as part of its business plan submission.
- 2.376 We have not seen evidence to suggest that a change in target credit rating from BBB+ would be appropriate. We would require further evidence from NERL to consider the claims that the regulatory simplifications significantly impact its financial risk.
- 2.377 It is also important that NERL clearly sets out the associated costs and benefits of a higher or lower target credit rating. Examining credit ratings from a consumer perspective supports us in effectively carrying out our duty to ensure that consumers are paying no more than necessary.
- 2.378 We will consider the evidence that NERL puts forward in its business plan on downside scenarios, before taking our decisions on these matters.

Updated NR28 position

- 2.379 For NR28, NERL should provide robust evidence that its business plan is financeable across a range of plausible scenarios.
- 2.380 This includes justifying the credit rating that it is targeting, examining the same credit metrics as used in the NR23 final proposals and final decision and proposing an appropriate notional financial structure. NERL should justify its chosen level of gearing in the business plan with reference to the level of gearing that we modelled for the NR23 price control.

Format of the RAB Rules

- 2.381 The RAB Rules are a document, published alongside our initial proposals, provisional decisions and final decision, which set out the basis for the calculation of the RAB in each regulatory period. The RAB rules are currently formatted as a word document.

Draft Method Statement

- 2.382 In the Draft Method Statement, we suggested that the current RAB rules document may be overly complex, long and not user friendly. We proposed a spreadsheet as an alternative approach for consideration, requesting stakeholder views on this proposal.

Stakeholder views

- 2.383 Airlines supported this change in the interest of clarity and transparency.
- 2.384 On the other hand, NERL disagreed, stating that the rules should continue to be drafted in prose, also in the interest of clarity and transparency. NERL also highlighted the importance of this document for its investors.

Our views

- 2.385 While we recognise NERL's concerns, particularly regarding consistency among regulators, we do not consider this a sufficiently strong argument when compared with the potential benefits of a spreadsheet as laid out in our Draft Method Statement.
- 2.386 We consider the benefits of using a spreadsheet to include
- providing a clear evidence trail for the numbers used in the final decision;
 - making it easier to understand how the RAB has been calculated. This applies to all stakeholders, including investors; and
 - reducing the administrative burden of maintaining and using a long and complex algebraic document.

Updated NR28 position

- 2.387 We therefore intend to present the RAB rules as a spreadsheet for NR28. We note that for this change to be effective it is important that it considers the requirements of all stakeholders, and therefore welcome views on how we can ensure that the spreadsheet is clearly documented and explained.

Inflation

- 2.388 NERL's RAB is inflated in order to compensate NERL for inflation, as in calculating returns we use a real cost of capital. Historically, including at NR23, we have used the RPI index to inflate NERL's RAB.

Draft Method Statement

- 2.389 In the Draft Method Statement, we said that we expected to move from RPI to CPI or CPIH indexation of the RAB for NR28, but that we would continue to consider the most appropriate index.
- 2.390 We noted that while CPIH is the Office of National Statistics ("ONS") lead measure of inflation, NERL's charges have historically been indexed to CPI and there may be benefits in adopting a CPI indexed approach that is consistent with Eurocontrol Principles and other Eurocontrol member states.

Stakeholder views

- 2.391 NERL expressed support for moving away from RPI RAB indexation, stating there is a strong case for CPIH to be the new index. Its reasoning was that CPIH is the ONS's lead measure of inflation and that both Ofgem and Ofwat also use this measure.
- 2.392 NERL also stated that it would be sensible to consider whether a true up of the RPI-CPI wedge would be necessary.
- 2.393 Airlines generally noted that RPI is outdated, has long been unsupported as a measure of national inflation and its use is inconsistent with broader regulatory practice, and supported moving to either a CPI or CPIH index. BA and IAG instead expressed support for changing RAB indexation from RPI to CPI.
- 2.394 Airlines also requested that the CAA review inflation allowances so that they are appropriately designed, including when accounting for variances between forecast and outturn inflation. They stated that they do not support automatic, indiscriminate RAB indexation without appropriate safeguards, which is particularly important in periods of unusually high inflation to avoid NERL earning windfall gains.

Our views

- 2.395 NERL's charges have historically been indexed to CPI, as was previously required under the EU Performance Scheme⁴⁵. Since the UK's withdrawal from the EU, this requirement no longer applies.
- 2.396 We have engaged with Eurocontrol on this issue, who stated that they would be comfortable with NERL's charges and RAB being indexed to either of the CPI or CPIH indices.
- 2.397 We consider that it is most appropriate for the RAB and charges to be indexed to the same inflation measure. We recognise that the choice between CPI and CPIH RAB indexation is finely balanced. We consider that CPIH has an advantage in being the UK's headline measure of inflation, as designated by the ONS, along with being a more comprehensive measure that could provide a more appropriate basis for maintaining the real value of the RAB going forward.
- 2.398 RPI is also expected to transition to align with CPIH by 2030, so aligning the RAB with CPIH at this stage would ensure consistency through that transition.
- 2.399 While CPI RAB indexation is consistent with the previous approach to the indexation of charges, our view is that the advantages of CPIH set out above outweigh any benefit of historical consistency.
- 2.400 Bearing in mind airline comments we will review further the current approach to RAB indexation so that inflationary allowances for NR28 are appropriately designed, though we note that inflation indexation of the RAB is a key feature of the framework, ensuring NERL and investors receive inflation protected returns.
- 2.401 Under the existing approach to RAB indexation, when outturn inflation is higher or lower than forecasted, the value of the RAB is fully adjusted for that outturn inflation, but the interest a regulated company pays on its fixed-rate debt stays the same. This mismatch can mean the regulated company ends up earning more or less than its true cost of borrowing. In the context of high inflation, this can lead to a regulated company earning more than its true cost of borrowing and benefitting from windfall gains.
- 2.402 We will consider alternative approaches to assess whether they are preferable to the current approach when considering the risk of windfall gains or losses to NERL during NR28.⁴⁶ We note that at NR23, our assumption was NERL's new

⁴⁵ Commission Implementing Regulation (EU) 2019/317, February 2019. See: https://eur-lex.europa.eu/eli/reg_impl/2019/317/oj/eng

⁴⁶ We outlined our initial considerations on this issue in the context of the H8 price control in the Financial Framework chapter of our H8 Initial Proposals, found at www.caa.co.uk/CAP3232. Elements of these initial considerations may also be applicable to the NR28 price control.

debt issuance would be very limited and we assumed a zero weight to the allowed cost of new debt in our cost of capital calculations.

- 2.403 If the notional company is likely to be in a similar position at NR28, we consider the risk of inflation mismatches between RAB indexation and the allowed cost of debt resulting in significant windfall gains or losses is limited. We will consider this further after reviewing NERL's business plan.

Updated NR28 position

- 2.404 We propose to index the RAB and charges to CPIH, and remove the RPI-CPI true-up mechanism.
- 2.405 We will consider alternative approaches to RAB indexation to assess whether they are preferable to the current approach when considering the risk of windfall gains or losses to NERL during NR28.

Cost of capital

Draft Method Statement

- 2.406 In the Draft Method Statement, we said that it will be appropriate to set an allowed WACC that allows NERL to recover the reasonable and efficient costs of financing the investment represented by the RAB. We were minded to continue using a single WACC for all of NERL's regulated activities.
- 2.407 We expected to explore links between the NR28 incentive package and the allowed WACC that we set, taking decisions consistent with the interests of users and our other statutory duties in the round.
- 2.408 We said we would consider new precedent from other regulatory reviews including relevant decisions by the CMA, guidance issued by the UK Regulators Network ("UKRN"),⁴⁷ the comparators for beta estimation, new market evidence, further evidence from stakeholders and any other relevant information.
- 2.409 We intended to change the treatment of inflation in calculating the WACC, consistent with our position on RAB indexation.
- 2.410 We also stated that there were elements of the work undertaken as part of our H8 price control which are likely to be applicable to NERL, particularly previous work on WACC parameters reflecting general economic conditions.

Stakeholder views

- 2.411 NERL expressed support for using the NR23 cost of capital as a starting point for NR28, with updates for new market evidence and relevant regulatory precedent.

⁴⁷ UKRN, UKRN guidance for regulators on the methodology for setting the cost of capital, March 2023. See: https://ukrn.org.uk/app/uploads/2023/03/CoC-guidance_22.03.23.pdf

- 2.412 It also supported recognising the impacts of the incentive package being applied to NERL in the NR28 cost of capital.
- 2.413 NERL requested the CAA to acknowledge that it may not be practical or possible to align its business plan proposals to all of our expected evidence base given its broad coverage. For instance, certain parts of the evidence base would have to be prioritised over others, when they point in different directions.
- 2.414 Airlines stated that the NR23 WACC was not appropriately calibrated. They commented that the beta was overstated for the following reasons:
- the existence of broad traffic and inflation risk sharing mechanisms providing protection against notable volume and inflationary risks;
 - the potential excess risk by comparing to airports with higher systematic risk owing to the inclusion of smaller international airports in the airport comparator groups;
 - consistency issues with the inclusion of ENAV; and
 - the monopoly/essential infrastructure characteristics of NERL.
- 2.415 Particularly in respect of volume risk, airlines noted that where design of the TRS mechanism accounts for future significant traffic shock events, the CAA should appropriately reflect this in market estimates of risk and beta estimates.
- 2.416 Airlines stated their expectation of the CAA to undertake a fundamental recalibration of the risks note above, convening technical forums and consult stakeholder views early ahead of the NERL's business plan submission.
- 2.417 Airlines requested that the CAA provides a WACC estimate for NERL to apply, for both proposed indexation measures, during the Constructive Engagement process and in its business plan.

Our views

- 2.418 We do not consider it appropriate at this stage to provide NERL a cost of capital estimate for the purpose of constructive engagement or developing its business plan. We expect stakeholders to develop and submit their own proposals for the cost of capital. This is consistent with good consultation practice, including the principle that consultees should have a fair opportunity to present their evidence and views.
- 2.419 This approach will allow us to consider stakeholder input as part of the NR28 process when forming our own assessment on setting the WACC. The evidence base we expect NERL to take account of when proposing its cost of capital estimates is set out in the business plan guidance, which we consider to be similarly helpful for other stakeholders preparing their submissions.

- 2.420 We acknowledge that different elements of the evidence base set out in the business plan guidance may reflect a range of policy positions resulting from the specific circumstances of each individual review and the evolution of policy debate over time. This should not prevent NERL from proposing a cost of capital that is informed by the evidence base as a whole and it should justify its approach, and the basis for relying more on certain elements of the evidence base than others.
- 2.421 We continue to consider that the approach adopted to calculate the cost of capital in NR23 should provide a reasonable starting point for setting the NR28 cost of capital.
- 2.422 We also note that our H8 Initial Proposals contain detailed considerations of market wide parameters (risk-free rate, total market return)⁴⁸, which are likely to also be applicable to NR28.
- 2.423 Ahead of Initial Proposals, we will consider the calibration of the NR28 cost of capital when comparing NERL's risk protection and incentive mechanisms to those of the beta comparators that we will use to proxy NERL.
- 2.424 In the context of considering relative risk adjustments, we consider that a relatively high threshold should be applied when determining whether to adopt a different asset beta than those implied by our listed comparator companies. We have not made such relative risk adjustments in previous NERL price controls, but will consider this issue further and take decisions consistent with the interests of users and our other statutory duties in the round. This will include considering whether NERL's various activities have different risks, but we expect to continue to estimate a single overall WACC for NERL that covers all of its regulated activities.
- 2.425 As mentioned in the above Inflation chapter, we propose to index the RAB using CPIH rather than RPI. As a result, we propose to change inflation treatment of the real WACC to CPIH terms rather than RPI.

Updated NR28 position

- 2.426 We continue to propose using the NR23 cost of capital method as a starting point for proposals on setting the NR28 cost of capital. The NR28 cost of capital will reflect new market evidence and an appropriate calibration of systematic risk when reviewing NERL's risk protection and incentive mechanisms.
- 2.427 We propose to change inflation treatment of the real WACC to CPIH terms rather than RPI.

⁴⁸ This includes an accompanying expert report published by FTI Consulting. See: <https://www.caa.co.uk/media/n3lnqjf3/fti-report-h8-cost-of-capital-final-corrected.pdf>

Chapter 3

Business Plan Guidance

Introduction

- 3.1 This chapter summarises the updates we have made to the business plan guidance. These changes reflect both updates to our policy position and specific feedback on the evidence that NERL should provide, and are intended to further support NERL in developing a high quality business plan. The final detailed business plan guidance is set out in Appendix A
- 3.2 We are developing detailed Microsoft Excel templates to accompany our final Business Plan Guidance, and expect to publish these within the next month.

Summary of changes

- 3.3 We set out below the main changes made to the business plan guidance. Where possible we have sought to clarify and streamline the guidance, to ensure that the evaluation of NERL's performance against the criteria in the business plan incentive is more efficient and transparent. We have:
- i. streamlined the guidance within the Scope and priorities section, removing guidance on issues covered in more detail in later sections;
 - ii. we now deal with safety at the start of the guidance reflecting that safety remains the highest priority for NERL and this is also the CAA's primary duty. These principles are also embedded in our revised Scope and priorities section;
 - iii. revised the Assurance section to reflect a "best-endeavours" approach, allowing appropriate flexibility where full adherence to the guidance may not be practical, while requiring clear justification for any divergence. We have also clarified our expectations around board sign-off and third-party assurance;
 - iv. revised the Approach to consumer engagement section to provide clearer guidance on option development and assessment. The updated guidance states explicitly that NERL should engage with its users and customers in developing the business plan, and provides guidance on the evidence NERL should provide to demonstrate this. Wording on assurance has been revised to remove any implication that assurance is provided through a separate process;
 - v. revised the Traffic section to reflect our position that NERL should adopt the STATFOR base case forecast for its UK En Route and London Approach

- services, and provide greater detail on the evidence that NERL should provide in support of its Oceanic forecast. We have also made changes to support the streamlining and clarification of guidance;
- vi. revised the Service quality and resilience section to more clearly differentiate between guidance relating to the level of service quality and resilience that NERL should seek to deliver in NR28 and guidance regarding the review of service quality incentives;
 - vii. added guidance clarifying our expectations regarding the principles that should drive the level of service quality and resilience that NERL should deliver in NR28. This is to ensure that the standards against which the business plan will be assessed are clear and distinct from the service quality incentive regime;
 - viii. modified the guidance that NERL should review and forecast service quality capacity metrics. This was previously presented in the context of the financial incentive regime, but the amendment presents this guidance as one of performance measurement more generally. We also clarified that NERL should both conduct its own review and also provide the CAA and airlines with the necessary information to support their own considerations;
 - ix. modified the Environment section to include additional guidance on the issues to be addressed by NERL's proposed suite of environmental metrics, and the information to be provided for each metric;
 - x. retitled the Cost section to Cost-efficiency and value for money to reflect a broader focus. This section is divided into general guidance (reflecting cost assessment objectives), overall data requirements and forecast explanation;
 - xi. augmented the general guidance to provide clearer guidance on how value for money and cost efficiency will be interpreted;
 - xii. included additional guidance on the information that NERL should provide regarding UKADS, providing flexibility pending ongoing work to consider the regulatory model for UKADS in NR28;
 - xiii. in the section on explaining forecasts consolidated the existing guidance and provided additional guidance on cost allocation and forecast build up, including additional guidance to support a targeted review of NERL's cost allocation approach, and guidance requiring NERL to explain how its forecasts have been built up from actual data in incremental steps. We expect NERL to agree how these steps are defined with us and airlines;
 - xiv. included additional guidance to clarify that scenario and sensitivity testing is not limited to traffic scenarios;

- xv. revised the Pensions section to add guidance to support assurance over the efficiency of NERL's pension cost forecasts. The draft guidance primarily covered the DB pension scheme, while the revised guidance also covers the DC and PCA schemes;
- xvi. revised the Capex section to provide greater specificity and nuance around the different objectives that our assessment of NERL's capital plans will include, covering the objectives of prioritisation, cost-efficiency and delivery, outlined earlier in this document. This provides additional clarity regarding the standards that will be considered in our assessment of NERL's business plan;
- xvii. in relation to the level of detail that could be provided for projects at an early stage of development we have revised the guidance by emphasising the outcomes sought through cost forecasting, which NERL can provide through a range of approaches;
- xviii. streamlined our requirements for the capex information to be provided by NERL. NERL raised proportionality concerns over our proposal to require additional levels of detail for projects over £5m. We have amended the guidance to allow NERL to agree the subset of programmes for which additional detail is required with us and airlines, and provide a backstop in absence of agreement;
- xix. revised the Capex incentives section to make clear that NERL should both conduct its own review and also provide the CAA and airlines with the necessary information to support their own considerations;
- xx. revised the Overall balance of incentives section to include further guidance clarifying the principles regarding the balance of incentives; and
- xxi. revised the Financial issues section to reflect our proposals earlier in this document in a number of areas, including our proposed level of notional gearing, our proposal to index NERL's RAB by CPIH, and to require NERL to provide additional detail of the asset lives of its assets, to support our assessment of the appropriate approach to regulatory depreciation. We have also clarified the years to be covered by an analysis of affordability.

Appendix A: Business Plan Guidance

Business Plan Guidance - Scope and priorities

General guidance

1. Safety remains the highest priority for NERL, and this is also the CAA's primary duty.
2. In this context NERL should provide a business plan to describe in detail its plans and expectations for each of the En route Businesses and London Approach Service (LAS) including its capital expenditure and operational plans, together with measures which it proposes to take to improve the efficiency and effectiveness of its operation in providing the services required by its Licence.
3. NERL should present its business plan with disaggregate information to the individual regulated service level where appropriate.
4. The plans and expectations contained in the business plan should be deliverable, including in respect of financeability.
5. The business plan should be:
 - transparent, including in relation to having a clear and robust narrative covering all key areas, and be publicly available to all stakeholders;
 - supported by a robust evidence base, drawing on industry best practice;
6. NERL's business plan should cover its En Route, LAS and Oceanic air traffic services in the UK. Subject to the outcome of ongoing statutory processes, it should also cover NERL's Airspace Design Service and associated activities. NERL should present its business plan for all the above regulated services, and disaggregate information to the individual regulated service level where appropriate.

Time period

7. The business plan should cover at least the five year period from 1 January 2028 to 31 December 2032.
8. Where forecasts are presented, these should be provided in an annual form which is consistent with their presentation in NERL's accounts and figures should be presented for each year of the five year period.

Guiding principles

9. NERL should clearly demonstrate how it will continue to meet its statutory duty under Section 8 of the TA00 to secure that a safe system for the provision of air

traffic services is developed and maintained, which complies with the safety regulatory framework, maintain current safety standards and identify areas for improvement in safety performance.

10. NERL's business plan should be customer and consumer focused, reflecting the needs, views and preferences of consumers and NERL's customers. It should demonstrate a solid understanding of customer and consumer preferences based on engagement and research.
11. The business plan should demonstrate clear links between costs and service outcomes, and between service outcomes and customer and consumer priorities. It should be able to clearly showcase how, within its business plan, specific decisions have been made to take account of the views of consumers, and airlines (and where appropriate, airport) customers.
12. NERL should be able to demonstrate its commitment to modernisation and delivery of a resilient service. NERL should consider how these are impacted by issues such as asset maintenance policies, the transition to new systems, and airspace modernisation and the integration of new users.
13. The business plan should provide robust supporting evidence for its opex and capex plans, including: the key drivers, how the costs link with each other and to traffic and service level forecasts, what other options and trade-offs it has considered and rejected, and how programmes might need to evolve if circumstances change.

Level of detail

14. The business plan should contain an appropriate level of detail to enable the CAA and stakeholders to effectively scrutinise and understand the underlying assumptions, and carry out an independent review of these where appropriate.

Assurance

15. NERL should ensure that its Board reviews and approves the business plan, certifying that it is consistent, as far as possible, with this guidance and fully explaining any divergence from it.
16. NERL should explain the level of assurance it has obtained over its business plan, and why it considers that level to be appropriate. This should cover the arrangements it has in place to ensure its business plan is deliverable, and include third-party assurance over specific areas as considered appropriate.
17. NERL should be able to demonstrate consistency at a programme level between its business plan and the most recent SIP NERL has provided to the CAA, and clearly articulate the reason for any significant variances.

Business Plan Guidance - Consumer priorities

General guidance

18. The business plan should provide strong evidence that NERL has fully engaged with customers, consumers and other stakeholders. We expect NERL to ensure that it provides information to all stakeholders in a timely and transparent manner, to enable them to provide NERL with informed views on the development of its business plan.
19. To the extent practicable, NERL should demonstrate a clear link between its consumer insights and future plans, drawing on existing consumer insights, new intelligence and research to support these scenarios where possible.

Approach to consumer engagement

20. The business plan should demonstrate that it includes robust assumptions, that possible options have been carefully considered (including the trade-off between, for example, affordability and service quality), that strategic choices have been made, and that the options proposed are best placed to achieve maximum value for money for consumers.
21. NERL should engage with its users and customers throughout the development of its business plan, to identify options and involve customers in assessing them, so as to build confidence that a range of feasible alternative options and counterfactuals have been fully considered in arriving at a preferred plan.
22. NERL's business plan should therefore demonstrate that:
 - NERL has developed a clear view of the needs, views and preferences of consumers and customers and that these have been used to inform the plans and identify options;
 - potential options and strategic choices have been proactively identified and thoroughly considered;
 - implications of options and strategic choices for customers and consumers have been assessed, drawing on evidence from robust and comprehensive consumer research and effective engagement with customers and stakeholders; and
 - the plan proposed is best placed to achieve maximum value for money for consumers by reflecting their preferences, including with respect to trade-offs between costs and benefits over time.
23. To develop its business plan, NERL should develop and utilise a robust and comprehensive consumer research evidence base which is up-to-date, relevant

to the context and fully covers the most appropriate considerations, including the feedback we have provided on NERL's existing consumer research.⁴⁹

24. NERL should also conduct effective engagement with customers and stakeholders, and take account of feedback provided by airspace users.
25. NERL's business plan should demonstrate this by documenting the consumer research and consumer and stakeholder engagement it has drawn upon.
26. NERL should clearly explain why it considers its own consumer research and engagement to be sufficiently robust to support its business plan development.

Business Plan Guidance - Traffic

Traffic forecast

27. For UK En Route and London Approach services, NERL should prepare its business plan based on the most recently available STATFOR base case traffic forecast.
28. For Oceanic services, NERL should provide a traffic forecast which it considers is most appropriate and prepare its business plan on the basis of this forecast. NERL should clearly explain the basis of estimation for the forecast provided, including key data sources, assumptions, simplified calculation steps, and NERL's assurance procedures around the forecast.
29. NERL should also explain the extent to which its Oceanic forecast incorporates data from STATFOR forecasts and reflects engagement with airlines.

Traffic scenarios

30. NERL should develop alternative traffic scenarios and show, in the business plan, how these affect costs, non-regulatory revenues, service quality and environmental outcomes, and how the optimal strategic choices might differ under different scenarios.
31. NERL and airlines should work together to reach a joint view on a reasonable range of sensitivities for the NR28 traffic forecast. This will require transparency and engagement and, therefore, NERL and airlines should explore how best to achieve this during Constructive Engagement early in the NR28 process.
32. A reasonable range of sensitivities would be that which illustrates the range of potential traffic volumes that may occur, given the uncertainties and risks that may affect the accuracy of traffic forecasts. An alternative traffic scenario may present NERL's views regarding an alternative 'central case' traffic forecast.

⁴⁹ See paragraphs 2.74 to 2.78.

Traffic Risk Sharing

33. NERL should share views on any potential improvements to the TRS mechanism that could better manage uncertainty at an efficient cost for consumers, including whether it may be appropriate to create a TRS mechanism for Oceanic services.

Business Plan Guidance - Service quality and resilience

Service quality and resilience

34. NERL should aim to deliver a high standard of service quality and resilience for its customers and consumers, reflecting consumer needs and preferences. NERL should demonstrate in its business plan how it will achieve this.
35. Service quality refers to punctuality and cancellations. Resilience means the capability of an ANSP's assets, networks, people and procedures to anticipate, prevent, absorb and adapt to a disruptive event with any disruption or degradation of service managed in alignment with pre-agreed performance standards and to safely and rapidly recover to normal services.
36. NERL should provide an appropriate and proportionate assessment of the likelihood and impact of key risks to service quality and resilience and detail its approach to managing those risks.
37. NERL should demonstrate in its business plan how it is taking account of the recommendations of the Halliwell Review in its plans.
38. NERL should identify relevant and appropriate measures of service quality and resilience, reflecting outcomes that most matter to consumers and customers, and consistent with its duties under Section 8 of the TA00. These metrics should include the existing C1–4 metrics unless otherwise agreed with the CAA.
39. The business plan should include forecasts how these measures are likely to change, showing the incremental impact of traffic growth and, separately and individually, other changes that materially indirectly or directly impact on service quality.

Service quality incentives

40. NERL should work with the CAA and airlines to conduct a review of the approach to service quality incentivisation. NERL should conduct its own review and readily and transparently provide information to the CAA and airlines to inform their own considerations.
41. NERL's review should:
 - identify the outcomes of most value to consumers and its customers, drawing on its consumer research and engagement with its customers;

- establish to what extent existing service quality metrics (C1-C4) correlate with priority service quality outcomes (which should include cancellations, knock-on delays and large-scale disruption);
 - review historical service quality performance and assess the effectiveness of existing metrics;
 - identify and assess options for change to the range and definition of service quality metrics utilised, identifying NERL's preferred approach and demonstrating that it is better than potential alternatives; and
 - identify and assess options for change to the quantum and mechanism of financial incentives attached to performance against existing and proposed service quality metrics.
42. NERL's business plan should summarise the progress it has made on this review, and explain any changes it is proposing to the range and definition of service quality metrics or the quantum and mechanism of financial incentives attached to existing and proposed service quality metrics.
43. NERL's business plan should demonstrate:
- how its proposals align to the objectives set out in paragraph 2.131;
 - how its proposals take account of the findings of the Halliwell Review, in particular in relation to measuring the impact of cancellations;
 - how its proposals support the resilience priority, set out in paragraph 2.4; and
 - how it takes account of consumer insights and other sector developments.

Business Plan Guidance - Environmental sustainability

44. NERL's business plan should outline proposals for a suite of metrics and incentives to support:
- i. better environmental outcomes through increased understanding of current and potential efficiency performance.
 - ii. efficient investment in projects to improve NERL's environmental performance.
45. Overarching principles for the assessment framework against which proposed options for metrics will be considered are set out below.
46. Where incentives are proposed on NERL's own performance, it should clearly identify which metric an incentive would be based on, the specific environmental improvements that the metric is designed to incentivise, how NERL has assured that the amount, threshold, and structure of any proposed incentive are

appropriate, and how the proportionality of any incentives compared with other incentives has been determined.

47. Where targets are proposed for either financial or reputational incentives, NERL should evidence how these have been calibrated and how the business plan supports any proposed improvements in performance.
48. Overall, the suite of metrics proposed should support the understanding of efficiency performance across the following dimensions:
 - i. operational efficiency through tactical interventions by controllers;
 - ii. network efficiency through better use of existing capacity; and
 - iii. airspace efficiency - increased capacity through airspace modernisation and changes to airspace design.
49. For each proposed metric we expect NERL to provide, at a minimum, the following information:
 1. A clearly stated measurement objective, to include:
 - i. the type of efficiency measured (operational, network or airspace)
 - ii. whether the metric measures NERL-only or sector wide performance
 2. Metadata for the proposed metric, to include:
 - i. details of data sources used and expectation of their future availability
 - ii. details of any additional processing done to the raw data
 - iii. whether the measurement is absolute or a relative percentage, and a clear definition of the comparator baseline used for relative metrics
 - iv. identification of alignment with Eurocontrol data series where applicable. Where definitions and data used diverge from Eurocontrol guidance this should be evidenced and explained
 3. Robust method, to include:
 - i. sufficient time series data to support calibration of the metric and, where feasible, an understanding of correlation across the metric suite
 - ii. assessment of confidence intervals and estimated error bounds around historical metric estimates
 - iii. identification of key drivers of sensitivity (for example, aircraft mass)

Business Plan Guidance – Cost-efficiency and value for money

General guidance

50. The plans and expectations contained in the business plan should be designed to reflect the efficient delivery of a level of output and quality that reflects customers' and consumers' views and preferences, including with respect to trade-offs between costs and benefits over time, and consistent with NERL's duties under Section 8 of the TA00. NERL should provide its proposed opex, non-regulatory revenues and capex for NR28 to reflect its view of an efficient revenue requirement that meets this objective.
51. NERL should aim to demonstrate that its cost forecasts represent an efficient revenue requirement by demonstrating that its plans reflect the views and preferences of consumers and its customers, including trade-offs between quality, output and costs, and that its costs are efficient for the level of quality and output to be delivered.
52. NERL should present evidence its plans represent cost-efficient delivery. This evidence should be relevant and robust and may include benchmarking against relevant comparators on an aggregate or disaggregate basis for different forecast components, including underlying costs, forecast efficiency and inflation.
53. In demonstrating that its plans reflect the views and preferences of consumers and its customers, NERL should aim to demonstrate both that its preferred approach delivers value for money for consumers, but also that its preferred approach better reflects consumer and customer preferences than alternative approaches that it has proactively identified and systematically considered.
54. Accordingly, NERL should present a clear options analysis where there are strategic choices around priorities or delivery options, including cost-benefit analysis where proportionate.

Overall data requirements

55. The business plan should present consistent historical and forecast data at a level that supports scrutiny by the CAA and stakeholders.
56. The CAA will provide Microsoft Excel templates for the submission of data for the purposes of the NR28 price control review. NERL should populate these templates to the fullest extent possible and should agree with the CAA where limitations and constraints limit its ability to do so.
57. We note that the UKADS work is regulated under an opex based approach for the remainder of NR23. Work is ongoing to consider the most appropriate regulatory model for NR28. Given this, NERL should provide forecast data in a form suitable for either a capex or opex based approach.
58. NERL must provide as a minimum:

- Annual data on opex, non-regulatory revenues, and capex for NR23 and NR28, split by the categories set out in NERL's regulatory accounts. If NERL proposes an alternative categorisation of opex, non-regulatory revenues, or capex for NR28, this must be discussed and agreed with the CAA before submission of the business plan.
- Actual data, up to and including calendar year 2025. Where necessary, NERL should explain any discrepancies between the actual data and its most recent published regulatory accounts.
- Forecast data from calendar year 2026 onwards

59. The business plan should present all financial, cost and revenue data in consistent real and nominal prices. Real prices should be in 2025 prices, calculated from nominal prices using OBR projections of the CPIH index.

Explaining forecasts

60. Forecasts must be fully explained, taking account of past performance, expected operational efficiency, and non-regulatory revenue generation.
61. NERL must clearly state inflation assumptions, providing the basis and source for inflation forecasts. Where real price effects are assumed in forecasts, these should be separately identified and NERL should explain the assumptions and provide supporting evidence.
62. Cost allocation. NERL should explain the basis for any allocation between the regulated services, and between regulated and non-regulated services, confirming these are in line with the principles set out in condition 9 of its licence.
63. NERL should identify any areas in which it has diverged from the cost allocation methodology reviewed by CEPA during the RP3 price control review, or where the CEPA study's conclusions may no longer be valid.

Forecast build-up. NERL should fully explain how its forecasts of key cost drivers (such as staff numbers), opex, non-regulatory revenues, outputs and outcomes (such as service quality and environmental outcomes) have been derived, and how these link to its capex in NR23 and proposed capex in NR28, including by:

- Identifying an appropriate base year, and any adjustments necessary to take account of the impact of non-recurring events and costs.
- Identifying the impact of its proposed changes, projects and initiatives, grouped and categorised in a transparent fashion as agreed with airlines and the CAA prior to submission of the business plan, and identifying the associated capex where relevant. This should include identification of benefits associated with projects to be delivered prior to NR28 where these are not already fully reflected in the base year data.

- Adopting a consistent approach to the build-up of its forecasts across costs, the main cost drivers (for example, staff numbers) and outputs and outcomes.

64. Scenario and sensitivity testing. NERL should use scenario and sensitivity testing to explain its forecasts, for example to:

- illustrate broad strategic choices in the design of its plans;
- identify the incremental impact of the main constituent changes, projects and initiatives; and
- outline how forecasts may change if major risks materialise or if key assumptions are wrong and, where appropriate, to identify how the preferred plan may change in response.

65. NERL should agree with airlines what scenarios and sensitivities should be illustrated in the business plan.

Pensions

66. NERL should seek to provide the most cost-efficient approach to pension provision overall.

67. We expect NERL to provide information on its DB and DC pension schemes and the PCA arrangement in a similar form and to a similar level of detail as provided for NR23, consistent with the requirements of the Regulatory Policy Statement⁵⁰.

68. NERL's business plan should explain and, where appropriate, provide evidence for how it is managing the risks associated with its DB scheme in a way that acknowledges and respects that it is underwritten by customers.

69. We expect NERL's business plan to include evidence that:

- it has behaved and is continuing to behave in a manner consistent with a commercially minded company by taking all steps available to it within its legal discretion, which are in the interests of users, to manage and mitigate the pension cost burden on airspace users;
- it has considered and where appropriate taken actions consistent with those actions taken by other employers in the UK that do not benefit from the cost pass-through arrangements that have been available to NERL;

⁵⁰ Economic regulation of NATS (En Route) plc: Update on approach to the next price control review, Appendix C. See: www.caa.co.uk/CAP2119

- it has worked with the pension Trustees to take actions to help minimise future costs and how these compare with actions taken by other employers and Trustees of other schemes, including those in sectors of the economy subject to normal commercial and competitive pressure. NERL should also set out and explain the assumptions it has made about the Trustees' future actions, including evidence of benchmarking these assumptions against the actions of Trustees operating schemes in sectors of the economy open to normal commercial and competitive pressures;
- cash costs of the DB Scheme are separately identifiable from those of the DC Scheme, that the cash costs of the DB Scheme are separated between ongoing service and deficit repair and that its forecasts of these costs take into account information from the most recent actuarial valuation; and
- the assumptions supporting the latest actuarial valuation are reasonable and are supported by independent benchmarking against other pension schemes.

70. With respect to its DC scheme, NERL's business plan should provide evidence to justify the level of employer contribution NERL provides, on the basis of it generating a reasonably attractive rewards package to prospective employees, while not allowing any inefficient costs to be passed to users. NERL should demonstrate how its DC pension costs support staff recruitment and retention compared to benchmarked costs in relevant job markets.
71. With respect to its PCA scheme, NERL should explain its objectives in setting these costs (in particular, relative to its DB scheme) and show how its proposed levels achieve these objectives and are efficient.
72. NERL should set out what options it has considered for amendments to its pension provision, including with respect to its DC and PCA costs, and why it has adopted its proposed option.
73. NERL should provide information on the relative costs of its different pension schemes, including showing the relative costs to NERL and attractiveness to employees of the PCA and DB schemes.

Non-regulatory revenues

74. Forecasts of non-regulatory revenues should be fully explained, and key drivers of each line item of non-regulatory revenues identified, with the relationship between those drivers and the non-regulatory revenues clearly specified.
75. NERL should demonstrate that its forecasts are integrated with other areas of the business plan, and that its non-regulatory revenue forecasts are consistent with planned opex and capital investment.

Prioritisation of NERL's capex programme

76. NERL's capex should reflect a prioritised capital programme and schedule that reflects the views, needs and preferences of current and future consumers and its customers while delivering its statutory and licence obligations to deliver a safe, efficient and coordinated service now and in the future.
77. The business plan should set out how the capex programme delivers value for money, on a whole-life cost basis, for customers and consumers during NR28, including an estimation of measurable benefits.

Efficient capital expenditure

78. NERL's capex should reflect an efficient level of expenditure given the outputs and milestones being delivered.
79. Efficient scope. Evidence should be provided that alternative approaches to delivery (including choices around scope, solution, delivery and implementation), have been considered to achieve maximum value for money in delivering outcomes for consumers.
80. Efficient forecasting and budget allocation. NERL should explain how costs have been estimated and what steps have been taken to ensure costs reflect an appropriately accurate forecast, reflective of efficient project delivery, while accounting for levels of forecasting uncertainty commensurate with the stage of project development.
81. It is for NERL to demonstrate that capex forecasts are both robust and efficient for a given level of project maturity. Greater levels of assurance should be provided for projects accounting for a significant level of committed expenditure. NERL should explain its approach to authorising capital expenditure incrementally as maturity increases.

Delivery, management and governance of capex

82. NERL should provide its customers with the greatest possible confidence that the expected benefits will be delivered to the timescales and budget presented in its business plan.
83. Accordingly, NERL should provide an overview of its approach to managing its capital programme, including managing change to the programme overall and to individual projects, risk identification and management and the management of contingency, and on how it engages with its customers on delivery of and changes to the capital programme.
84. NERL should clearly demonstrate how its proposals take account of the findings of the Egis Review and the Halliwell Review.

Capex detail to be provided

85. NERL should state the capitalisation policies adopted in its capex forecasts and, if applicable, identify, explain and quantify any changes from the capitalisation policies adopted for NR23.⁵¹
86. NERL should provide an assessment of the level of confidence it has in the capex data, at both aggregate and disaggregated levels, and describe the steps taken to provide assurance of forecasts.
87. NERL should clearly identify risk, contingency and efficiency assumptions in its capex proposals, both at the project and portfolio level.
88. The business plan should contain detail on the overall capex portfolio and all capex projects and programmes within this portfolio. All projects or programmes should be identified, and the business plan should set out, as a minimum:
 - A clear description of the project or programme and its expected outputs and outcomes.
 - Estimates of efficient costs by year and an explanation of the main drivers of cost. Costs should be disaggregated into their main elements where information is available.
 - Forecasts of incremental consumer benefits by year over the asset life.
 - The level of maturity and the main risks and uncertainties.
 - The approach to forecasting costs, benefits, and risk and uncertainty.
 - The policy adopted towards allowance for risk and contingency.
89. Additional justification should be provided for a subset of larger and riskier projects and programmes. This subset should be agreed with the CAA and airlines. In the absence of agreement, this subset should comprise the largest projects which in combination make up at least 80 per cent of NERL's risk-adjusted capital expenditure within NR28, plus any individual project accounting for more than 5 per cent of the risk-adjusted capital expenditure within NR28.
90. For these projects, a summary business case should be provided explaining:
 - Strategic Case. The case for change and the needs and objectives the scheme seeks to address, the options considered (including as appropriate for scope, solution, delivery and implementation), and the outputs and outcomes the scheme seeks to deliver.

⁵¹ As we have not yet concluded on the most appropriate regulatory model for UKADS in NR28, NERL's business plan should clearly state its proposed approach, and present information in a form enabling cost forecasts to be easily shifted between capex and opex.

- Economic Case. The impact on capex, opex, revenues and service quality/environment and resilience by year over the life of the asset.
- The approach to delivery, including the procurement and management of the project, and a project plan.
- For the DP En Route and FDP Evolution programmes⁵², NERL should provide a detailed project plan, including details of key programme and governance milestones, identified risks and proposed mitigations, contingencies, and any other information that supports our understanding of the project governance.

91. For each year of the forecast period, the sum of capital expenditure on individual projects detailed should equal the total forecast capital expenditure in that year.

Capex incentives

92. The regulatory framework should provide appropriate incentives and oversight of NERL's development and delivery of its capital programme.

93. NERL should work with the CAA and airlines to conduct a review of the approach to capex governance and incentivisation. NERL should conduct its own review and readily and transparently provide information to the CAA and airlines to inform their own considerations.

94. NERL's review should:

- assess how the existing framework of capex mechanisms operated in NR23;
- update on performance against these during the NR23 period and forecast to end period position; and
- outline its proposals to further develop the framework for capex incentives and governance, with evidence, explanation and rationale for proposed changes.

95. NERL's business plan should summarise the progress it has made on this review, explain NERL's views on whether a capex mechanism relating to capex delivery is necessary and appropriate, and provide evidence in support of NERL's position.

96. NERL's business plan should demonstrate:

- how its proposals support improvements against the issues we have set out in paragraph 2.227227;
- how its proposals take account of the findings of the Egis Review and the Halliwell Review;

⁵² The DP En Route programme is NERL's capital programme to deliver a modernised ATM system.

- how its proposals support the priorities of modernisation and resilience, as set out in paragraph 2.4; and
- how it takes account of consumer insights and other sector developments.

Overall balance of incentives

97. NERL should set out its views on the overall balance of incentives during NR23, and how any issues around the balance of incentives should be addressed in NR28, including through changes to individual incentive mechanisms. This should be informed by evidence regarding the value placed by consumers and customers on the outcomes different incentives target, including risk reduction. NERL should demonstrate that its proposals for incentives represent a 'fair bet' as an overall package of measures.

Business Plan Guidance - Financial issues

Requirement to assess financeability

98. NERL should provide robust evidence that its business plan is financeable across a range of plausible scenarios. This assessment should be undertaken with reference to our statements on financeability policy earlier in this document, including assessing financeability on the basis of notionally efficient gearing.
99. We expect NERL to examine the same credit metrics as used in the NR23 final proposals and final decision. Where NERL uses different credit metrics, the selection of credit metrics should be justified and supported by evidence.

Target credit rating

100. In forming its assessment of whether its business plan is financeable NERL should clearly state and, with reference to its investment program, justify the credit rating that it is targeting, including for a notionally efficient level of gearing. In doing so NERL should describe the relative costs and benefits of different credit rating levels.
101. To the extent that NERL considers that structural and/or regulatory changes would best support the targeted credit rating, these should be clearly stated and justified as being consistent with the interests of stakeholders.
102. The assessment of the targeted credit rating for each relevant scenario should consider the net impact of having a higher or lower credit rating.

Notional gearing

103. NERL should consider the appropriate notional financial structure with reference to the level of gearing that we modelled for the NR23 price control. It should justify its proposed notional financial structure with reference to appropriate evidence.

104. Analysis should include an evaluation of the advantages and disadvantages of different notional financial structure options developed by NERL.

Financial modelling

105. Analysis of financeability should include a baseline assessment using the CAA's PCM on the basis of notionally efficient gearing. This analysis should cover, at minimum, all years of the NR28 price control period. If assumptions are not detailed in the business plan itself, a data book detailing the rationale for the assumptions adopted in the business plan should be provided.
106. NERL should discuss with the CAA any structural and formula changes required to the PCM in advance of submitting the business plan to agree a version of the PCM for NERL for use in the submission.
107. If NERL uses additional models other than the PCM in the business plan, these should be accompanied with commentary and analysis reconciling the results to those of the PCM.

Regulatory depreciation

108. We expect to maintain the NR23 approach to estimating regulatory depreciation, unless it has compelling evidence that suggests it should adopt a different approach.
109. To support assessment of the appropriateness of this approach, NERL should provide details of the useful economic lives of assets currently on its fixed asset register, appropriately grouped and categorised.
110. NERL should also provide a high-level breakdown of the expected useful economic lives of key asset categories to be added to its fixed asset register during the remainder of NR23 and over NR28.
111. NERL should clearly state the assumptions it has made in respect of regulatory depreciation. Should NERL propose any changes from the approach taken at NR23, it should clearly explain the rationale for the change and justify, with reference to evidence (including analysis of the impact of regulatory depreciation on the level of charges and on the RAB), how this is in consumers' interests.

Taxation

112. We expect NERL to make a robust forecast of the efficient tax liabilities that it would expect the notional company to reasonably incur, consistent with our approach at NR23.
113. Should NERL propose any changes from the approach taken at NR23, it should clearly explain the rationale for the change and justify, with reference to evidence, how this is in consumers' interests.

114. The full calculation of the regulatory allowance for tax that NERL includes within its business plan should be clearly presented in Microsoft Excel. The source of all assumptions should be clearly stated.
115. Whichever approach NERL adopts to determining the tax allowance included within its business plan, it should also present a forecast of its tax liabilities for the NR28 period assuming a notional capital structure. NERL should explain all assumptions underlying this calculation.
116. Where the amount that NERL proposes in respect of the regulatory allowance for tax is different from the amount shown in its forecast of tax liabilities, NERL should explain and justify the difference.
117. NERL should additionally clearly set out how full expensing rules being made permanent has impacted its expected corporation tax liability for the NR23 period by comparison to the assumption made in the NR23 final decision that these rules would end on 31 March 2026.

Regulatory Asset Base

118. NERL should present a full calculation showing its view of the evolution of the RAB over the NR23 period together with any adjustments which NERL considers are appropriate to be made to the opening RAB for NR28.
119. This calculation should reconcile to the figures presented in Appendix F of the NR23 final decision.
120. The NR28 opening RAB and annual RAB roll forward figures presented in the business plan should assume that the RAB is subject to CPIH inflation as described earlier in this business plan guidance.

Business Plan Guidance - Cost of capital

121. NERL's proposal for the WACC should be consistent with efficient financing and its assumptions on risks and incentives.
122. NERL should assume a single cost of capital for NR28 that covers all of NERL's regulated activities. This should be no more than the efficient level necessary to compensate NERL for the business and regulatory risks it faces.
123. In estimating the efficient cost of capital for its business plan, we expect NERL to demonstrate its cost of capital takes account of the following types of evidence:
 - UKRN guidance;
 - guidance from recent decisions by the CMA and regulators;
 - the approach taken by the CAA for NR23;

- developments in calculation of cost of capital in other regulated sectors, considering the appropriateness of applying these to the NERL price controls;
 - where relevant for NERL, the initial views that FTI Consulting set out on the range for the cost of capital for H8⁵³;
 - market evidence on cost of capital parameters; and
 - information on the business risks it faces.
124. We expect NERL to provide its estimate of the cost of capital and underlying calculations in a clearly presented and signposted Microsoft Excel workbook. Any data that is confidential and not for publication should be clearly identified.
125. Where NERL provides cost of capital parameters and/or an overall cost of capital that do not align with some or all of the items above, we expect NERL to provide a clear and thorough explanation of why this is the case and provide compelling evidence for its proposed cost of capital.
126. NERL should calculate its real WACC in CPIH terms, consistent with the approach to RAB indexation. It should also estimate the RPI-deflated real WACC to illustrate the comparison with NR28.
127. We expect NERL to set out how it proposes to manage the consequential impacts of this change on charges and financeability.

⁵³ Cost of Capital Strategy for H8, 1 November 2024. See: www.caa.co.uk/CAP3044A

Appendix B: Our Statutory Duties

Transport Act (2000)

1. Chapter I of the TA00 provides for the economic regulation of air traffic services.⁵⁴ NERL is currently the only licence holder under the TA00. In making decisions as to how NERL is regulated, the CAA is bound by the requirements of the TA00. The CAA's 'primary duty' is set out in subsection 2(1) TA00 as follows:

"The CAA must exercise its functions under this Chapter so as to maintain a high standard of safety in the provision of air traffic services; and that duty is to have priority over the application of subsections (2) to (5)."
2. The CAA must also exercise its Chapter I TA00 functions in the manner it thinks best calculated to discharge its 'secondary duties' (over which the primary duty has priority), set out in subsections 2(2) to 2(5) TA00, namely:
 - to further the interests of operators and owners of aircraft, owners and managers of aerodromes, persons travelling in aircraft and persons with rights in property carried in them (referred to as "customers and consumers");⁵⁵
 - to promote efficiency and economy on the part of licence holders;
 - to secure that licence holders will not find it unduly difficult to finance activities authorised by their licenses. We interpret this as referring to financeability of the notionally financed company;
 - to take account of any international obligations of the UK notified to the CAA by the Secretary of State (whatever the time or purpose of the notification) (see further below);
 - to take account of any guidance on environmental objectives given to the CAA by the Secretary of State. It should be noted that no such guidance has been given to the CAA by the Secretary of State;
3. Subsection 2(5) TA00 provides that if, in a particular case, there is a conflict in the application of the secondary duties noted above, the CAA must, in relation to

⁵⁴ TA00 Section 98 defines "air traffic services". See: <https://www.legislation.gov.uk/ukpga/2000/38/section/98>

⁵⁵ In doing so, the only interests the CAA can consider are those regarding the range, availability, continuity, cost and quality of air traffic services. Where the CAA thinks it appropriate, it may further customers' and consumers' interests by promoting competition in the provision of air traffic services.

that case, apply them in the manner it thinks reasonable having regard to them as a whole.

4. Subsection 2(6) TA00 provides that the CAA must exercise its functions under Chapter I of the TA00 so as to impose on license holders the minimum restrictions which are consistent with the exercise of those functions.
5. The TA00 also places duties on NERL as a licence holder.⁵⁶ It must:
 - secure that a safe system for the provision of authorised air traffic services in respect of a licensed area is provided, developed and maintained;⁵⁷
 - take all reasonable steps to secure that the system is also efficient and coordinated;
 - take all reasonable steps to secure that the demand for authorised air traffic services in respect of a licensed area is met; and
 - have regard, in providing, developing and maintaining the system, to the demands which are likely to be placed on it in the future.

The UK's international obligations

6. Section 2(2)(d) TA00 requires the CAA to take account of the UK's international obligations which have been notified to the CAA by the Secretary of State. These include:
 - Article 15 of the Chicago Convention 1944;
 - The Eurocontrol Multilateral Agreement relating to Route Charges 1981 (the Multilateral Agreement);⁵⁸
 - Air services agreements and provisions relating to the imposition of charges on airlines for the provision of air traffic services in agreements between the UK and third countries; and
 - Agreements between the UK and Republic of Ireland on parts of the Atlantic Ocean.

⁵⁶ TA00, Section 8. See: <https://www.legislation.gov.uk/ukpga/2000/38/section/98>

⁵⁷ Subsection 8(4) of the TA00 explains that, for the purposes of subsection 8(1)(a), "a system for the provision of services is safe if (and only if) in providing the services the person who provides them complies with such requirements as are imposed by Air Navigation Orders with regard to their provision".

⁵⁸ This is the multilateral agreement that gave rise to the Eurocontrol Principles.

Appendix C: Glossary of Abbreviations

| | |
|-------|--|
| 3Di | 3-Dimensional Inefficiency/Insight |
| ANSP | Air Navigation Service Provider |
| ATFM | Air Traffic Flow Management |
| ATM | Air Traffic Management |
| ATS | Air Traffic Services |
| CAA | UK Civil Aviation Authority |
| Capex | Capital Expenditure |
| CE | Constructive Engagement |
| CMA | Competition and Markets Authority |
| CPI | Consumer Prices Index |
| CPIH | Consumer Prices Index including owner occupiers' housing costs |
| CSU | Chargeable Service Unit |
| DB | Defined Benefit |
| DC | Defined Contribution |
| DfT | Department for Transport |
| EU | European Union |
| H8 | the next HAL price control review, covering the period from 2027 to 2031 |
| HAL | Heathrow Airport Limited |
| LAS | London Approach Service |
| LTF | NERL's Long-term Traffic Forecasts |
| NERL | NATS (En Route) Plc |
| NPV | Net Present Value |
| NR23 | the NERL price control period from 2023 to 2027 |
| NR28 | the next NERL price control review |
| ONS | Office of National Statistics |
| Opex | Operational Expenditure |

| | |
|---------|---|
| PCA | Pension Cash Alternative |
| PCM | Price Control Model |
| PRC | Performance Review Commission |
| RAB | Regulatory Asset Base |
| RORE | Return on Regulatory Equity |
| RPI | Retail Prices Index |
| RP2 | NERL “Reference Period 2” price control from 2015 to 2019 |
| RP3 | NERL “Reference Period 3” price control from 2020 to 2022 |
| SIP | Service and Investment Plan |
| STATFOR | Statistics and Forecast Service |
| TA00 | The Transport Act 2000 |
| TFE | Tactical Flight Emissions |
| TRS | Traffic Risk Sharing |
| TSU | Total Service Unit |
| UKADS | UK Airspace Design Service |
| UKRN | UK Regulators Network |
| WACC | Weighted Average Cost of Capital |